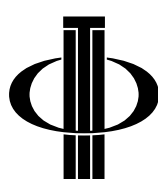


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CITIC PACIFIC

# CITIC Pacific Limited 中信泰富有限公司

(Incorporated in Hong Kong with limited liability)

## CONNECTED TRANSACTION

The Directors announce that on 14 January 2002, CITIC Pacific Limited ("CITIC Pacific") and CITIC Pacific Communications Limited (a wholly owned subsidiary of CITIC Pacific) agreed to sell (the "Sale") to China International Trust & Investment Corporation Hong Kong (Holdings) Limited ("CITIC HK") their entire 80% interest in the Network for HK\$1,624,712,056 (subject to adjustment as described below), which sale price is based on cost plus interest reflecting the actual cost of funds to CITIC Pacific.

CITIC HK intends to use its interest in the Network acquired under the Sale to invest (whether directly or indirectly) in the telecommunications business in the PRC together with CITIC Beijing and other appropriate partners.

To keep CITIC Pacific in position to participate fully in the telecommunications business in the PRC once the PRC regulatory environment so allows, CITIC HK has simultaneously granted an option ("Option") to CITIC Pacific, exercisable when all conditions precedent relating to the Option as described hereunder are satisfied, to acquire from CITIC HK at cost plus interest (based on the actual cost of funds to CITIC HK) CITIC HK's entire interest, whether direct or indirect, in the telecommunications business in the PRC derived from the investment by CITIC HK of the 80% interest in the Network acquired under the Sale ("Telecommunications Investment"). The Option is valid for six years from Completion.

The Sale is effected through the sale of Supreme Image and First Honour, which in aggregate hold an 80% interest in Lucky Zone and assignment of shareholder loans due to CITIC Pacific from Supreme Image and First Honour. Lucky Zone is the developer of the Network.

As CITIC HK holds approximately 28.87% of the existing issued share capital of CITIC Pacific and is therefore a connected person of CITIC Pacific, the Sale and the Option constitute a connected transaction for CITIC Pacific under Chapter 14 of the Listing Rules and is subject to approval by the Independent Shareholders.

### SALE AGREEMENT

#### Date of the Sale Agreement

14 January 2002

#### Parties

**Seller:** CITIC Pacific and CITIC Pacific Communications Limited (a wholly-owned subsidiary of CITIC Pacific)

**Purchaser:** CITIC HK

#### Assets sold under the Sale Agreement

**Supreme Image Sale Share:** one share of US\$1.00 in the share capital of Supreme Image, being the entire issued share capital of Supreme Image.

**Supreme Image Shareholder's Loan:** the benefit of the shareholder's loan due by Supreme Image to CITIC Pacific at Completion (which amounted to HK\$1,214,274,853 on 14 January 2002 and is repayable on demand).

**First Honour Sale Share:** 1 share of US\$1.00 in the share capital of First Honour, being the entire issued share capital of First Honour.

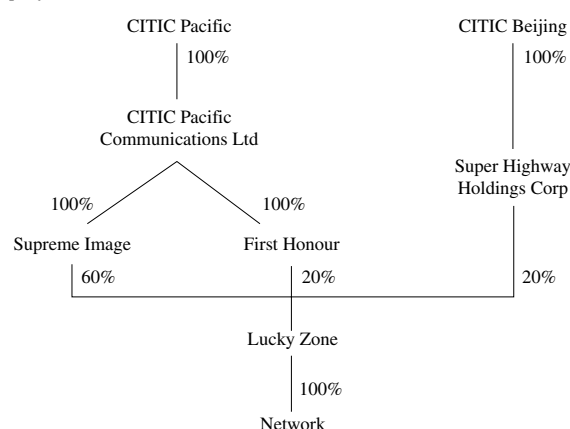
**First Honour Shareholder's Loan:** the benefit of the shareholder's loan due by First Honour to CITIC Pacific at Completion (which amounted to HK\$410,437,187 on 14 January 2002 and is repayable on demand).

The sole assets of Supreme Image and First Honour are an 80% shareholding interest in Lucky Zone and a prorata shareholder's loan to Lucky Zone. Lucky Zone is the developer of a fixed optical fibre backbone network known as the China Express No.1 Backbone Network. The unaudited consolidated net loss of Lucky Zone attributable to Supreme Image and First Honour for the years ended 31 December 2000 and 31 December 2001 was HK\$1 million and HK\$5 million respectively. The book value of CITIC Pacific's investment in the Network (being CITIC Pacific's total 80% interest in the Network) as at 14 January 2002 was HK\$1,624,712,056.

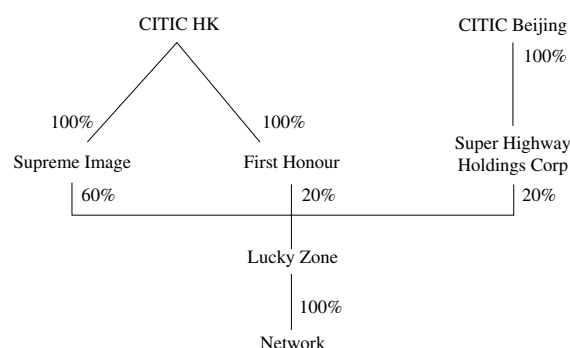
CITIC Pacific is at present an 80% partner in the Network with CITIC Beijing a 20% partner. Upon Completion, CITIC Pacific will have no further interest in the Network, except through the Option (described below).

The chart below shows the holdings in the Network at present and immediately after the completion of the Sale.

#### Existing ownership of the Network



#### Structure immediately after Completion



#### Consideration under the Sale

The aggregate consideration for the Sale is HK\$1,624,712,056 (being the investment cost plus actual cost of funds of CITIC Pacific's investment in the Network up to 14 January 2002); plus (i) interest from 15 January 2002 up to Completion reflecting the actual cost of such funds for such period; plus (ii) the actual amount advanced by CITIC Pacific to Supreme Image and First Honour from 15 January 2002 to Completion; plus (iii) interest on the amount so advanced reflecting the actual cost of funds for such advance for such period. The total amount for the adjustment (i) to (iii) shall not exceed HK\$20,000,000. The consideration is payable upon Completion either in HK\$ or US\$.

The consideration was arrived at after arm's length negotiations between CITIC Pacific and CITIC HK and is based on the actual investment cost of CITIC Pacific in the Network. The fibre optic cable network installation has been valued by the Valuer as at 14 January 2002 at HK\$2,407.18 million and the related equipment contracted as at 14 January 2002 has been valued by the Valuer at HK\$863.10 million. After deducting the unpaid portion of the committed total contract value and adjusting the net liabilities, the total equity value of the Network has been valued at HK\$2,038.25 million by the Valuer as at 14 January 2002. At 80% of the said valuation (representing the equity interest of First Honour and Supreme Image in Lucky Zone), the aggregate consideration represents a discount of 0.36% to such valuation.

#### Conditions to the Sale and Completion of the Sale

The Sale is conditional upon approval by Independent Shareholders at the EGM on or before 28 February 2002.

Completion will take place within 15 business days following the Sale Agreement becoming unconditional (or such other date as the parties may agree).

At Completion, CITIC HK will (other than in relation to the leasing agreement described below) either (i) procure that CITIC Pacific will be released with effect from Completion from various guarantees given by CITIC Pacific to commercial banks to secure the borrowings of Lucky Zone and its subsidiaries; or (ii) will ensure that the underlying borrowings are repaid at Completion or the next interest payment date following Completion (in which case irrevocable notice of repayment will be given with sufficient funds deposited by CITIC HK with CITIC Pacific or the relevant institutions in order for repayment to be made on the next interest payment date).

As at 14 January 2002, the aggregate principal and interest outstanding under a leasing agreement owed by a subsidiary of Lucky Zone to an independent third party was approximately RMB52 million (equivalent to approximately HK\$49 million) of which 80% is severally guaranteed by CITIC Pacific. CITIC HK has undertaken that it will use all reasonable endeavours to procure that CITIC Pacific will be fully and effectively released from its obligations under this leasing agreement as soon as possible after Completion and will keep CITIC Pacific indemnified against any and all liabilities which may be suffered or incurred by CITIC Pacific under such leasing agreement.

### OPTION AGREEMENT

#### Date of the Option Agreement

14 January 2002

#### Parties

**Grantor:** CITIC HK

**Holder:** CITIC Pacific

#### Subject matter of the Option

CITIC HK intends to use its 80% interest in the Network acquired under the Sale to invest (whether directly or indirectly) in the telecommunications business in the PRC together with CITIC Beijing and other appropriate partners.

The Option is a call option exercisable by CITIC Pacific over the Telecommunications Investment.

#### Consideration for the grant of the Option

The consideration for the grant of the Option is the payment by CITIC Pacific to CITIC HK of HK\$10 and the agreement by CITIC Pacific to enter into the Sale Agreement.

#### Conditions to the Option, exercise of the Option and consideration for each exercise of the Option

The grant of the Option is conditional upon the completion of the Sale.

The exercise of the Option is conditional upon (i) CITIC HK's investment of the Network in the PRC telecommunications business; (ii) PRC laws permitting foreign ownership in PRC

telecommunications businesses; and (iii) the obtaining of any other consents required under any other PRC regulations or laws.

If any of the above conditions precedent is not satisfied during the six years following Completion, the Option will lapse at the end of such six year period. In the event the PRC laws permit such foreign ownership in stages, the Option will be exercisable also in stages.

CITIC HK will, upon fulfillment of the above conditions precedent (for each stage if applicable), give immediate written notice to CITIC Pacific with details of the Telecommunications Investment. CITIC Pacific will have the right to acquire from CITIC HK the Telecommunications Investment at cost plus interest (being the actual cost of funds to CITIC HK of the Telecommunications Investment to be acquired).

The Option is exercisable each time within two months of the giving by CITIC HK of each such notice.

Such acquisition(s) upon each exercise of the Option will be subject to, inter alia, CITIC Pacific obtaining any necessary consents under the Listing Rules.

#### REASONS FOR THE SALE AND THE OPTION

CITIC Pacific started investing in the Network in 2000 with the aim of participating in the telecommunications business in the PRC as and when allowed. The operation and management of the Network is handled by CITIC Beijing and CITIC Pacific is restricted from participating in such operation and management under PRC law.

In order for the Network to become operational and to start to generate revenue, a comprehensive set of relevant licences is required under PRC law. Under the current regulations in the PRC, CITIC Beijing is precluded from applying for such licences unless the Network is wholly owned, whilst the current position of CITIC Pacific is uncertain as its participation in the telecommunication business in the PRC is subject to the laws and regulations of the PRC applicable following China's accession to the World Trade Organisation. In order to manage such uncertainty, but at the same time to keep CITIC Pacific in position to participate fully in the telecommunication business in the PRC once the PRC regulatory environment so allows, the Directors have negotiated the Sale and the Option.

CITIC Pacific's directors, including the independent non-executive directors, are of the view that the Sale and the Option are in the best interests of CITIC Pacific and Independent Shareholders.

CITIC Pacific remains committed to providing basic infrastructure through tunnels, bridges, power stations, airlines and communications. CITIC Pacific will continue to develop its communications and other infrastructure business. CITIC Pacific's financial position continues to be very strong. It enjoys excellent liquidity and financial flexibility to achieve its goals and the Directors remain confident of CITIC Pacific's continuing growth.

The proceeds of the Sale would be retained as general working capital for CITIC Pacific and has not been earmarked for any specific use.

#### CONNECTED TRANSACTION IMPLICATIONS

As CITIC HK holds approximately 28.87% of the existing issued share capital of CITIC Pacific and is therefore a connected person of CITIC Pacific, the Sale and the Option constitute a connected transaction for CITIC Pacific under the Listing Rules and is subject to approval by the Independent Shareholders. CITIC HK and its associates who together hold approximately 28.87% of the existing issued share capital of CITIC Pacific have confirmed that they would abstain from voting on the Sale and the Option at the EGM.

An independent board committee comprising Messrs. Hansen Loh Chung Hon and Willie Chang, being independent non-executive directors of CITIC Pacific, has been established for the purpose of considering the terms of the Sale and the Option and giving a recommendation to the Independent Shareholders in respect of the Sale and the Option. An independent financial adviser will be appointed to advise the independent board committee of CITIC Pacific in relation to the Sale and the Option.

A circular containing, inter alia, details of the Sale and the Option, the recommendation from the independent board committee of CITIC Pacific, the advice from the independent financial adviser, the independent valuation report on the Network and a notice of the EGM to approve the Sale and the Option will be despatched to shareholders of CITIC Pacific as soon as practicable.

#### DEFINITIONS

"CITIC Beijing"	China International Trust and Investment Corporation, the holding company of CITIC HK
"CITIC HK"	China International Trust & Investment Corporation Hong Kong (Holdings) Limited, a substantial shareholder of CITIC Pacific
"CITIC Pacific"	CITIC Pacific Limited
"Completion"	completion of the Sale which will be by the 15th business day following the approval of the Sale by Independent Shareholders or such later date as the parties may agree
"connected person"	as defined in the Listing Rules
"Directors"	directors of CITIC Pacific
"EGM"	the extraordinary general meeting of CITIC Pacific to be convened for approving the Sale and the Option
"First Honour"	First Honour Investments Ltd
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"HK\$"	Hong Kong dollars
"Independent Shareholders"	the shareholders of CITIC Pacific other than CITIC HK and its associates (as such term is defined in the Listing Rules)
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Lucky Zone"	Lucky Zone Enterprises Inc
"Network"	the China Express No.1 Backbone Network, a fixed optical fibre network in the PRC
"Option"	an option granted by CITIC HK to CITIC Pacific, exercisable when all conditions precedent relating to the Option are satisfied, to acquire from CITIC HK, at cost plus interest, the Telecommunications Investment
"PRC"	the People's Republic of China excluding, for the purpose of this announcement, Hong Kong, Macau Special Administrative Region and Taiwan
"RMB"	Renminbi
"Sale"	the sale by CITIC Pacific and CITIC Pacific Communications Limited to CITIC HK of their entire 80% interest in the Network for HK\$1,624,712,056 (subject to adjustment)
"Sale Agreement"	the agreement dated 14 January 2002 between (i) CITIC Pacific, (ii) CITIC Pacific Communications Limited and (iii) CITIC HK in relation to the Sale
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"substantial shareholder"	as defined in the Listing Rules
"Supreme Image"	Supreme Image Holdings Inc
"Telecommunications Investment"	CITIC HK's entire interest, whether direct or indirect, in the telecommunications business in the PRC derived from the investment by CITIC HK of the 80% interest in the Network acquired under the Sale
"Valuer"	Sallmanns (Far East) Limited, an independent third party not connected with CITIC Pacific, its directors, chief executive or substantial shareholders or any of its subsidiaries or any of their respective associates

By Order of the Board  
**Alice Tso Mun Wai**  
Company Secretary

(The exchange rate of Renminbi to Hong Kong dollars quoted in this announcement adopts a rate of RMB1 equivalent to HK\$0.943; the exchange rate of US dollars to Hong Kong dollars quoted in this announcement adopts a rate of US\$1 equivalent to HK\$7.8.)

Hong Kong, 14 January 2002