



# CHINA MERCHANTS CHINA DIRECT INVESTMENTS LIMITED 招商局中國基金有限公司

*(Incorporated in Hong Kong with limited liability)*

## ANNOUNCEMENT

### DISPOSAL OF THE ENTIRETY OF THE COMPANY'S INDIRECT INTEREST (THROUGH A WHOLLY OWNED SUBSIDIARY COMPANY) IN MAOMING TONGFA HIGHWAY COMPANY LIMITED

#### 1. SUMMARY

On 5 February 2002, the Company's wholly owned subsidiary, Storey Overseas Limited ("SOL") as transferor, entered into an agreement and a supplemental agreement with Maoming Guomao Traffic Development Limited ("Guomao") (N.B. Guomao does not have an official English name. The abovementioned English name is merely a translation of its official Chinese name of "茂名市國茂交通建設有限責任公司") as transferee ("Transferee"), whereby SOL agreed to transfer to the Transferee the entirety of SOL's 34.7% shareholding in Maoming Tongfa Highway Company Limited ("Tongfa") and SOL's loan to Tongfa, at an aggregate consideration of RMB88,300,000 (equivalent to approximately US\$10,670,000 at the official exchange rate).

#### 2. THE INVESTMENT

The Company's wholly owned subsidiary, Storey Overseas Limited ("SOL"), a company incorporated in the British Virgin Islands, invested US\$10 million in May of 1997 (of which US\$3,470,000 was in the form of registered share capital, and the remaining US\$6,530,000 was invested in the form of shareholder's loan) in Maoming Tongfa Highway Company Limited ("Tongfa") in Maoming City of Guangdong Province, representing 34.7% equity interest in Tongfa. Maoming City Highway Development Limited ("Chinese Party") holds the remaining 65.3% interest in Tongfa. Tongfa is engaged in the operation of a 40km Provincial Highway No.1987 (also known as Mao Hua Highway) ("Highway") which links Maoming City and Huazhou City. By an agreement dated 18 February 1997 made between SOL and the Chinese Party, it was agreed, inter alia, that SOL would enjoy a fixed annual return for the first nine years during the 20-year joint venture period.

#### 3. THE AGREEMENT (consisting of Transfer Agreement as supplemented by Supplemental Agreement, both dated as mentioned below)

- 3.1. Date: both 5 February 2002
- 3.2. Parties: SOL as transferor, and the Maoming Guomao Traffic Development Limited ("Guomao") as transferee, which is an independent third party.
- 3.3. Assets disposed of: (a) 34.7% of the registered capital in Tongfa, and (b) US\$6,530,000 shareholder's loan advanced by SOL to Tongfa; which together represent the entire interest of SOL in Tongfa.
- 3.4. Consideration: A lump sum of RMB88,300,000 (equivalent to approximately USD10,670,000 at the official exchange rate of USD1 to RMB8.276),
- 3.5. Payment Terms: Payment is made in two installments. The first installment of US\$7,854,743 will be paid in USD at the prevailing official exchange rate within seven working days after relevant approvals of the transfer and foreign currency exchange are obtained. The balance being approximately RMB23.29 million, will be paid in RMB within three working days after relevant approval of the transfer is obtained.
- 3.6. Other Main Conditions:-
  - 3.6.1. Guomao undertakes to SOL to be responsible for all debts and commitments of Tongfa prior to the transfer.
  - 3.6.2. SOL agrees, upon receipt of full payment of the Consideration, to waive all outstanding agreed returns due or owing by Tongfa up to the date of the Agreement.

#### 4. REASONS FOR THE DISPOSAL

- 4.1. The traffic flow of the Highway has been decreasing because of keen competitions from the newly built toll roads within the same region. The toll revenue of the Highway is declining with signs of rapid deterioration recently. The numbers of vehicles using the Highway for the first 10 months (i.e. January to October) of the years 1999, 2000 and 2001 were at the daily average of 7,776, 7,639 and 6,453 respectively, showing an acceleration in the declining rate from 2% in 2000 to 16% in 2001 respectively.
- 4.2. Furthermore, due to the falling toll revenue, Tongfa has been experiencing difficulty in meeting payments of the agreed return.
5. For the year 2000, Tongfa recorded a toll revenue of RMB15,760,000 and a net loss of RMB10,661. The net asset value of Tongfa as at 31st December 2000 was RMB83,000,000.
6. After careful consideration, the Directors consider that there will be a risk of default in the payment of the agreed returns by the Chinese Party, since the fixed return investment is not encouraged by the local government now. Furthermore, pressing legal claims against Tongfa and/or the Chinese Party is considered costly and time consuming. The Directors therefore consider that it is in the best interest of the Company to realize the investment in Tongfa as soon as possible.
7. Furthermore, according to the Consideration mentioned above, the investment's exit IRR (i.e. internal rate of return) is 12.20%. The Directors consider that the price offered by the Transferee is acceptable.

#### 8. USE OF PROCEEDS

The Directors are to look for new investment opportunities with the cash proceeds. Before a suitable new investment is identified, the cash proceeds will be deposited with the banks.

By Order of the Board  
**Zhang Yun Kun**  
Executive Director