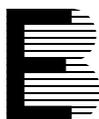


THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional advisor.

If you have sold or transferred all your shares in **China Everbright International Limited**, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



CHINA EVERBRIGHT INTERNATIONAL LIMITED
中國光大國際有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 0257)

CONTINUING CONNECTED TRANSACTIONS

Independent financial adviser to
the Independent Board Committee and the Shareholders



First Shanghai Capital Limited

A letter from the Independent Board Committee is set out on pages 13 to 14 of this circular.

A letter from First Shanghai containing its advice to the Independent Board Committee and the Shareholders on the Continuing Connected Transactions is set out on pages 15 to 23 of this circular.

9 February 2007

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	
Background	5
Introduction	6
The Operation and Maintenance Agreement	6
The Waste Water Treatment Agreement	8
Information about the Group, Qingdao Drainage and Veolia Group	10
Reasons for and benefits of the Continuing Connected Transactions	11
Listing Rules implications	11
Additional information	12
Letter from the Independent Board Committee	13
Letter from First Shanghai	15
Appendix – General Information	24

DEFINITIONS

In this circular, unless the context otherwise requires, the following terms shall have the following meanings:

“Announcement”	announcement of the Company dated 19 January 2007 in relation to, among other things, the Continuing Connected Transactions
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	board of Directors
“CE Water Investments”	China Everbright Water Investments Limited (formerly known as China Everbright Environmental Protection Investment Limited), a limited liability company incorporated in the British Virgin Islands, a wholly-owned subsidiary of the Company
“Company”	China Everbright International Limited (中國光大國際有限公司), a company incorporated in Hong Kong, the shares of which are listed on the Stock Exchange
“Continuing Connected Transactions”	continuing connected transactions between the Project Company and connected persons of the Company contemplated by the Operation and Maintenance Agreement and the Waste Water Treatment Agreement
“Directors”	directors of the Company
“EB-VW”	EB-VW HK Holding Company Limited, a limited liability company incorporated in Hong Kong on 15 October 2003, which is 60% owned by CE Water Investments and 40% owned by Veolia Water
“Facilities”	existing waste water treatment plants known as “Qingdao Haibohe” and “Qingdao Maidao” and the extension thereto (the “Extended Facilities”) upon the completion of the relevant construction works and the Leased Facilities, together with all fixed and moveable assets necessary or incidental to the construction, operation and maintenance of the Facilities and the Extended Facilities, all being located in the municipality of Qingdao, Shandong Province, the PRC
“First Shanghai”	First Shanghai Capital Limited, the independent financial adviser to the Independent Board Committee and the Shareholders in relation to the Continuing Connected Transactions and the Revised Caps

DEFINITIONS

“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	independent committee of the Board comprises Sir David Akers-Jones, Mr. Li Kwok Sing, Aubrey and Mr. Selwyn Mar, all of whom are independent non-executive Directors, formed to advise the Shareholders as to the Continuing Connected Transactions and the Revised Caps
“Latest Practicable Date”	5 February 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular
“Leased Facilities”	facilities related to the two waste water treatment plants known as “Qingdao Haibohe” and “Qingdao Maidao”
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Operation Company”	Qingdao Veolia Water Operating Company Limited, a Sino-foreign co-operative joint venture company established under the laws of the PRC, which is 21% owned by CE Water Investments, 78% owned by Veolia Water and 1% owned by Qingdao Drainage
“Operation Company JV Contract”	joint venture contract dated 1 November 2003 entered into between CE Water Investments, Veolia Water and Qingdao Drainage for the purpose of forming the Operation Company
“Operation and Maintenance Agreement”	operation and maintenance agreement dated as of 1 June 2004 and entered into between the Project Company and the Operation Company pursuant to which the Project Company subcontracts the provision of operation and maintenance services in respect of the Facilities to the Operation Company
“Operation and Maintenance Annual Cap”	annual maximum total amount of the transactions contemplated by the Operation and Maintenance Agreement
“PRC”	The People’s Republic of China

DEFINITIONS

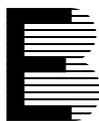
“Previous Caps”	maximum annual values of each of the continuing connected transactions for the three years ended 31 December 2006 previously approved by Guildford Limited
“Previous Circular”	circular of the Company dated 8 July 2004 in relation to, among other things, continuing connected transactions contemplated under the Operation and Maintenance Agreement and the Waste Water Treatment Agreement
“Project”	the Project Company JV Contract and the Operation Company JV Contract as well as all the works and services in respect of the Facilities mentioned in the aforesaid two joint venture contracts
“Project Company”	Qingdao EB-VW Waste Water Treatment Co., Ltd., a Sino-foreign co-operative joint venture established in the PRC and owned as to 60% by EB-VW and the remaining 40% by Qingdao Drainage, which shall operate as a project company to carry out the Project
“Project Company JV Contract”	joint venture contract dated 1 November 2003 entered into between Qingdao Drainage and EB-VW for the purpose of forming the Project Company
“Qingdao Drainage”	Qingdao Municipal Drainage Company, a State-owned company in the PRC
“Revised Caps”	maximum annual values of each of the Continuing Connected Transactions for the three years ending 31 December 2009 approved by Guildford Limited
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	registered holder(s) of shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning ascribed to it under the Listing Rules
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules

DEFINITIONS

“Veolia Asia”	Veolia Water Asia Limited, a limited liability company incorporated in Hong Kong, which is a member of the Veolia Group
“Veolia Group”	Veolia Environnement (a French company, the shares of which are listed on the Paris Stock Exchange) and its subsidiaries, with headquarters in Paris, France
“Veolia Water”	Veolia Water, a French company, which is a member of the Veolia Group
“Waste Water Treatment Agreement”	waste water treatment agreement dated as of 1 June 2004 and entered into between the Project Company and Qingdao Drainage pursuant to which the Project Company provides waste water treatment services and other related services to Qingdao Drainage
“Waste Water Treatment Annual Cap”	annual maximum total amount of the transactions contemplated by the Waste Water Treatment Agreement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

For the purposes of illustration only and unless otherwise stated, the conversion of RMB into HK\$ is based on the exchange rate of RMB1.00 = HK\$0.9962. Such conversion should not be construed as a representation that the amounts in question have been, could have been or could be converted at any particular rate or at all.

LETTER FROM THE BOARD



CHINA EVERBRIGHT INTERNATIONAL LIMITED

中國光大國際有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 0257)

Executive Directors:

Mr. WANG Mingquan (*Chairman*)
Mr. ZANG Qiutao (*Vice-chairman*)
Mr. LI Xueming (*Vice-chairman*)
Mr. CHEN Xiaoping (*Chief Executive Officer*)
Mr. FAN Yan Hok, Philip
Mr. HUANG Chaohua
Mr. WONG Kam Chung, Raymond
Mr. CHEN Shuang
Ms. ZHANG Weiyun

Registered Office:

Room 2703, 27th Floor
Far East Finance Centre
16 Harcourt Road
Hong Kong

Independent non-executive Directors:

Sir David AKERS-JONES
Mr. LI Kwok Sing, Aubrey
Mr. MAR Selwyn

9 February 2007

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

BACKGROUND

Reference is made to the Continuing Connected Transactions disclosed by the Company in June 2004 and the Previous Caps related to the Continuing Connected Transactions which were approved by Guildford Limited, the intermediate controlling Shareholder.

As disclosed in the announcement of the Company dated 16 June 2004, Qingdao Drainage and EB-VW, a non wholly-owned subsidiary of the Company, formed the Project Company for the purpose of operating and maintaining the Facilities as well as treating and processing waste water in Qingdao Municipality, Shandong Province, the PRC. The Project Company is responsible for the construction of the Extended Facilities and leasing the Leased Facilities from Qingdao Drainage for the purpose of operating and maintaining the whole of the Facilities.

LETTER FROM THE BOARD

In addition, CE Water Investments, a wholly-owned subsidiary of the Company, Qingdao Drainage and Veolia Water formed the Operation Company to act as the contractor of the Project Company for (i) the operation and maintenance of the Facilities; (ii) treating and processing waste water in Qingdao Municipality, Shandong Province, the PRC; and (iii) other services as provided in the Operation and Maintenance Agreement.

INTRODUCTION

On 19 January 2007, the Board announced in the Announcement that, the Operation and Maintenance Agreement and the Waste Water Treatment Agreement were entered into between the Project Company and connected persons of the Company. Accordingly, the transactions contemplated by the Operation and Maintenance Agreement and the Waste Water Treatment Agreement are continuing connected transactions for the Company under Chapter 14A of the Listing Rules. The Continuing Connected Transactions are subject to the reporting, announcement and independent Shareholders' approval requirements.

As the Previous Caps related to the Operation and Maintenance Agreement and the Waste Water Treatment Agreement were approved for the three years ended 31 December 2006 and expired on 31 December 2006, the Company is, once again, required to comply with the reporting, announcement and independent Shareholders' approval requirements under the Listing Rules for the Continuing Connected Transactions starting from 1 January 2007.

The purpose of this circular is to provide the Shareholders with further information relating to the Operation and Maintenance Agreement and the Waste Water Treatment Agreement.

THE OPERATION AND MAINTENANCE AGREEMENT

Dated as of: 1 June 2004

Parties: (i) the Project Company; and
(ii) the Operation Company.

The Operation Company is a subsidiary of Veolia Water. As Veolia Water is a substantial shareholder of EB-VW, a non wholly-owned subsidiary of the Company, the Operation Company is a connected person of the Company and the transactions contemplated by the Operation and Maintenance Agreement constitute continuing connected transactions for the Company for the purposes of the Listing Rules.

LETTER FROM THE BOARD

Subject matter:

The Project Company and the Operation Company enter into the Operation and Maintenance Agreement to set out the terms and conditions under which the Operation Company will provide to the Project Company operation and maintenance services in respect of the Project.

Duration and termination:

Unless otherwise terminated, the Operation and Maintenance Agreement will remain in full force and effect until the expiry of the Waste Water Treatment Agreement (which, according to the terms of such agreement, shall be for a term of 25 years, unless otherwise extended by mutual agreement between the parties or terminated in accordance with the terms of the Waste Water Treatment Agreement).

In the Previous Circular, the then independent financial adviser appointed by the Company had opined that it is normal business practice for the Operation and Maintenance Agreement to be of such duration, which is a period longer than three years.

The Operation and Maintenance Agreement may be terminated (without payment of any penalty) by the Project Company or the Operation Company by serving a notice of termination pursuant to the terms thereof.

Service fee and terms of payment:

For the provision of the services under the Operation and Maintenance Agreement, the Project Company shall be required to pay to the Operation Company a service assistance fee which would consist of a basic fee minus any adjustments (in accordance with the terms of the Operation and Maintenance Agreement). The basic fee is to be calculated on the projected volume of waste water to be treated and to be paid in cash on a monthly basis.

Previous Caps and Revised Caps:

The table below sets out the historical amounts relating to the Operation and Maintenance Agreement and the Operation and Maintenance Annual Caps for the three years ended 31 December 2006:

Year ended 31 December 2004 (RMB'000)		Year ended 31 December 2005 (RMB'000)		Year ended 31 December 2006 (RMB'000)	
Annual cap	Actual amount	Annual cap	Actual amount	Annual cap	Actual amount
12,400	0	20,700	19,601	20,700	18,673

LETTER FROM THE BOARD

As stated in the table above, none of the Operation and Maintenance Annual Caps for the three years ended 31 December 2006 has been exceeded.

The Operation and Maintenance Annual Caps are determined by reference to the daily maximum amount of waste water to be treated by the Facilities. As a result of the Extended Facilities coming into operation in 2007, the maximum daily capacity of the Facilities increased from 180,000 cubic metres to 220,000 cubic metres. As a result, the Operation and Maintenance Annual Caps are revised accordingly.

On the basis of the service assistance fees set out in the Operation and Maintenance Agreement and the projected volume of waste water for 2007 to 2009 set out in the Waste Water Treatment Agreement, it is currently expected that the Operation and Maintenance Annual Caps for the three years ending 31 December 2009 will be RMB38 million (equivalent to approximately HK\$38 million), RMB36 million (equivalent to approximately HK\$36 million) and RMB33 million (equivalent to approximately HK\$33 million), respectively.

As the Operation and Maintenance Annual Caps are determined by reference to the daily maximum amount of the waste water to be treated by the Facilities and the daily maximum charge rate payable by the Project Company for the waste water treatment, the Directors continue to believe the terms of the Operation and Maintenance Agreement and the Operation and Maintenance Annual Caps are fair and reasonable and that the entering into of the Operation and Maintenance Agreement is in the interests of the Company and the Shareholders as a whole. Pursuant to Rule 14A.35 of the Listing Rules, the continuing connected transaction contemplated by the Operation and Maintenance Agreement is subject to the reporting, announcement and independent Shareholders' approval requirements and is also subject to the requirements of annual review by the independent non-executive Directors and the auditors of the Company in accordance with Rules 14A.37 to 14A.39 of the Listing Rules.

The Directors have confirmed that the terms of the Operation and Maintenance Agreement were negotiated on an arm's length basis and the transactions contemplated under the Operation and Maintenance Agreement will be carried out in the ordinary and usual course of business of the Group and on normal commercial terms, which in the context of the Project are in the interest of the Group.

THE WASTE WATER TREATMENT AGREEMENT

Dated as of: 1 June 2004

Parties: (i) the Project Company; and
(ii) Qingdao Drainage.

Qingdao Drainage is a substantial shareholder of the Project Company, a non wholly-owned subsidiary of the Company. As a result, Qingdao

LETTER FROM THE BOARD

Drainage is a connected person of the Company and the transactions contemplated by the Waste Water Treatment Agreement constitute continuing connected transactions for the Company for the purposes of the Listing Rules.

Subject matter:

The Project Company will provide Qingdao Drainage with design, construction, maintenance and operation services for waste water treatment facilities and the provision of waste water treatment services in Qingdao, the PRC.

Duration and termination:

The Waste Water Treatment Agreement will remain in full force and effect for the term of 25 years, unless extended by mutual agreement between the parties or terminated in accordance with the terms of the Waste Water Treatment Agreement.

In the Previous Circular, the then independent financial adviser appointed by the Company had opined that it is normal business practice for the Waste Water Treatment Agreement to be of such duration, which is a period longer than three years.

Service fee and terms of payment:

For the provision of the services under the Waste Water Treatment Agreement, Qingdao Drainage shall be required to pay to the Project Company a service charge which would consist of a base service charge minus any adjustments (in accordance with the terms of the Waste Water Treatment Agreement). The base service charge is to be calculated on the projected volume of waste water to be treated and to be paid in cash on a monthly basis.

Previous Caps and Revised Caps:

The table below sets out the historical amounts and the Waste Water Treatment Annual Caps relating to the Waste Water Treatment Agreement for the three years ended 31 December 2006:

Year ended 31 December 2004 <i>(RMB'000)</i>		Year ended 31 December 2005 <i>(RMB'000)</i>		Year ended 31 December 2006 <i>(RMB'000)</i>	
Annual cap	Actual amount	Annual cap	Actual amount	Annual cap	Actual amount
33,500	0	57,400	54,658	57,400	53,962

As stated in the table above, none of the Waste Water Treatment Annual Caps for the three years ended 31 December 2006 has been exceeded.

LETTER FROM THE BOARD

According to the Waste Water Treatment Agreement, the maximum daily capacity of the Facilities was 180,000 cubic metres. As stated in the Company's 2006 interim report, the construction of the Extended Facilities was completed in June 2006. As a result, the maximum daily capacity of the Facilities expanded to 220,000 cubic metres and from 2007 the projected volume of waste water increased accordingly.

On the basis of the charges and the projected volume of waste water for 2007 to 2009 set out in the Waste Water Treatment Agreement, it is currently expected that the Waste Water Treatment Annual Caps for the three years ending 31 December 2009 will be RMB71 million (equivalent to approximately HK\$71 million), RMB71 million (equivalent to approximately HK\$71 million) and RMB71 million (equivalent to approximately HK\$71 million), respectively.

As the Waste Water Treatment Annual Caps are determined by reference to the daily maximum amount of the waste water to be treated by the Facilities and the daily maximum charge rate payable by Qingdao Drainage for the waste water treatment, the Directors continue to believe the terms of the Waste Water Treatment Agreement and the Waste Water Treatment Annual Caps are fair and reasonable and that the entering into of the Waste Water Treatment Agreement is in the interests of the Company and the Shareholders as a whole. Pursuant to Rule 14A.35 of the Listing Rules, the continuing connected transaction contemplated by the Waste Water Treatment Agreement is subject to the reporting, announcement and independent Shareholders' approval requirements and is also subject to the requirements of annual review by the independent non-executive Directors and the auditors of the Company in accordance with Rules 14A.37 to 14A.39 of the Listing Rules.

The Directors have confirmed that the terms of the Waste Water Treatment Agreement were negotiated on an arm's length basis and the transactions contemplated under the Waste Water Treatment Agreement will be carried out in the ordinary and usual course of business of the Group and on normal commercial terms, which in the context of the Project are in the interest of the Group.

INFORMATION ABOUT THE GROUP, QINGDAO DRAINAGE AND VEOLIA GROUP

The Group is principally engaged in toll bridge operation, property investment and management, environmental protection investment and operation, environmental protection project management and consultancy and investment holdings.

To the best of the Company's knowledge, Qingdao Drainage is a State-owned company duly organized and existing under the laws of the PRC and registered with Qingdao Municipal Administration Bureau of Industry and Commerce, Shandong Province, the PRC. It is principally engaged in the investment in, construction of, and management of, waste water treatment facilities in Qingdao Municipality, Shandong Province, the PRC.

The Veolia Group is one of the world leaders in water services and one of the leading designers and suppliers of water treatment facilities, equipment and systems for the industrial and commercial sectors. With headquarters in Paris, France, the Veolia Group

LETTER FROM THE BOARD

operates worldwide and offers a comprehensive range of water and waste water management services, including turnkey plants and systems, refurbishment, equipment, operations and maintenance and outsourcing. The co-operation with the Veolia Group aligns with the Group's strategy of entering into the environmental protection industry with strong business partners.

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

The Group has been focusing on environmental protection businesses since 2002. The transactions contemplated by each of the Operation and Maintenance Agreement and the Waste Water Treatment Agreement were all contemplated by the Project Company JV Contract and the Operation Company JV Contract and are for effecting the purposes of the Project.

The Directors are of the view that the terms of each of the Operation and Maintenance Agreement and the Waste Water Treatment Agreement were negotiated on an arm's length basis and the transactions will be carried out in the ordinary and usual course of business of the Group. The Directors further confirm their view that the Operation and Maintenance Annual Caps and the Waste Water Treatment Annual Caps are fair and reasonable and consider that the entering into of the Operation and Maintenance Agreement and the Waste Water Treatment Agreement are in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

The Operation and Maintenance Agreement and the Waste Water Treatment Agreement were entered into between the Project Company and connected persons of the Company. Accordingly, the transactions contemplated by the Operation and Maintenance Agreement and the Waste Water Treatment Agreement are continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As the Previous Caps related to the Operation and Maintenance Agreement and the Waste Water Treatment Agreement were approved for the three years ended 31 December 2006 and expired on 31 December 2006, the Company is, once again, required to comply with the reporting, announcement and independent Shareholders' approval requirements (if applicable) under the Listing Rules for the Continuing Connected Transactions starting from 1 January 2007.

Pursuant to the Listing Rules, the continuing connected transactions contemplated by the Operation and Maintenance Agreement and the Waste Water Treatment Agreement are subject to the reporting, announcement and independent Shareholders' approval requirements. The Company hereby confirms that there is no other transaction with the counterparties to the Operation and Maintenance Agreement and the Waste Water Treatment Agreement in the past twelve months which requires aggregation pursuant to Rule 14A.25 of the Listing Rules.

LETTER FROM THE BOARD

As no Shareholders have any interest in each of the Operation and Maintenance Agreement and the Waste Water Treatment Agreement, no Shareholders are required to abstain from the Shareholders' approval of the continuing connected transactions contemplated by the Operation and Maintenance Agreement and the Waste Water Treatment Agreement, respectively. Guildford Limited, the intermediate controlling Shareholder which holds approximately 57.16% of the issued share capital of the Company, has approved in writing the Operation and Maintenance Agreement and the Waste Water Treatment Agreement and the continuing connected transactions contemplated thereby. Accordingly, there is no further need to convene a Shareholders' meeting to approve the Operation and Maintenance Agreement and the Waste Water Treatment Agreement and the continuing connected transactions contemplated thereby. Based on the above grounds, the Company has applied for, and the Stock Exchange has granted, a waiver under Rule 14A.43 of the Listing Rules from convening a Shareholders' meeting to approve the Operation and Maintenance Agreement and the Waste Water Treatment Agreement and the continuing connected transactions contemplated thereby.

As the Directors expect the relevant percentage ratios in relation to the transactions contemplated by each of the Operation and Maintenance Agreement and the Waste Water Treatment Agreement will exceed 2.5% of the percentage ratios or the relevant considerations will be more than HK\$10,000,000 as set out in Chapter 14A of the Listing Rules, the transactions constitute non-exempt continuing connected transactions under Rule 14A.35 of the Listing Rules.

First Shanghai, the independent financial adviser to the Independent Board Committee and the Shareholders, has been appointed by the Company to advise the Independent Board Committee and the Shareholders in relation to the Continuing Connected Transactions and the Revised Caps.

If necessary, the Company will set new caps for the Continuing Connected Transactions for the years after 2009 and will comply with the announcement, reporting and independent Shareholders' approval requirements for connected transactions in the Listing Rules, to the extent that is applicable.

ADDITIONAL INFORMATION

Your attention is drawn to the letter of the Independent Board Committee set out on pages 13 to 14 of this circular, the letter of advice of First Shanghai set out on pages 15 to 23 of this circular and the additional information set out in the appendix to this circular.

By order of the Board
China Everbright International Limited
CHEN Xiaoping
Chief Executive Officer

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter from the Independent Board Committee setting out its recommendation to the Shareholders in relation to the Continuing Connected Transactions.



CHINA EVERBRIGHT INTERNATIONAL LIMITED

中國光大國際有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 0257)

9 February 2007

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular of the Company dated 9 February 2007 (the "Circular"), of which this letter forms part. Defined terms used herein shall have the same meanings as those defined in the Circular unless otherwise specified.

The Operation and Maintenance Agreement and the Waste Water Treatment Agreement were entered into between the Project Company and connected persons of the Company. Accordingly, the transactions contemplated by the Operation and Maintenance Agreement and the Waste Water Treatment Agreement are continuing connected transactions for the Company under Chapter 14A of the Listing Rules. The Continuing Connected Transactions are subject to the reporting, announcement and independent Shareholders' approval requirements.

As the Previous Caps related to the Operation and Maintenance Agreement and the Waste Water Treatment Agreement were approved for the three years ended 31 December 2006 and expired on 31 December 2006, the Company is, once again, required to comply with the reporting, announcement and independent Shareholders' approval requirements under the Listing Rules for the Continuing Connected Transactions starting from 1 January 2007.

As no Shareholders have any interest in each of the Operation and Maintenance Agreement and the Waste Water Treatment Agreement, no Shareholders are required to abstain from the Shareholders' approval of the continuing connected transactions contemplated by the Operation and Maintenance Agreement and the Waste Water Treatment Agreement, respectively. Guildford Limited, the intermediate controlling Shareholder which holds approximately 57.16% of the issued share capital of the Company, has approved in writing the Operation and Maintenance Agreement and the Waste Water Treatment Agreement and the continuing connected transactions contemplated thereby. Accordingly,

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

there is no further need to convene a Shareholders' meeting to approve the Operation and Maintenance Agreement and the Waste Water Treatment Agreement and the continuing connected transactions contemplated thereby. The Company has applied for, and the Stock Exchange has granted, a waiver under Rule 14A.43 of the Listing Rules from convening a Shareholders' meeting to approve the Operation and Maintenance Agreement and the Waste Water Treatment Agreement and the continuing connected transactions contemplated thereby.

We have been appointed as the members of the Independent Board Committee to consider the Continuing Connected Transactions and to advise the Shareholders as to the fairness and reasonableness of the terms of the Operation and Maintenance Agreement and the Waste Water Treatment Agreement and the respective annual caps therefor. First Shanghai has been appointed to advise the Independent Board Committee and the Shareholders in this regard.

We wish to draw your attention to (i) the letter from the Board, as set out on pages 5 to 12 of the Circular, which provides the terms of, and the reasons for entering into, the Operation and Maintenance Agreement and the Waste Water Treatment Agreement; and (ii) the letter from First Shanghai to the Independent Board Committee and the Shareholders which contains its opinion in respect of the Continuing Connected Transactions as set out on pages 15 to 23 of the Circular.

After taking into consideration the advice from First Shanghai, we concur with the views of First Shanghai and consider that the Continuing Connected Transactions (including the Operation and Maintenance Annual Caps and the Waste Water Treatment Annual Caps for the three years ending 31 December 2009) are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Shareholders are concerned. If a general meeting of the Shareholders were to be convened, we would recommend that the Shareholders should vote in favour of the resolutions to approve the Operation and Maintenance Agreement, the Waste Water Treatment Agreement, the Continuing Connected Transactions, and the Operation and Maintenance Annual Caps and the Waste Water Treatment Annual Caps for the three years ending 31 December 2009.

Yours faithfully,
Independent Board Committee

Sir David AKERS-JONES
*Independent Non-executive
Director*

LI Kwok Sing, Aubrey
*Independent Non-executive
Director*

Selwyn MAR
*Independent Non-executive
Director*

LETTER FROM FIRST SHANGHAI

The following is the text of a letter received from First Shanghai setting out its advice to the Independent Board Committee and the Shareholders in respect of the Continuing Connected Transactions for inclusion in this circular.



FIRST SHANGHAI CAPITAL LIMITED

19th Floor, Wing On House
71 Des Voeux Road Central
Hong Kong

9 February 2007

To the Independent Board Committee and the Shareholders
China Everbright International Limited
Room 2703, 27th Floor
Far East Finance Centre
16 Harcourt Road
Hong Kong

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Shareholders in respect of the Continuing Connected Transactions, details of which are set out in the circular of the Company dated 9 February 2007 (the “Circular”) to the Shareholders of which this letter forms a part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Circular.

Reference is made to the Previous Circular in relation to the Continuing Connected Transactions and the Previous Caps, which were approved by Guildford Limited, the intermediate controlling Shareholder. As the Previous Caps related to the Operation and Maintenance Agreement and the Waste Water Treatment Agreement were approved for the three years ended 31 December 2006 and expired on 31 December 2006, the Company is required to comply with the reporting, announcement and independent Shareholders’ approval requirements under the Listing Rules again for the Continuing Connected Transactions starting from 1 January 2007. As no Shareholders have any interest in each of the Operation and Maintenance Agreement and the Waste Water Treatment Agreement (collectively, the “Agreements”), no Shareholders are required to abstain from the Shareholders’ approval of the continuing connected transactions contemplated by the Operation and Maintenance Agreement and the Waste Water Treatment Agreement, respectively. Guildford Limited, the intermediate controlling Shareholder which holds approximately 57.16% of the issued share capital of the Company, has approved in writing

LETTER FROM FIRST SHANGHAI

the Operation and Maintenance Agreement and the Waste Water Treatment Agreement and the continuing connected transactions contemplated thereby. Accordingly, there is no further need to convene a Shareholders' meeting to approve the Operation and Maintenance Agreement and the Waste Water Treatment Agreement and the continuing connected transactions contemplated thereby.

The Independent Board Committee, comprising the independent non-executive Directors namely Sir David Akers-Jones, Mr. Li Kwok Sing, Aubrey and Mr. Selwyn Mar, has been formed to advise the Shareholders in relation to the Continuing Connected Transactions and the Revised Caps. Our role, as the independent financial adviser to the Independent Board Committee and the Shareholders, is to give an independent opinion as to whether the Continuing Connected Transactions and the Revised Caps are fair and reasonable and are in the interests of the Company and the Shareholders as a whole if an extraordinary general meeting is to be convened for the purpose of approving such transactions.

In putting forth our opinion and recommendation, we have relied on the accuracy of the information and representations included in the Circular and provided to us by the Directors and the Company, and have assumed that all such information and representations made or referred to in the Circular and provided to us by the Directors and the Company were true at the time they were made and continued to be true as at the date hereof. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and have been advised by the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular. We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Directors nor have we conducted any form of investigation into the business, affairs or future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendations as to the fairness and reasonableness of the Continuing Connected Transactions and the Revised Caps, we have taken into account the following principal factors and reasons:

1. Background

As disclosed in the Previous Circular, Qingdao Drainage and EB-VW, a non wholly-owned subsidiary of the Company, formed the Project Company for the purpose of operating and maintaining the Facilities as well as treating and processing waste water in Qingdao Municipality, Shandong Province, the PRC. Pursuant to the Waste Water Treatment Agreement, the Project Company provides Qingdao Drainage with design, construction, maintenance and operation services for waste water

LETTER FROM FIRST SHANGHAI

treatment facilities and the provision of waste water treatment services in Qingdao, the PRC. The Project Company is also responsible for the construction of the Extended Facilities and leasing the Leased Facilities from Qingdao Drainage for the purpose of operating and maintaining the whole of the Facilities.

In addition, CE Water Investments, a wholly-owned subsidiary of the Company, Qingdao Drainage and Veolia Water formed the Operation Company to act as the contractor of the Project Company for (i) the operation and maintenance of the Facilities; (ii) treating and processing waste water in Qingdao Municipality, Shandong Province, the PRC; and (iii) other services as provided in the Operation and Maintenance Agreement. Pursuant to the Operation and Maintenance Agreement, the Operation Company provides to the Project Company operation and maintenance services in respect of the Project.

2. Reasons for entering into the Waste Water Treatment Agreement and Operation and Maintenance Agreement

The principal activities of the Group are toll bridge operation, property investments and management, environmental protection investment and operation, environmental protection project management and consultancy and investment holding.

As mentioned in the “Letter from the Board” in the Circular, to the best of the Company’s knowledge, information and belief and having made all reasonable enquires, Qingdao Drainage is a State-owned company duly organised and existing under the laws of the PRC and registered with Qingdao Municipal Administration Bureau of Industry and Commerce, Shandong Province, the PRC. It is principally engaged in the investment in, construction of, and management of, waste water treatment facilities in Qingdao Municipality, Shandong Province, the PRC.

The Veolia Group is one of the world leaders in water services and one of the leading designers and suppliers of water treatment facilities, equipment and systems for the industrial and commercial sectors. With headquarters in Paris, France, the Veolia Group operates worldwide and offers a comprehensive range of water and waste water management services, including turnkey plants and systems, refurbishment, equipment, operations and maintenance and outsourcing. The co-operation with the Veolia Group aligns with the Group’s strategy of entering into the environmental protection industry with strong business partners.

The Group has been focusing on environmental protection business since 2002. Other than the Facilities, we have noticed from the announcements of the Company dated 27 September 2005 and 31 October 2006 respectively that, the Group has also acquired two waste water treatment plants at Zibo City and Jinan City in Shandong Province, respectively. Having considered the businesses engaged by the Group, the background of Qingdao Drainage and Veolia Group and the advantages of having Qingdao Drainage and Veolia Group as the Group’s partners in waste water treatment business, we are of the view that, so far as the Revised Caps are fair and reasonable, it is reasonable and logical to continue the arrangements under the Agreements in order to avoid possible disruption to the Group’s business.

LETTER FROM FIRST SHANGHAI

3. Basis of determining the Revised Caps

Waste Water Treatment Agreement

As stated in the “Letter from the Board” in the Circular, for the provision of the services under the Waste Water Treatment Agreement, Qingdao Drainage shall be required to pay to the Project Company a service charge which would consist of a base service charge minus any adjustments (in accordance with the terms of the Waste Water Treatment Agreement). The base service charge is to be calculated on the projected volume of waste water (“Projected Daily Volume”) to be treated and to be paid in cash on a monthly basis.

Pursuant to the Waste Water Treatment Agreement entered into between the Project Company and Qingdao Drainage on 1 June 2004, the supply of waste water from Qingdao Drainage should not be less than the Projected Daily Volume as set out in the Waste Water Treatment Agreement and more than the maximum daily capacity of the Facilities (the “Projected Maximum Daily Volume”). According to the Waste Water Treatment Agreement, the maximum daily capacity of the Facilities was 180,000 cubic metres. As stated in the interim report of the Company for the six months ended 30 June 2006, the construction of Extended Facilities was completed in June 2006. As a result, the maximum daily capacity of the Facilities was expanded to 220,000 cubic metres subsequently. As such, the Projected Daily Volume and the Projected Maximum Daily Volume have been increased accordingly starting from 2007. Qingdao Drainage is required to pay to the Project Company a service charge of RMB1.00 per cubic metre from 2004 to 2006 and RMB1.06 per cubic metre from 2007 to 2009. In excess of the Projected Daily Volume, an adjusted service charge of RMB0.24 per cubic metre will be charged for the amount of waste water being treated up to the Projected Maximum Daily Volume. It is calculated that, if the amount of waste water being treated meets the Projected Maximum Daily Volume, the average daily charge per cubic metre will be approximately RMB0.87 throughout the period from 2004 to 2009, suggesting that the basis of determining the annual cap of the Waste Water Treatment Agreement in terms of unit charge for the period from 2007 to 2009 has remained the same as compared with that from 2004 to 2006. The table below shows a summary of daily volume and daily charge from 2004 to 2009:

Year	Projected Daily Volume <i>Cubic metre</i>	Projected Maximum Daily Volume <i>Cubic metre</i>	Daily charge per cubic metre <i>RMB</i>	Average daily charge per cubic metre corresponding to the Projected Maximum Daily Volume <i>RMB</i>
2004	150,000	180,000	1.00	0.87
2005	150,000	180,000	1.00	0.87
2006	150,000	180,000	1.00	0.87
2007	170,000	220,000	1.06	0.87
2008	170,000	220,000	1.06	0.87
2009	170,000	220,000	1.06	0.87

LETTER FROM FIRST SHANGHAI

To assess whether the treatment charge per cubic metre is fair and reasonable, we have, on our best effort basis, identified four waste water treatment plants (the “Comparable Plants”) in the PRC. Among the four Comparable Plants, two of them, namely the waste water treatment plant in Zibo City (the “Zibo Plant”) and the waste water treatment plant in Jinan City (the “Jinan Plant”), are operated by the Group and the information of which are provided by the Company. The information of another two plants, namely 威嘉污水處理廠 (“Weijia Plant”) and 谷城縣污水處理 (“Gucheng Plant”) are searched from the Internet and by reference to the articles published on www.chinasewage.com (北京排水網) and www.huaxia.com (華夏經緯網) respectively. The table below sets out a summary of the Comparable Plants and an analysis of their treatment charges:

Province	Comparable Plants	Daily treatment charge per cubic metre RMB
Shandong	Zibo Plant	0.75
Shandong	Jinan Plant	0.75
Beijing	Weijia Plant	1.17
Hebei	Gucheng Plant	0.80
Maximum		1.17
Average		0.87
Median		0.78
Minimum		0.75
<i>Shandong</i>	<i>The Facilities</i> <i>(based on the Projected Daily Volume)</i>	1.06
	<i>(based on the Projected Maximum Daily Volume)</i>	0.87

As shown in the table above, the daily treatment charge of the Comparable Plants ranges from RMB0.75 to RMB1.17 per cubic metre, with an average charge of RMB0.87 per cubic metre. The daily charge of the Facilities of RMB1.06 based on the Projected Daily Volume and the average daily charge of RMB0.87 based on the Projected Maximum Daily Volume are both within the range set by the Comparable Plants while the average daily charge of RMB0.87 based on the Projected Maximum Daily Volume is the same as the average set by the Comparable Plants. Having considered the above, we consider the waste water charge of the Facilities fair and reasonable.

The Waste Water Treatment Annual Caps are determined by reference to the Projected Maximum Daily Volume and the corresponding charge rate payable by Qingdao Drainage for the waste water treatment. The table below sets out the historical amounts relating to the Waste Water Treatment Agreement

LETTER FROM FIRST SHANGHAI

and the Waste Water Treatment Annual Caps for the three years ended 31 December 2006:

Year ended 31 December 2004 <i>(RMB'000)</i>		Year ended 31 December 2005 <i>(RMB'000)</i>		Year ended 31 December 2006 <i>(RMB'000)</i>	
Annual cap	Actual amount	Annual cap	Actual amount	Annual cap	Actual amount
33,500	0	57,400	54,658	57,400	53,962

On the basis of the charges and the projected volume of waste water for 2007 to 2009 set out in the Waste Water Treatment Agreement, it is currently expected that the Waste Water Treatment Annual Caps for the three years ending 31 December 2009 will be RMB71 million (equivalent to approximately HK\$71 million), respectively. The new Waste Water Treatment Annual Caps represents an increase of approximately 23.7% over the annual caps for the year ended 31 December 2005 and 31 December 2006, which amounted to RMB57.4 million, respectively. We understand that the increment is mainly due to the increase of the Projected Maximum Daily Volume from 180,000 cubic metres for 2005 and 2006 to 220,000 cubic metres for 2007 to 2009. We also note that none of the Waste Water Treatment Annual Caps for the three years ended 31 December 2006 has been exceeded.

Having considered (i) the daily treatment charge of the Facilities is within the range set by Comparable Plants; (ii) the average daily treatment charge associated with the Projected Maximum Daily Volume remains unchanged; and (iii) the increment is mainly due to the increase of the Projected Maximum Daily Volume, which is in turn due to the increase in the total capacity of the Facilities, we are of the view that the basis of determining the new Waste Water Treatment Annual Caps is fair and reasonable.

Operation and Maintenance Agreement

As stated in the "Letter from the Board" in the Circular, for the provision of the services under the Operation and Maintenance Agreement, the Project Company shall be required to pay to the Operation Company a service assistance fee which would consist a basic fee minus any adjustments (in accordance with the terms of the Operation and Maintenance Agreement). The basic daily charge per cubic metre is to be calculated on the Projected Daily Volume of waste water to be treated and to be paid in cash on monthly basis. RMB0.24 per cubic metre of waste water will be charged for the amount

LETTER FROM FIRST SHANGHAI

in excess of the Projected Daily Volume for up to the Projected Maximum Daily Volume. The table below sets out the detail of the daily charges:

Year	Daily charge per cubic metre <i>RMB</i>	Average daily charge per cubic metre corresponding to the Projected Maximum Daily Volume <i>RMB</i>
2007	0.533	0.466
2008	0.501	0.442
2009	0.456	0.407

As advised by the management of the Company, we understand that the service assistance fee of each cubic metre of waste water were determined by reference to the estimated costs to be incurred by the Operation Company for the provision of the operation and maintenance services.

The Operation and Maintenance Annual Caps are determined by reference to the daily maximum amount of waste water to be treated by the Facilities and the daily maximum charge rate payable by the Project Company for the waste water treatment. The table below sets out the historical amounts relating to the Operation and Maintenance Agreement and the Operation and Maintenance Annual Caps for the three years ended 31 December 2006:

Year ended 31 December 2004 <i>(RMB'000)</i>		Year ended 31 December 2005 <i>(RMB'000)</i>		Year ended 31 December 2006 <i>(RMB'000)</i>	
Annual cap	Actual amount	Annual cap	Actual amount	Annual cap	Actual amount
12,400	0	20,700	19,601	20,700	18,673

On the basis of the service assistance fees set out in the Operation and Maintenance Agreement and the projected volume of waste water for 2007 to 2009 set out in the Waste Water Treatment Agreement, it is currently expected that the Operation and Maintenance Annual Caps for the three years ending 31 December 2009 will be RMB38 million (equivalent to approximately HK\$38 million), RMB36 million (equivalent to approximately HK\$36 million) and RMB33 million (equivalent to approximately HK\$33 million), respectively. As stated in the table above, the actual fee paid to the Operation Company amounted to RMB19.6 million and RMB18.7 million for the two years ended 31 December 2006, respectively, while the relevant annual caps as approved by Guildford Limited was RMB20.7 million for both years. We note that none

LETTER FROM FIRST SHANGHAI

of the Operation and Maintenance Annual Caps for the three years ended 31 December 2006 had been exceeded. The historical transactions might suggest that the Previous Caps were reasonably set.

Under the Operation and Maintenance Agreement, the Project Company subcontracts the operation and maintenance services in respect of the Facilities under the Waste Water Treatment Agreement to the Operation Company. The setup of the Project Company and the Operation Company, the entering into of the Waste Water Treatment Agreement, the Operation and Maintenance Agreement and other related agreements all represent an essential part of the overall business model in relation to the operation of the Facilities. Under such situation, we cannot find any comparable transactions that are similar to the subcontracting arrangement between the Project Company and the Operation Company, and hence we do not have any information to make comparison with charge payable to the Operation Company. However, it has come to our attention that, as mentioned in the Previous Circular, the Operation Company were formed principally for the purpose as the contractor of the Project Company. At the time of the establishment of the Project Company and the Operation Company on 1 November 2003, Veolia Water, the controlling shareholder of the Operation Company, had not yet become a connected party of the Group. Having considered the above, in particular the independence of Veolia Water at the time of the establishment of the Operation Company, we believe that the terms of the Operation and Maintenance Agreement should be entered into between the Project Company and the Operation Company on a fair basis. As discussed with the Company, we understand that none of the major terms under the Operation and Maintenance Agreement, including but not limited to the daily treatment charge payable to the Operation Company, was changed or revised after the signing of such agreement on 1 June 2004.

Having considered (i) the overall business model in relation to the operation of the Facilities and the waste water treatment business of the Group; and ii) that the Operation and Maintenance Agreement is part and parcel to the overall business model, we are of the view that the Operation and Maintenance Agreement is fair and reasonable in the interest of the Company and the Shareholders as a whole.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement contained in this circular misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as contained in the Listing Rules, were as follows:

(a) Long positions in the shares of the Company

Name of Director	Capacity	Nature of interests	Number of shares held	Approximate % of the Company's total issued share capital (%)
FAN Yan Hok, Philip	Beneficial owner	Personal	3,000,000	0.10

(b) Long positions in the underlying shares of the Company

Name of Director	Date of grant	Exercise price (HK\$)	Exercise period	No. of underlying shares pursuant to share options	Approximate % of the Company's total issued share capital (%)
WANG Mingquan	29.09.2003	0.296	29.03.2004– 25.05.2013 (Note 1)	25,400,000	0.83
	03.08.2006	0.850	03.08.2007– 25.05.2013 (Note 2)	5,000,000	0.16

APPENDIX

GENERAL INFORMATION

Name of Director	Date of grant	Exercise price (HK\$)	Exercise period	No. of underlying shares pursuant to share options	Approximate % of the Company's total issued share capital (%)
ZANG Qiutao	03.08.2006	0.850	03.08.2007–25.05.2013 (Note 2)	4,000,000	0.13
LI Xueming	29.09.2003	0.296	29.03.2004–25.05.2013 (Note 1)	18,000,000	0.59
	03.08.2006	0.850	03.08.2007–25.05.2013 (Note 2)	4,000,000	0.13
CHEN Xiaoping	29.09.2003	0.296	29.03.2004–25.05.2013 (Note 1)	18,000,000	0.59
	03.08.2006	0.850	03.08.2007–25.05.2013 (Note 2)	5,000,000	0.16
FAN Yan Hok, Philip	29.09.2003	0.296	29.09.2004–25.05.2013	5,000,000	0.16
	03.08.2006	0.850	03.08.2007–25.05.2013 (Note 2)	4,000,000	0.13
HUANG Chaohua	29.09.2003	0.296	29.03.2004–25.05.2013 (Note 1)	9,000,000	0.29
	03.08.2006	0.850	03.08.2007–25.05.2013 (Note 2)	3,000,000	0.10
WONG Kam Chung, Raymond	29.09.2003	0.296	29.09.2004–25.05.2013	4,500,000	0.15
	03.08.2006	0.850	03.08.2007–25.05.2013 (Note 2)	3,000,000	0.10
CHEN Shuang	29.09.2003	0.296	29.03.2004–25.05.2013 (Note 1)	4,000,000	0.13
	03.08.2006	0.850	03.08.2007–25.05.2013 (Note 2)	1,000,000	0.03

Name of Director	Date of grant	Exercise price (HK\$)	Exercise period	No. of underlying shares pursuant to share options	Approximate % of the Company's total issued share capital (%)
ZHANG Weiyun	29.09.2003	0.296	29.03.2004– 25.05.2013 (Note 1)	4,000,000	0.13
	03.08.2006	0.850	03.08.2007– 25.05.2013 (Note 2)	1,000,000	0.03
Sir David AKERS-JONES	29.09.2003	0.296	29.03.2004– 25.05.2013 (Note 1)	1,000,000	0.03
LI Kwok Sing, Aubrey	29.09.2003	0.296	29.03.2004– 25.05.2013 (Note 1)	1,000,000	0.03

Notes:

- (1) The option(s) relating to half of the total number of the underlying shares indicated in the next column can be exercised during the period from 29.03.2004 to 25.05.2013, whilst the option(s) relating to the remaining half of the total number of the underlying shares indicated in the next column can be exercised during the period from 29.09.2004 to 25.05.2013.
- (2) The option(s) relating to half of the total number of the underlying shares indicated in the next column can be exercised during the period from 03.08.2007 to 25.05.2013, whilst the option(s) relating to the remaining half of the total number of the underlying shares indicated in the next column can be exercised during the period from 03.08.2008 to 25.05.2013.
- (c) **Long positions in the shares of China Everbright Limited (“CEL”), an associated corporation (within the meaning of Part XV of the SFO) of the Company**

Name of Director	Capacity	Nature of interests	Number of shares held	Approximate % of the total issued share capital of CEL (%)
WANG Mingquan	Beneficial owner	Personal	3,000,000	0.19

(d) Long positions in the underlying shares of CEL

Name of Director	Date of grant	Exercise price (HK\$)	Exercise period	No. of underlying shares of CEL pursuant to share options	Approximate % of the total issued share capital of CEL (%)
WANG Mingquan	03.05.2005	2.850	04.05.2006– 03.05.2010	1,920,000	0.12
CHEN Shuang	03.09.2004	3.225	04.09.2005– 03.03.2008	750,000	0.05
	03.05.2005	2.850	04.05.2006– 03.05.2010	1,280,000	0.08

The table below shows the posts held by Directors in the Company and CEL respectively as at the Latest Practicable Date:

The Company

<u>Name of Director</u>	<u>Posts held in the Company</u>
WANG Mingquan	Executive Director and Chairman
CHEN Shuang	Executive Director

CEL

<u>Name of Director</u>	<u>Posts held in CEL</u>
WANG Mingquan	Executive Director and Chairman
CHEN Shuang	Executive Director and Deputy General Manager

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) to be entered in the register required to be kept by the Company pursuant to section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as contained in the Listing Rules.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to the Directors and chief executive of the Company, the following person or corporation (not being Director or chief executive of the Company), had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any options in respect of such capital, were as follows:

(a) Long positions in the shares of the Company

Name of substantial Shareholder	Capacity	Interests in shares of the Company	Approximate % of the Company's total issued share capital (%)
China Everbright Holdings Company Limited ("CEH")	Beneficial owner	1,758,595,910 (Note 1)	57.17

Notes:

- (1) Out of the 1,758,595,910 shares, 1,758,215,910 shares are held by Guildford Limited ("Guildford"). Guildford is owned as to 55% by Datten Investments Limited ("Datten") and as to 45% by CEH. Datten is a wholly-owned subsidiary of CEH. The remaining 380,000 shares are held by Everbright Investment & Management Limited ("EIM"), a wholly-owned subsidiary of CEH. Accordingly, CEH is deemed to be interested in the 1,758,215,910 shares held by Guildford and the 380,000 shares held by EIM.
- (2) Mr. WANG Mingquan, Mr. Zang Qiutao, Mr. LI Xueming, Mr. CHEN Xiaoping and Mr. CHEN Shuang, five of the executive Directors, are also directors of CEH. Ms. ZHANG Weiyun, another executive Director, is also an employee of CEH.
- (3) Mr. WANG Mingquan, Mr. CHEN Xiaoping and Ms. ZHANG Weiyun, three of the executive Directors, are also directors of Guildford.
- (4) Save as disclosed in notes 2 and 3 above, no Director or proposed Director (if any) is a director or employee of a company which as at the Latest Practicable Date had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(b) Long positions in the shares/interests of subsidiaries of the Company

Name of subsidiary of the Company	Name of substantial shareholder	Number and class of shares held	Approximate % of shareholding/interest (%)
High Luxury Trading Limited	Mao Li Ching	49,000 ordinary shares	49
Greenway Venture Limited	CEH	20 shares	20
EB-VW HK Holding Company Limited	Veolia Water	4,284,272 ordinary shares	40
Qingdao EB-VW Waste Water Treatment Co. Ltd.*	Qingdao Municipal Drainage Company	-	40

* Registered under the laws of the PRC as sino-foreign co-operative joint venture.

Save as disclosed above, as at the Latest Practicable Date, the Directors are not aware of any other person who, had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group or had any options in respect of such capital.

(c) So far as was known to the Directors, as at the Latest Practicable Date, no persons (other than members of the Group) were directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of the following members of the Group (other than the Company).

4. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS AT A GENERAL MEETING

Pursuant to the Listing Rules, any vote taken at a meeting held to seek approval of a connected transaction must be taken by poll. Accordingly, the resolution to be proposed at a general meeting in respect of the Continuing Connected Transactions were it to be convened shall be decided on poll. Set out below is the procedure by which the Shareholders may demand a poll pursuant to the constitutional document of the Company.

Pursuant to Article 56 of the articles of association of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on declaration of the result of the show of hands or on the withdrawal of any other demand of a poll) a poll is duly demanded or unless a poll is taken as may from

time to time be required under the Listing Rules or under any other applicable laws, rules or regulations. Subject to the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), a poll may be demanded by:

- (a) the chairman of the meeting; or
- (b) at least three members present in person or by proxy and entitled to vote; or
- (c) any member or members present in person or by proxy and representing in aggregate not less than one-tenth of the total voting rights of all members having the right to attend and vote at the meeting; or
- (d) any member of members present in person or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

5. DIRECTORS' INTERESTS IN CONTRACTS

- (a) As at the Latest Practicable Date, none of the Directors had entered, or was proposing to enter, into a service contract with any member of the Group which does not expire or is not determinable by the relevant member of the Group within one year without compensation, other than statutory compensation.
- (b) As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which had been, since 31 December 2005, being the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.
- (c) As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting as at the date of this circular and which is significant in relation to the business of the Group.

6. LITIGATION

As at the Latest Practicable Date, so far as the Directors are aware, no member of the Group is engaged in any litigation or arbitration proceedings of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any member of the Group.

7. COMPETING INTEREST

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors or their respective associates had any interests in a business which competes or may compete, either directly or indirectly, with the business of the Group or any other conflicts of interests with the Group.

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2005, being the date of the latest published audited financial statements of the Company.

9. EXPERT

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

Name	Qualifications
First Shanghai	A licenced corporation to carry on type 6 (advising on corporate finance) regulated activities under the SFO

First Shanghai has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter or its name in the form and context in which they respectively appear.

First Shanghai does not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

First Shanghai does not have any direct or indirect interests in any assets which have been, since 31 December 2005 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

10. GENERAL

- (a) The registered office of the Company is located at Room 2703, 27th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong.
- (b) The share registrar and transfer office of the Company is Tengis Limited of 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

- (c) The secretary of the Company is Ms. POON Yuen Ling. Ms. Poon is an associate member of The Hong Kong Institute of Company Secretaries and The Institute of Chartered Secretaries and Administrators.
- (d) The qualified accountant of the Company is Mr. WONG Kam Chung, Raymond, an executive Director. Mr. Wong is a member of the Institute of Certified Public Accountants of Hong Kong.
- (e) In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at Paul, Hastings, Janofsky & Walker at 22nd Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong, during normal business hours on any business day, from the date of this circular up to and including 23 February 2007:

- (a) the Operation Company JV Contract;
- (b) the Operation and Maintenance Agreement;
- (c) the Project Company JV Contract;
- (d) the Waste Water Treatment Agreement;
- (e) the letter from the Independent Board Committee, the text of which is set out under the section headed "Letter from the Independent Board Committee" of this circular;
- (f) the letter from First Shanghai, the text of which is set out under the section headed "Letter from First Shanghai" of this circular; and
- (g) the consent letter from First Shanghai referred to in the paragraph headed "Expert" in this appendix.