

CITIC PACIFIC

# CITIC Pacific Limited 中信泰富有限公司

(Incorporated in Hong Kong with limited liability)

## CONNECTED TRANSACTIONS

### ESTABLISHMENT OF A PRC JOINT VENTURE

江陰泰富興澄特種材料有限公司

AND

### TRANSFER OF 20% INTEREST IN REGISTERED CAPITAL OF

JIANGYIN XINGCHENG SPECIAL STEEL WORKS CO., LTD.

(江陰興澄特種鋼鐵有限公司)

The Directors of CITIC Pacific announce that on 18 December 2002,

(a) Connemera (a wholly owned subsidiary of CITIC Pacific), Jiangsu CP Xingcheng (a 54.7% owned subsidiary of CITIC Pacific) and Jiangyin Steel Mill entered into the Joint Venture Contract and the Articles of Association for the establishment of the New JV, a new joint venture company; and

(b) Jiangsu CP Xingcheng entered into two sale and purchase agreements with Maxy Rich (a wholly-owned subsidiary of CITIC Pacific) and Jiangyin Steel Mill respectively for the acquisition by Jiangsu CP Xingcheng of a 20% interest in the registered capital of Special Steel Co., an existing joint venture company between Maxy Rich and Jiangyin Steel Mill and all the three parties entered into a new joint venture contract and a new articles of association in relation to Special Steel Co..

Upon its establishment, the New JV will be owned as to 30.25% by Connemera, 45% by Jiangsu CP Xingcheng and 24.75% by Jiangyin Steel Mill, and the New JV will become a subsidiary of the Company.

After the transfer of the 20% interest in the registered capital of Special Steel Co. to Jiangsu CP Xingcheng, Special Steel Co. will be owned as to 44% by Maxy Rich, 20% by Jiangsu CP Xingcheng and 36% by Jiangyin Steel Mill.

Jiangyin Steel Mill is a 40.8% shareholder of Jiangsu CP Xingcheng (which is a 54.7% owned subsidiary of CITIC Pacific) and a substantial shareholder of several other subsidiaries of CITIC Pacific, and therefore is a connected person (as defined in the Listing Rules) of CITIC Pacific. Accordingly, the establishment of the New JV and the transfer of the 20% interest in the registered capital of Special Steel Co. to Jiangsu CP Xingcheng constitute connected transactions of CITIC Pacific under the Listing Rules.

The total investment and the registered capital of the New JV amount to US\$25,000,000 (approximately HK\$195,000,000) and US\$10,000,000 (approximately HK\$78,000,000) respectively. Connemera and Jiangsu CP Xingcheng, being subsidiaries of CITIC Pacific, will altogether contribute 75.25% of the registered capital of the New JV. The total consideration for the transfer of the 20% interest in the registered capital of Special Steel Co. to Jiangsu CP Xingcheng is RMB220,707,236.40 (approximately HK\$208,000,000). The aggregate value of the connected transactions, therefore, represents more than 0.03% but less than 3% of the book value of the net tangible assets of the Group. Details of the joint venture arrangement and the transfer of the registered capital of Special Steel Co. will be included in the 2002 annual report of the Company.

#### JOINT VENTURE CONTRACT AND ARTICLES OF ASSOCIATION FOR THE NEW JV

Date: 18 December 2002

Parties: (1) Connemera, a wholly owned subsidiary of CITIC Pacific;  
(2) Jiangsu CP Xingcheng, a 54.7% subsidiary of CITIC Pacific; and  
(3) Jiangyin Steel Mill, a connected person of CITIC Pacific.

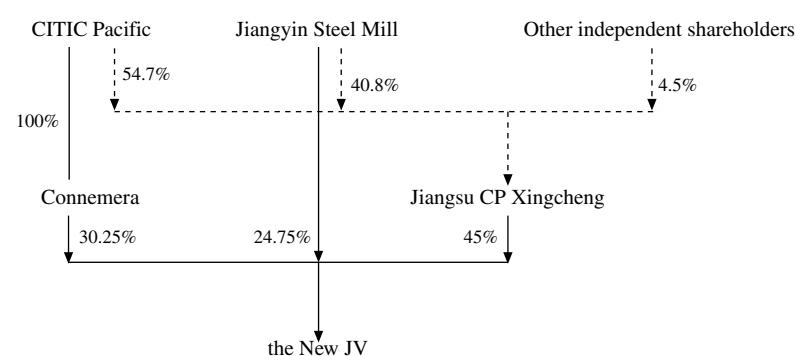
Business: To engage in the production and sale of hot iron and the related products.

Total Investment: US\$25,000,000 (approximately HK\$195,000,000)

Registered Capital: US\$10,000,000 (approximately HK\$78,000,000) of which 30.25% will be contributed by Connemera, 45% by Jiangsu CP Xingcheng and 24.75% by Jiangyin Steel Mill. Capital contribution to be made by Connemera will be funded by internal resources of the Group and capital contribution to be made by Jiangsu CP Xingcheng will be funded out of its own internal resources.

Term: 50 years from the date of issue of the business licence of the New JV. Such term may be extended by unanimous board resolution with approval from the relevant PRC authorities.

The shareholding structure upon the establishment of the New JV is as follows:-



Upon its establishment, the New JV will become a subsidiary of the Company.

The terms of the Joint Venture Contract and the Articles of Association have been arrived at after arm's length negotiations. Pursuant to the Joint Venture Contract and the Articles of Association, the profit-sharing arrangement will be in proportion to the respective contribution in the registered capital of the New JV by each party.

#### Conditions

The Joint Venture Contract and the Articles of Association are conditional upon all necessary approvals from the relevant PRC authorities having been obtained.

#### TRANSFER OF 20% INTEREST IN THE REGISTERED CAPITAL OF SPECIAL STEEL CO.

Special Steel Co. is principally engaged in the production and sale of special steel and related products. As at 31 December 2001, the audited net asset value of Special Steel Co. was approximately RMB1,078,000,000 (i.e. approximately HK\$1,017,000,000). For the year ended 31 December 2000, the audited net profit of Special Steel Co. both before and after taxation was approximately RMB65,000,000 (i.e. approximately HK\$61,000,000). For the year ended 31 December 2001, the audited net profit of Special Steel Co. both before and after taxation was approximately RMB124,000,000 (i.e. approximately HK\$117,000,000).

The registered capital of Special Steel Co. was held as to 55% by Maxy Rich and 45% by Jiangyin Steel Mill prior to the transfer set out below:-

#### Maxy Rich Agreement

Date: 18 December 2002

Parties: (1) Maxy Rich, a wholly-owned subsidiary of CITIC Pacific, as vendor; and  
(2) Jiangsu CP Xingcheng, a non wholly-owned subsidiary of CITIC Pacific, as purchaser.

Assets Acquired: 11% (or US\$12,754,180 (approximately HK\$99,482,604)) of the total registered capital of Special Steel Co. and all other rights attached to such registered capital pursuant to the joint venture contract and articles of association of Special Steel Co.

Consideration: RMB121,388,980.02 (i.e. approximately HK\$114,000,000) payable in cash within 5 business days after obtaining the approval certificate from the relevant PRC authorities (or such later date as the parties may agree). The consideration was arrived at after arm's length negotiations between the parties and reflects on a dollar-for-dollar basis 11% of the audited net asset value of Special Steel Co. as at 31 August 2002 of approximately RMB1,104,000,000 (i.e. approximately HK\$1,041,000,000).

Completion: Completion will take place on the date when the transfer is registered by the relevant PRC authorities which shall be within 6 business days after obtaining the approval certificate.

The consideration will be funded out of Jiangsu CP Xingcheng's internal resources.

The sale proceeds will be retained by the Group as general working capital.

#### Jiangyin Steel Mill Agreement

Date: 18 December 2002

Parties: (1) Jiangyin Steel Mill, a connected person of CITIC Pacific, as vendor; and  
(2) Jiangsu CP Xingcheng, a non wholly-owned subsidiary of CITIC Pacific, as purchaser.

Assets Acquired: 9% (or US\$10,435,240 (approximately HK\$81,394,872)) of the total registered capital of Special Steel Co. and all other rights attached to such registered capital pursuant to the joint venture contract and articles of association of Special Steel Co.

Consideration: RMB99,318,256.38 (i.e. approximately HK\$94,000,000) payable in cash within 5 business days after obtaining the approval certificate from the relevant PRC authorities (or such later date as the parties may agree). The consideration was arrived at after arm's length negotiations between the parties and reflects on a dollar-for-dollar basis 9% of the audited net asset value of Special Steel Co. as at 31 August 2002 of approximately RMB1,104,000,000 (i.e. approximately HK\$1,041,000,000).

Completion: Completion will take place on the date when the transfer is registered by the relevant PRC authorities which shall be within 6 business days after obtaining the approval certificate.

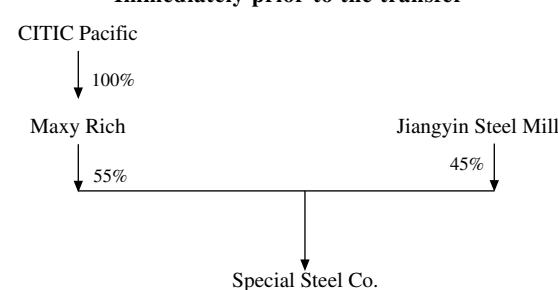
The consideration will be funded out of Jiangsu CP Xingcheng's internal resources.

After the transfer of the 20% interest in the registered capital of Special Steel Co. to Jiangsu CP Xingcheng, Special Steel Co. will be owned as to 44% by Maxy Rich, 20% by Jiangsu CP Xingcheng and 36% by Jiangyin Steel Mill and will remain a subsidiary of the Company.

Upon the signing of the Maxy Rich Agreement and the Jiangyin Steel Mill Agreement, Maxy Rich, Jiangsu CP Xingcheng and Jiangyin Steel Mill also entered into a new joint venture contract and a new articles of association with respect to the management and their rights as shareholders of Special Steel Co. pursuant to which the profit-sharing arrangement will be in proportion to their respective contribution in the registered capital of Special Steel Co.

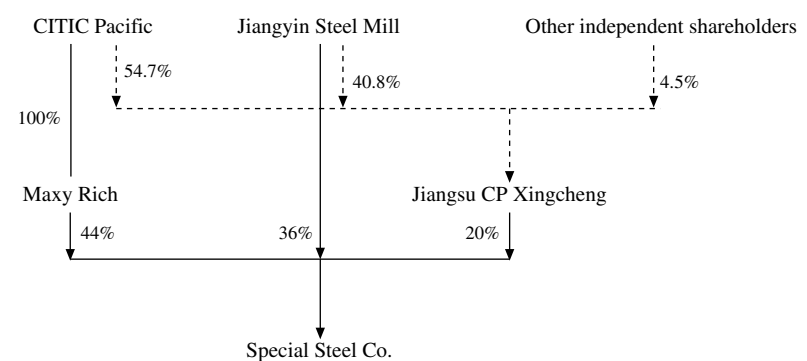
The shareholding structures of Special Steel Co. immediately prior to and after the transfer are set out below:-

#### Immediately prior to the transfer



\* CITIC Pacific's attributable interest in Special Steel Co. immediately prior to the transfer was 55%.

#### Immediately after the transfer



\* CITIC Pacific's attributable interest in Special Steel Co. immediately after the transfer will be approximately 54.94%.

#### CONNECTED TRANSACTIONS

Jiangyin Steel Mill is a 40.8% shareholder of Jiangsu CP Xingcheng (which is a 54.7% subsidiary of CITIC Pacific) and a substantial shareholder of several other subsidiaries of CITIC Pacific, and therefore is a connected person (as defined in the Listing Rules) of CITIC Pacific. Accordingly, the establishment of the New JV and the transfer of the 20% interest in the registered capital of Special Steel Co. to Jiangsu CP Xingcheng constitute connected transactions of CITIC Pacific under the Listing Rules.

The total investment and the registered capital of the New JV amount to US\$25,000,000 (approximately HK\$195,000,000) and US\$10,000,000 (approximately HK\$78,000,000) respectively. Connemera and Jiangsu CP Xingcheng, being subsidiaries of CITIC Pacific will altogether contribute 75.25% of the registered capital of the New JV. The total consideration for the transfer of the 20% interest in the registered capital of Special Steel Co. to Jiangsu CP Xingcheng is approximately RMB220,707,236.40 (approximately HK\$208,000,000). The aggregate value of the connected transactions, therefore, represents more than 0.03% but less than 3% of the book value of the net tangible assets of the Group. Details of the joint venture arrangement and the transfer of the registered capital of Special Steel Co. will be included in the 2002 annual report of the Company.

#### REASONS FOR THE JOINT VENTURE FOR THE NEW JV AND THE TRANSFER OF REGISTERED CAPITAL OF SPECIAL STEEL CO.

The Company's long term objective remains to develop a large diversified business focusing on infrastructure and supported by other businesses including industrial manufacturing. Steel manufacturing is a significant investment in CITIC Pacific's industrial portfolio. The formation of the New JV can provide further synergies to the investment.

The transfer of 20% interest in the registered capital of Special Steel Co. results in no significant change in the shareholding interest attributable to the Company and is only part of the reorganisation of Jiangsu CP Xingcheng in anticipation of its intended listing on the Shanghai Stock Exchange in 2003. This listing is still at the preparatory stage and there is no definite timetable as to when it will take place. If the listing materialises, Jiangsu CP Xingcheng (which upon listing will cease to be a subsidiary of CITIC Pacific) intends to subscribe for additional registered capital in Special Steel Co. to increase its shareholding from 20% to 45%. A further announcement will be made as and when appropriate in accordance with the Listing Rules.

The Directors (including the independent non-executive directors) consider that the terms of the Joint Venture Contract, the Articles of the Association, the Maxy Rich Agreement and the Jiangyin Steel Mill Agreement are normal commercial terms and are fair and reasonable and in the interests of CITIC Pacific and all the shareholders as a whole.

#### Term used in this announcement:

"Articles of Association"	the articles of association entered into on 18 December 2002 between Connemera, Jiangsu CP Xingcheng and Jiangyin Steel Mill in relation to the New JV
"Company" or "CITIC Pacific"	CITIC Pacific Limited
"Connemera"	Connemera Inc., a company incorporated under the laws of the British Virgin Islands and a wholly owned subsidiary of CITIC Pacific
"Directors"	the directors of the Company
"Group"	the Company and its subsidiaries
"Jiangsu CP Xingcheng"	江蘇泰富興澄特種鋼股份有限公司 (Jiangsu CP Xingcheng Special Steel Co., Ltd.), a company established under the laws of the PRC and a 54.7% subsidiary of CITIC Pacific
"Jiangyin Steel Mill"	江陰鋼廠, a company established under the laws of the PRC and a connected person of CITIC Pacific
"Jiangyin Steel Mill Agreement"	the sale and purchase agreement dated 18 December 2002 whereby Jiangsu CP Xingcheng acquires 9% of the registered capital of Special Steel Co. from Jiangyin Steel Mill
"Joint Venture Contract"	the joint venture contract entered into on 18 December 2002 between Connemera, Jiangsu CP Xingcheng and Jiangyin Steel Mill in relation to the New JV
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Maxy Rich"	Maxy Rich Investments Limited, a company incorporated under the laws of the British Virgin Islands and a wholly owned subsidiary of CITIC Pacific
"Maxy Rich Agreement"	the sale and purchase agreement dated 18 December 2002 whereby Jiangsu CP Xingcheng acquires 11% of the registered capital of Special Steel Co. from Maxy Rich
"New JV"	江陰泰富興澄特種鋼股份有限公司, the joint venture company to be owned as to 30.25% by Connemera, 45% by Jiangsu CP Xingcheng and 24.75% by Jiangyin Steel Mill pursuant to the Joint Venture Contract and the Articles of Association. (This company has no official English company name for the time being)
"PRC"	the People's Republic of China
"Special Steel Co."	江陰興澄特種鋼鐵有限公司 (Jiangyin Xingcheng Special Steel Works Co., Ltd.), a company established under the laws of the PRC

The exchange rates of US dollars to Hong Kong dollars and RMB to Hong Kong dollars quoted in this announcement adopt the following rates respectively:

US\$1 equivalent to HK\$7.8 and  
RMB1 equivalent to HK\$ 0.943

Hong Kong, 18 December 2002

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