



CITIC PACIFIC

## CITIC Pacific Limited 中信泰富有限公司

(incorporated in Hong Kong with limited liability)  
(Stock Code: 267)

### CONCESSION AND DELEGATION ARRANGEMENTS IN RELATION TO WATER TREATMENT FACILITIES IN ZUNYI – CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

The Directors announce that on 18 June 2004, CGDE and the Group (together on behalf of both JV Companies) entered into the Delegation Agreement in relation to certain delegation arrangements for the operation and maintenance of water treatment facilities in Zunyi in the Guizhou Province of the PRC. Such rights to operate and maintain the water treatment facilities were granted to Asset Company by the authorized representative of the Zunyi Municipal People's Government pursuant to the Concession Agreement.

The JV Companies will be established in accordance with the Investment Agreements and Articles of Association between the Group and CGDE. Upon the formation of the JV Companies, the JV Companies shall enter into the Concession Novation Agreement and the Delegation Novation Agreement to take up the rights and obligations under the Concession Agreement and the Delegation Agreement respectively.

The Novation Agreements and the Delegation Arrangements will constitute connected transactions and continuing connected transactions of the Company which are exempt from the independent shareholders approval requirements under the Listing Rules respectively.

The Novation Agreements and the Delegation Agreement have been negotiated on an arm's length basis and will be or has been entered into in the ordinary and usual course of business of the Company. The Board (including the independent non-executive directors) considers that the terms of the Novation Agreements, the Delegation Agreement and the Cap in relation to the Delegation Arrangements are fair and reasonable and in the interests of the Company and its shareholders as a whole.

The grant of the rights to operate and maintain the Facilities by ZMPG to Asset Company for up to 35 years is subject to the delegation to Operation Company of the right to operate, maintain, rehabilitate and upgrade the Facilities. To ensure the fulfillment of such condition, the parties to the Delegation Agreement have agreed that the term of the Delegation Arrangement should be identical to the Concession Period which is up to 35 years. An independent financial adviser has been appointed to comment on the duration of the Delegation Agreement. Details of the opinion of the independent financial adviser have been set out in paragraph III.3 of this announcement.

#### I. BACKGROUND

The Directors announce that on 18 June 2004, CGDE and the Group (together on behalf of each JV Company) entered into the Delegation Agreement in relation to certain delegation arrangements for the operation and maintenance of water treatment facilities in Zunyi in the Guizhou Province of the PRC. Such rights to operate and maintain the water treatment facilities were granted to Asset Company by the authorized representative of the Zunyi Municipal People's Government pursuant to the Concession Agreement (described in detail in paragraph II.1 below).

The JV Companies will be established in accordance with the Investment Agreements and the Articles of Association between the Group and CGDE (then an independent third party of the Company). The Group and CGDE will be interested in 75% and 25% of Asset Company and 25% and 75% of Operation Company respectively. Upon the formation of the JV Companies, the JV Companies shall (a) undertake to perform the Concession Agreement in place of CGDE by entering into the Concession Novation Agreement (described in detail in paragraph II.2 below) and (b) undertake to perform the Delegation Agreement in place of CGDE and the Group by entering into the Delegation Novation Agreement (described in detail in paragraph III.2 below).

The Concession Novation Agreement and the Delegation Novation Agreement will constitute connected transactions of the Company under Rule 14A.32 of the Listing Rules and are exempt from independent shareholders approval requirements. The Delegation Arrangements will constitute continuing connected transactions of the Company under Rule 14A.34 of the Listing Rules and are exempt from independent shareholders approval requirements.

The background of the Concession Agreement and the Concession Novation Agreement, the Delegation Agreement and the Delegation Novation Agreement, and the Delegation Arrangements are described in detail below.

#### II. CONCESSION ARRANGEMENTS IN RELATION TO WATER TREATMENT FACILITIES IN ZUNYI

##### 1. Concession Agreement

*Date:*

9 April 2004

*Parties:*

- (i) ZMPG (on behalf of the Zunyi Municipal People's Government)
- (ii) CGDE (on behalf of the JV Companies yet to be formed), an independent third party of, and not a connected person (as defined under the Listing Rules) to, the Company before the formation of JV Companies.

*Subject matter:*

ZMPG granted to Asset Company the sole and exclusive right during the Concession Period to (a) acquire the Facilities at RMB152,000,000 pursuant to the Asset Purchase Agreement, (b) operate, maintain, rehabilitate and upgrade the Facilities, and (c) treat Raw Water supplied under the Raw Water Supply Agreement, supply Treated Water pursuant to the Offtake Agreement and provide related customer services. The Facilities are situated in Zunyi in the Guizhou Province of the PRC. The grant of the above rights is subject to the delegation to Operation Company of the exclusive right to operate, maintain, rehabilitate and upgrade the Facilities.

Pursuant to the Concession Agreement, ZMPG also granted to Asset Company and/or Operation Company an exclusive option to acquire, operate and maintain the Pipe Network, receive payments for services relating to the Pipe Network and provide customer services relating to the supply of Treated Water ("Option"). The Option is exercisable by a written notice served within 2 months before expiration of the second anniversary of the Concession Period. Upon receipt of the said notice to exercise, ZMPG shall enter into exclusive negotiations with the JV Companies for the purpose of agreeing on the terms of the Option (including the consideration for exercising the Option) within one year thereafter, failing which the Option shall lapse.

*Concession Period and handover:*

The Concession Period shall commence within 3 months from the date of the Concession Agreement subject to the fulfillment or waiver of all conditions precedent thereto (as described in the following paragraph) ("Effective Date"), and end on the 30th anniversary thereafter, and can be extended for 5 years or as agreed by the parties. Upon the expiry of the Concession Period or 7 days after the service of a termination notice by either party, the JV Companies will transfer to ZMPG at no cost all title and rights they have in or with regard to the Facilities, and Asset Co will provide a letter

of credit for RMB3 million valid for 1 year after the handover to ZMPG (or as it shall direct) as a performance guarantee against any major breakdown in the Facilities directly caused by Operation Company.

*Conditions precedent:*

The Concession Agreement is conditional upon, among other things, the Project Documents, the Investment Agreements and the Delegation Agreement having been signed and being in full force and effect, the respective conditions thereunder having been met (or waived, as the case may be) and the business licences of JV Companies having been issued. The Concession Agreement shall be terminated if the conditions precedent cannot be fulfilled within 12 months after the signing of the Concession Agreement. As at the date of this announcement, each of the Concession Agreement, the Asset Purchase Agreement, the Raw Water Supply Agreement, the Offtake Agreement, the Investment Agreements and the Delegation Agreement have already been signed but are still subject to approval of the relevant PRC governmental authorities.

##### 2. Concession Novation Agreement

*Date:*

To be entered into upon the formation of the JV Companies

*Parties:*

- (i) ZMPG (on behalf of the Zunyi Municipal People's Government)
- (ii) Asset Company, owned as to 75% by the Company upon its establishment
- (iii) Operation Company, owned as to 75% by CGDE and a connected person of the Company upon its establishment
- (iv) CGDE, a connected person of the Company after the entering into of the Investment Agreements
- (v) Zunyi Water

*Subject matter:*

After the issuance of the business licences of the JV Companies, the rights of and obligations assumed by CGDE under the Concession Agreement on behalf of Asset Company and Operation Company shall be novated to Asset Company and Operation Company respectively, and the JV Companies undertake to perform the Concession Agreement and the other Project Documents in place of CGDE.

#### III. DELEGATION OF OPERATION AND MAINTENANCE OF WATER TREATMENT FACILITIES IN ZUNYI

##### 1. Delegation Agreement

(as supplemented by a supplemental agreement)

*Date:*

18 June 2004

*Parties:*

- (i) Noble Field (a wholly owned subsidiary of the Company) and CGDE, together on behalf of Asset Company yet to be formed
- (ii) Unison Environmental (a wholly owned subsidiary of the Company) and CGDE, together on behalf of Operation Company yet to be formed

*Subject matter:*

Upon its establishment, Asset Company shall delegate its sole and exclusive right to operate, maintain, rehabilitate and upgrade the Facilities to Operation Company during the Concession Period.

*Term:*

To commence on the Effective Date, and end on the expiry of the Concession Period.

*Conditions precedent:*

The Delegation Agreement is conditional upon, among other things, the Project Documents having been signed and being in full force and effect, all conditions precedents thereto having been met (or waived, as the case may be) and Asset Company having secured all financing which may be required for or in connection with implementation of the project contemplated under the Project Documents on terms satisfactory to Asset Company. As at the date of this announcement, each of the Delegation Agreement, the Concession Agreement, the Asset Purchase Agreement, the Raw Water Supply Agreement, the Offtake Agreement and the Investment Agreements have already been signed but are still subject to approval of the relevant PRC governmental authorities.

**Delegation fee:**

Subject to the fee adjustment mechanism described below, Asset Company shall pay to Operation Company a monthly delegation fee in RMB consisting of:

- the basic delegation fee for the basic volume of treated water planned to be purchased (“**Basic Volume**”) (“**Basic Delegation Fee**”), which is calculated according to the annual budget for the Basic Volume and the appropriate fee per cubic meter, from approximately RMB33 million for the first operating year, increasing gradually to approximately RMB46 million in the fifth year and thereafter at approximately RMB44 million each year; and
- the additional delegation fee for the actual daily volume of treated water supplied by Operation Company in excess of the Basic Volume (“**Excess Volume**”) (“**Additional Delegation Fee**”), which is calculated according to the Excess Volume at RMB0.28 per cubic meter.

**Costs of Scheduled Rehabilitations, Upgrades and Studies:**

Asset Company shall also reimburse Operation Company of the costs of scheduled rehabilitations, upgrades and studies. The total budgeted costs in the first and second operating years is RMB14.2 million. Costs of scheduled rehabilitations, upgrades and studies in subsequent years shall be determined based on actual operational needs and shall be subject to Asset Company’s prior approval.

**Fee adjustment mechanism:**

Each of the Basic Delegation Fee and the Additional Delegation Fee is subject to adjustment by way of an index-based adjustment formulae for reflecting the impact of the fluctuation of the relevant underlying cost for operating the Facilities. Furthermore, the Basic Delegation Fee and Additional Delegation Fee are also subject to downward adjustment to the extent of half of the saving on the PRC income tax payable by Operation Company if preferential tax treatment or rates are granted to the Operation Company. Such preferential tax treatment or rates may or may not be granted to the Operation Company.

Either party may request a re-examination and rebasing of the Basic Delegation Fee, the Additional Delegation Fee, the said adjustment formula and the terms of the Delegation Agreement in certain circumstances including, there being a request to supply Treated Water in excess of the designed capacity of the relevant Facilities, the Raw Water failing to meet the agreed specifications, increase in duties and taxes paid by the JV Companies, changes in law or relevant regulations, the Effective Date not occurring within 6 months from the date of the Concession Agreement, the Facilities failing to meet the relevant performance criteria and any other unforeseeable circumstances leading to material increase in operating costs.

**Termination:**

The Delegation Agreement may be terminated by:

- Operation Company, if Asset Company fails to give Operation Company access to the Facilities, or if Asset Company exercises the Option under the Concession Agreement but fails to delegate the operation and maintenance of the Pipe Network, provided that it is not caused by a default of Operation Company or any other party to a Project Document, or a force majeure event which is not cured within the permitted time period;
- Asset Company, if Operation Company fails to supply Treated Water for 3 consecutive days or any 6 days within a year, or abandons the operation of the Facilities for more than 2 consecutive days without the prior written approval of ZMPG provided that it is not caused by a default of Asset Company or any other party to a Project Document or a force majeure event and is not cured within the permitted time period;
- either party, upon a prolonged force majeure event or change in circumstances due to the total or substantial destruction of the Facilities which will persist or has persisted for more than 180 days;
- either party, upon the early termination of any Project Document and Investment Agreements which materially affects the party’s ability to perform its obligations under the Delegation Agreement.

**2. Delegation Novation Agreement****Date:**

To be entered into upon the formation of the JV Companies

**Parties:**

- Asset Company, owned as to 75% by the Company upon its establishment
- Operation Company, owned as to 75% by CGDE and a connected person of the Company upon its establishment
- CGDE, a connected person of the Company after the entering into of the Investment Agreements
- Noble Field, a wholly owned subsidiary of the Company
- Unison Environmental, a wholly owned subsidiary of the Company

**Subject matter:**

After the issuance of the business licences of the JV Companies, the rights of and obligations assumed by CGDE, Noble Field and Unison Environmental under the Delegation Agreement on behalf of Asset Company and Operation Company shall be novated to Asset Company and Operation Company respectively, and Asset Company and Operation Company undertake to perform the Delegation Agreement in place of CGDE and Noble Field, and CGDE and Unison Environmental respectively.

**3. Delegation Arrangements****Continuing connected transactions**

The Delegation Arrangements under the Delegation Agreement (as supplemented by the Delegation Novation Agreement) will constitute continuing connected transactions of the Company exempt from the independent shareholders approval requirements under Rule 14A.34 of the Listing Rules and will be subject to the annual review requirement under Rules 14A.37 to 14A.41 and the reporting requirement under Rules 14A.45 and 14A.46 of the Listing Rules respectively.

**Duration of the Delegation Agreement**

As described above, the Delegation Agreement shall commence on the Effective Date, and end on the expiry of the Concession Period. The grant of the rights to operate and maintain the Facilities by ZMPG to Asset Company for up to 35 years is subject to the delegation to Operation Company of the right to operate, maintain, rehabilitate and upgrade the Facilities. To ensure the fulfillment of such condition, the parties to the Delegation Agreement have agreed that the term of the Delegation Arrangement should be identical to the Concession Period which is up to 35 years.

**Opinion of independent financial adviser on duration of the Delegation Agreement**

Since the term of the Delegation Agreement will be up to 35 years, an independent financial adviser has been appointed to comment on the duration of the Delegation Agreement. The independent financial adviser has reviewed (a) various research reports prepared in connection with the water supply sector in the PRC which indicate that duration of concession contracts are usually long-term in nature, and vary in duration from 20 years to 30 years, with an option to extend for further period, and (b) other similar municipal outsourcing water treatment projects in the PRC in the last two years which have contract duration between 25 years to 50 years (the duration of the contracts are for a period of 30 years, with an option to extend for a further period of 20 years). The independent financial adviser was of the view that as the Facilities will be transferred back to the Zunyi Government free-of-charge upon the expiry of the Concession Period, in order to justify the initial investment of this scale by the Company

in this project, the term of the concession and the related delegation arrangement would have to be of a sufficiently long duration, and in this case 35 years, to enable the project to generate a reasonable return to the Company throughout the Concession Period.

Given (i) the above-mentioned arrangement as set out in this announcement is a normal business practice in the water treatment sector; (ii) the term of the Delegation Agreement is identical to the Concession Period; and (iii) the Facilities will be returned to the Zunyi Government free-of-charge upon expiration of the Concession Period, the independent financial adviser considered that it is fair and reasonable and is in the interests of the Company to enter into the Delegation Agreement for a period of up to 35 years. In this connection, the independent financial adviser confirmed it to be normal business practice for contract of this type to be of a long-term nature and is in the interest of the Company and the shareholders as a whole to enter into the Delegation Agreement for such duration.

**The Cap**

The basis of the maximum aggregate annual value for the Delegation Arrangements for each financial year of the Company during the term of the Delegation Agreement (the “**Cap**”) is determined with reference to: (a) the Basic Delegation Fee as agreed by the Parties pursuant to the Delegation Agreement; (b) the difference between the designed capacity of the Facilities and Basic Volume, which shall form the basis for the estimation of the Additional Delegation Fee and (c) the budgeted costs of scheduled rehabilitations, upgrades and studies, assuming that no adjustment shall be made to the Basic Delegation Fee and Additional Delegation Fee in accordance with the stipulation under Delegation Agreement. On the above basis, the Company proposes to set the Cap at RMB51 million (approximately HK\$48 million) for each financial year of the Company during the term of the Delegation Agreement.

**IV. GENERAL INFORMATION****1. Connection between the parties**

Upon establishment of the Asset Company, CGDE will be a substantial shareholder with a 25% interest in the registered capital of Asset Company and Operation Company will be an associate of CGDE. CGDE and Operation Company will be connected persons of the Company for the purpose of the Listing Rules. Accordingly, the Novation Agreements and the Delegation Arrangement will constitute connected transactions and continuing connected transaction of the Company exempt from the independent shareholders approval requirements under Rules 14A.32 and 14A.34 of the Listing Rules respectively.

**2. Information about CGDE and Veolia Group**

CGDE and Veolia Water are members of the Veolia Group. Headquartered in Paris, France, the Veolia Group is one of the leaders in environmental services in the world. Veolia Water provides various kinds of services including water services, designers and suppliers of water treatment facilities, equipment and systems for the industrial and commercial sectors.

**3. Reasons for and benefits of the transactions**

The Company’s long term objective remains to develop a large diversified business with focus on providing basic infrastructure in Hong Kong and Mainland China supplemented by marketing and distribution, property investment and management. The joint venture arrangements with the Veolia Group and the Delegation Arrangements between the JV Companies represent an excellent opportunity for the Group to strengthen its business development in the environmental protection industry in Mainland China. The Group’s contribution to the registered capital of the JV Companies will be funded by internal resources.

Asset Company has been granted the sole and exclusive right to operate and maintain the Facilities under the Concession Agreement. Veolia Water, a subsidiary of CGDE, will provide technical and management advice to Operation Company on the services to be rendered under the Delegation Agreement. Taking into account the expertise and experience of the Veolia Group in the water services industry and water treatment facilities, the Board considers that it is in the interest of Asset Company to engage Operation Company to operate and maintain the Facilities pursuant to the Delegation Arrangements.

The Novation Agreements and the Delegation Agreement have been negotiated on an arm’s length basis and will be or has been entered into in the ordinary and usual course of business of the Company. The Board (including the independent non-executive directors) considers that the terms of the Novation Agreements, the Delegation Agreement and the Cap in relation to the Delegation Arrangements are fair and reasonable and in the interests of the Company and its shareholders as a whole.

**V. TERMS USED IN THIS ANNOUNCEMENT**

“Asset Company”	a wholly foreign-owned enterprise to be established under the laws of the PRC in Zunyi Municipality, Guizhou Province, the PRC to be named as 遵義通用水務水處理有限公司 (CGE (Zunyi) Water Treatment Co., Ltd.)
“Articles of Association”	collectively, the articles of association dated 9 June 2004 between Noble Field and CGDE in relation to the establishment of Asset Company, and the articles of association dated 9 June 2004 between Unison Environmental and CGDE in relation to the establishment of Operation Company
“Asset Purchase Agreement”	the asset purchase agreement dated 9 April 2004 between Zunyi Water and CGDE on behalf of the JV Companies in respect of the Facilities, the land on which the Facilities are situated, the relevant contracts and engagements of Zunyi Water, certain raw materials and intellectual property rights
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors of CITIC Pacific
“CGDE”	Compagnie Generale des Eaux, a SCA (Societe en Commandite par Actions) established and existing under the laws of the Republic of France, and a member of the Veolia Group
“CITIC Pacific” or “Company”	CITIC Pacific Limited (中信泰富有限公司)
“Concession Agreement”	the agreement dated 9 April 2004 between ZMPG (on behalf of the Zunyi Municipal People’s Government) and CGDE on behalf of the JV Companies in relation to the grant of the sole and exclusive right to operate, maintain, rehabilitate and upgrade the Facilities to Asset Company and the grant of the Option (as defined in paragraph II.1 hereof) to Asset Company and/or Operation Company
“Concession Novation Agreement”	the novation agreement to be entered into between ZMPG (on behalf of the Zunyi Municipal People’s Government), the JV Companies, CGDE and Zunyi Water in relation to the Concession Agreement
“Concession Period”	the period commencing on the Effective Date and ending on the 30th anniversary thereafter, and can be extended for 5 years or as agreed by the parties to the Concession Agreement

“Delegation Agreement”	the agreement dated 18 June 2004 between CGDE and Noble Field (together on behalf of Asset Company) and CGDE and Unison Environmental (together on behalf of Operation Company) in relation to the Delegation Arrangements
“Delegation Arrangements”	the delegation of the exclusive right to operate, maintain, rehabilitate and upgrade the Facilities during the Concession Period by Asset Company to Operation Company pursuant to the terms of the Delegation Agreement
“Delegation Novation Agreement”	the novation agreement to be entered into between the JV Companies, CGDE, Noble Field and Unison Environmental in relation to the Delegation Agreement
“Directors”	the directors of CITIC Pacific
“Facilities”	the existing water treatment facilities, the Nanjiao facility(南郊水廠) with a design capacity of 100,000 m <sup>3</sup> /day and the Beijiao facility(北郊水廠) with a design capacity of 100,000 m <sup>3</sup> /day, in Zunyi Municipality, Guizhou Province, PRC, together with all fixed or moveable assets located on the land on which the Facilities are situated or otherwise used or incidental to the operation of the Facilities, but not including any of the reservoirs supplying Raw Water to the Facilities or any part of the Pipe Network
“Group”	CITIC Pacific and its subsidiaries
“Investment Agreements”	collectively, the investment agreement (as supplemented by a supplemental agreement thereto) dated 9 June 2004 between Noble Field and CGDE in relation to the establishment of Asset Company, and the investment agreement (as supplemented by a supplemental agreement thereto) dated 9 June 2004 between Unison Environmental and CGDE in relation to the establishment of Operation Company
“JV Companies”	collectively, Asset Company and Operation Company
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Noble Field”	Noble Field Environmental Company Limited, a company incorporated and existing under the laws of the British Virgin Islands and a wholly-owned subsidiary of the Company
“Novation Agreements”	collectively, the Concession Novation Agreement and the Delegation Novation Agreement
“Offtake Agreement”	the offtake agreement dated 9 April 2004 between Zunyi Water and CGDE (on behalf of the JV Companies) in relation to the purchase of Treated Water by Zunyi Water from Asset Company
“Operation Company”	a wholly foreign-owned enterprise to be established under the laws of the PRC in Zunyi Municipality, Guizhou Province, the PRC to be named as 遵義通用水務水處理運行有限公司 (CGE (Zunyi) Water Treatment Operation Co., Ltd.)
“Pipe Network”	the water network in Zunyi Municipality downstream from the Facilities
“PRC”	the People’s Republic of China
“Project Documents”	collectively, the Concession Agreement, the Asset Purchase Agreement, the Raw Water Supply Agreement, the Offtake Agreement and other documents relating to the project contemplated under the Concession Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Raw Water”	the raw water to be delivered by Zunyi Water to Operation Company at the Facilities
“Raw Water Supply Agreement”	the supply agreement dated 9 April 2004 between Zunyi Water and CGDE (on behalf of Operation Company) in relation to the provision of Raw Water by Zunyi Water to Operation Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Treated Water”	Raw Water that has received treatment at the Facilities prior to supply by Asset Company
“Unison Environmental”	Unison Environmental Company Limited, a company incorporated and existing under the laws of the British Virgin Islands and a wholly-owned subsidiary of the Company
“Veolia Group”	Veolia Environment (a French company) and its subsidiaries, with headquarters in Paris, France
“Veolia Water”	Veolia Water South China Ltd., a subsidiary of CGDE and a member of the Veolia Group
“ZMPG”	遵義市城市管理局 (Zunyi Municipal Administration Bureau), the authorized representative of the Zunyi Municipal People’s Government
“Zunyi Water”	遵義市供排水公司 (Zunyi Water Supply and Sewage Treatment Company), a state-owned enterprise established under the laws of the PRC

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

Hong Kong, 23 June 2004

*The exchange rate of RMB to Hong Kong dollars quoted in this announcement adopts a rate of RMB1 equivalent to HK\$0.94.*

*As at the date hereof, the executive directors of the Company are Larry Yung Chi Kin (Chairman), Henry Fan Hung Ling, Vernon Francis Moore, Peter Lee Chung Hing, Norman Yuen Kee Tong, Yao Jinrong, Chang Zhenming, Li Shilin, Carl Yung Ming Jie and Liu Jifu. The non-executive directors are Willie Chang, André Desmarais and Peter Kruyt (alternate director to André Desmarais). The independent non-executive directors are Hamilton Ho Hau Hay, Alexander Reid Hamilton, Hansen Loh Chung Hon and Norman Ho Hau Chong.*

“Please also refer to the published version of this announcement in The Standard and Hong Kong Economic Times”.