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

(Incorporated in Hong Kong with limited liability)

(Stock Code: 257)

**DISCLOSEABLE AND CONNECTED TRANSACTION
AND
CONTINUING CONNECTED TRANSACTIONS**

TRANSFER OF SEWAGE PIPING NETWORK

**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 16 to 17 of this circular.

A letter from First Shanghai containing its advice to the Independent Board Committee and the Shareholders on the transactions contemplated under the Sewage Piping Network Transfer Agreement and the Waste Water Treatment Service Supplemental Agreement and the Annual Caps is set out on pages 18 to 31 of this circular.

9 April 2008

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DEFINITIONS

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

“Announcement”	announcement of the Company dated 19 March 2008 in relation to the Transactions;
“Annual Caps”	the estimated maximum aggregate annual value in relation to the Continuing Connected Transactions as required by Rule 14A.35(2) of the Listing Rules;
“Asset Transfer”	the transfer of the Waste Water Treatment Plants to the Project Company pursuant to the Asset Transfer Agreements;
“Asset Transfer Agreements”	collectively, the Qing Yuan Waste Water Treatment Plants Transfer Agreement and the Chengshi Waste Water Treatment Plant Transfer Agreement;
“associate”	has the meaning ascribed to it under the Listing Rules;
“Board”	the board of Directors of the Company;
“Chengshi Waste Water Treatment Plant”	城市污水處理廠 (Chengshi waste water treatment plant) situated in Jiangyin City, the PRC, including all constructions, structures, facilities, equipments and other assets in connection therewith;
“Chengshi Waste Water Treatment Plant Transfer Agreement”	the agreement between the Project Company, Everbright Wuxi, Xin Guo Lian and 江陰市城市污水處理有限公司 (Jiangyin Urban Sewage Treatment Co., Ltd) in relation to the transfer of the Chengshi Waste Water Treatment Plant to the Project 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;
“Concession Right Agreement”	the concession right agreement entered into between the Jiangyin Construction Bureau, Xin Guo Lian, Everbright Wuxi and the Project Company on 16 November 2007 in respect of the granting of an exclusive right to the Project Company to operate the Waste Water Treatment Plants during the Term;

DEFINITIONS

“Concession Right Supplemental Agreement”	the agreement entered into on 18 March 2008 between the Project Company and Jiangyin Construction Bureau which is supplemental to the Concession Right Agreement;
“connected persons”	has the meanings ascribed to it under the Listing Rules;
“Continuing Connected Transactions”	continuing connected transactions between the Project Company and the connected persons of the Company as contemplated under the Waste Water Treatment Service Agreement and the Waste Water Treatment Service Supplemental Agreement;
“Controlling Shareholder”	has the meaning ascribed to it under the Listing Rules;
“Directors”	the directors of the Company;
“Everbright Wuxi”	Everbright Water (Wuxi) Holdings Limited (光大水務(無錫)控股有限公司), a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company;
“First Shanghai”	First Shanghai Capital Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Shareholders in relation to the transactions contemplated under the Sewage Piping Network Transfer Agreement and the Waste Water Treatment Service Supplemental Agreement and the Annual Caps;
“Grant Sherman”	Grant Sherman Appraisal Limited, an independent professional valuer;
“Group”	the Company and its subsidiaries;
“Guildford”	Guildford Limited, a company incorporated in the British Virgin Islands and the Controlling Shareholder of the Company;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;

DEFINITIONS

“Independent Board Committee”	the independent board committee of the Board consisting of all the independent non-executive Directors;
“Jiangyin Construction Bureau”	江陰市建設局 (Jiangyin Construction Bureau*);
“Jiangyin Finance Bureau”	江陰市財政局 (Jiangyin Finance Bureau*);
“Jiangyin State-owned Assets Commission”	江陰市國有資產管理辦公室 (The State-owned Assets Supervision and Administration Commission of Jiangyin People’s Government*);
“Joint Venture Agreement”	the joint venture agreement dated 16 November 2007 between Xin Guo Lian and Everbright Wuxi in respect of the establishment of the Project Company;
“Joint Venture Supplemental Agreement”	the agreement entered into on 18 March 2008 between Xin Guo Lian and Everbright Wuxi which is supplemental to the Joint Venture Agreement;
“Latest Practicable Date”	3 April 2008, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited;
“percentage ratio(s)”	the percentage ratio(s) under Rule 14.07 of the Listing Rules;
“PRC”	the People’s Republic of China;
“Project Company”	Everbright Water (Jiangyin) Limited (光大水務(江陰)有限公司), a project company established by Everbright Wuxi and Xin Guo Lian pursuant to the joint venture agreement dated 16 November 2007 with a registered capital of RMB360,000,000, which is owned as to 70% by Everbright Wuxi and as to 30% by Xin Guo Lian;
“Qing Yuan Waste Water Treatment Plants”	濱江污水處理廠 (Binjiang waste water treatment plant), 澄西污水處理廠 (Chengxi waste water treatment plant) and 石莊污水處理廠 (Shizhuang waste water treatment plant) situated in Jiangyin City, the PRC, including all constructions, structures, facilities, equipments and other assets in connection therewith;

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“Qing Yuan Waste Water Treatment Plants Transfer Agreement”	the agreement between the Project Company, Everbright Wuxi, Xin Guo Lian and 江陰清源水處理有限公司 (Qing Yuan Water Treatment Co., Ltd., Jiangyin) in relation to the transfer of the Qing Yuan Waste Water Treatment Plants to the Project Company;
“RMB”	Renminbi, the lawful currency of the PRC;
“Sewage Piping Network”	all sewage piping network built in the urban area of Jiangyin City as at the reference date of the relevant appraisal report thereof with a total length of 53.906 kilometers together with a sewage pumping station and three sewage closures;
“Sewage Piping Network Transfer”	the transfer of the Sewage Piping Network to the Project Company pursuant to the Sewage Piping Network Transfer Agreement;
“Sewage Piping Network Transfer Agreement”	the agreement entered into on 18 March 2008 between the Jiangyin State-owned Assets Commission and the Project Company in relation to the Sewage Piping Network Transfer;
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Shares”	ordinary shares of HK\$0.10 each in the share capital of the Company;
“Shareholders”	Shareholders of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“subsidiaries”	has the meaning ascribed to it under the Listing Rules;
“Term”	a period of 30 years commencing from the first business day after the first installment of the aggregate consideration for the transfer of the assets relating to the Waste Water Treatment Plants has been paid by the Project Company pursuant to the payment terms of each of the Asset Transfer Agreements;

DEFINITIONS

“Transactions”	collectively, (i) the discloseable and connected transaction contemplated under the Asset Transfer Agreements and the Sewage Piping Network Transfer Agreement; and (ii) the continuing connected transactions contemplated under the Waste Water Treatment Service Agreement and the Waste Water Treatment Service Supplemental Agreement;
“Waste Water Treatment Plants”	collectively, the Chengshi Waste Water Treatment Plant and the Qing Yuan Waste Water Treatment Plants;
“Waste Water Treatment Service Agreement”	the agreement entered into on 16 November 2007 between the Jiangyin Construction Bureau, the Jiangyin Finance Bureau, Xin Guo Lian, Everbright Wuxi and the Project Company in respect of the provision of waste water treatment service by the Project Company;
“Waste Water Treatment Service Supplemental Agreement”	the agreement entered into on 18 March 2008 between the Jiangyin Construction Bureau, the Jiangyin Finance Bureau and the Project Company which is supplemental to the Waste Water Treatment Service Agreement; and
“Xin Guo Lian”	江陰市新國聯投資發展有限公司 (Jiangyin City Xin Guo Lian Investment and Development Co., Ltd.*), a company established in Jiangyin City, Jiangsu Province, the PRC and owned by the Jiangyin Finance Bureau and the Jiangyin State-owned Assets Commission as to 14% and 86%, respectively.

* For identification purpose only.

For the purposes of illustration only and unless otherwise stated, the conversion of RMB into HK\$ is based on the exchange rate of RMB1.0 = HK\$1.0693. Such conversion should not be construed as a representation that the amount in question has 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: 257)

Executive Directors:

Mr. TANG Shuangning (*Chairman*)
Mr. ZANG Qiutao (*Vice-chairman*)
Mr. LI Xueming (*Vice-chairman*)
Mr. CHEN Xiaoping (*Chief Executive Officer*)
Mr. FAN Yan Hok, Philip
Mr. WONG Kam Chung, Raymond
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 April 2008

To the Shareholders

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION
AND
CONTINUING CONNECTED TRANSACTIONS
TRANSFER OF SEWAGE PIPING NETWORK**

INTRODUCTION

Reference is made to an announcement and a circular of the Company dated 19 November 2007 and 10 December 2007, respectively, in relation to the transfer of assets of four waste water treatment plants in Jiangyin City, Jiangsu Province, the PRC.

On 19 March 2008, the Board announced in the Announcement that, on 18 March 2008, the Project Company, an indirect non-wholly owned subsidiary of the Company, entered into the Sewage Piping Network Transfer Agreement with the Jiangyin State-owned Assets Commission in relation to the transfer of the Sewage Piping Network upon the terms and conditions contained therein.

LETTER FROM THE BOARD

On the same day and at the same time, the Project Company also entered into the following supplemental agreements: (i) the Concession Right Supplemental Agreement with the Jiangyin Construction Bureau, pursuant to which a right to, inter alia, operate and maintain the Sewage Piping Network during the Term was granted to the Project Company upon the terms and conditions contained therein; (ii) the Waste Water Treatment Service Supplemental Agreement with the Jiangyin Construction Bureau and the Jiangyin Finance Bureau, pursuant to which service fee payable by the Jiangyin Construction Bureau and the Jiangyin Finance Bureau to the Project Company under the Waste Water Treatment Service Agreement was adjusted upwards to RMB2.52 per cubic meter upon the terms and conditions contained therein; and (iii) the Joint Venture Supplemental Agreement, pursuant to which the total investment of the Project Company was increased from RMB624,028,230 (equivalent to approximately HK\$667,274,000) to RMB891,468,900 (equivalent to approximately HK\$953,248,000).

The transaction contemplated under the Joint Venture Supplemental Agreement is required to be aggregated with those contemplated under the Joint Venture Agreement pursuant to Rule 14.22 of the Listing Rules. As the applicable ratios as defined in the Listing Rules in relation to the Joint Venture Agreement and the Joint Venture Supplemental Agreement exceeds 5% but is less than 25%, the entering into of the Joint Venture Agreement and the Joint Venture Supplemental Agreement constitutes a discloseable transaction of the Company under Rule 14.06(2) of the Listing Rules.

The transaction contemplated under the Sewage Piping Network Transfer Agreement is required to be aggregated with those contemplated under the Asset Transfer Agreements pursuant to Rule 14.22 of the Listing Rules. As the applicable ratios as defined in the Listing Rules in relation to the Asset Transfer Agreements and the Sewage Piping Network Transfer Agreement exceeds 5% but is less than 25%, the entering into of the Asset Transfer Agreements and the Sewage Piping Network Transfer Agreement constitutes a discloseable transaction of the Company under Rule 14.06(2) of the Listing Rules and is therefore subject to the Shareholders' approval.

The Project Company is owned as to 70% by Everbright Wuxi, a wholly-owned subsidiary of the Company, and as to 30% by Xin Guo Lian. Xin Guo Lian is a state-owned company. As Xin Guo Lian is a substantial shareholder of the Project Company, each of Xin Guo Lian and the Jiangyin People's Government is a connected person of the Company within the meaning of the Listing Rules. Therefore, (a) the entering into of the Joint Venture Agreement and the Joint Venture Supplemental Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules; (b) the entering into of the Asset Transfer Agreements and the Sewage Piping Network Transfer Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules; and (c) the transactions contemplated under the Waste Water Treatment Service Supplemental Agreement (which are required to be aggregated with those contemplated under the Waste Water Treatment Service Agreement pursuant to Rule 14A.25 of the Listing Rules) constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The purpose of this circular is to provide Shareholders with further details of, among other things, the Transactions.

LETTER FROM THE BOARD

THE SEWAGE PIPING NETWORK TRANSFER AGREEMENT

The principal terms of the Sewage Piping Network Transfer Agreement are set forth below:–

- Date:** 18 March 2008
- Parties:**
- (1) The Project Company
 - (2) The Jiangyin State-owned Assets Commission
- Assets to be transferred:** The Jiangyin State-owned Assets Commission agreed to transfer to the Project Company, and the Project Company agreed to acquire, the Sewage Piping Network upon the terms and conditions contained therein.
- Consideration and payment terms:** The total consideration for the transfer of the Sewage Piping Network shall be RMB267,440,670 (equivalent to approximately HK\$285,974,000), which shall be paid by the Project Company to the Jiangyin State-owned Assets Commission's designated bank account in the PRC within 120 days after the date on which the land use right certificate and building ownership certificate of Binjiang waste water treatment plant and the land use right certificate of Chengxi waste water treatment plant were transferred to the Project Company provided that the transaction was approved by all relevant government authorities, or if only obtaining the approval from the relevant government authorities after the 120 days period, the next business day after obtaining approval from the relevant government authorities.
- Completion:** Completion of the Sewage Piping Network Transfer is subject to, amongst other things, the approval(s) and confirmation(s) of the relevant PRC government authorities.
- Accounting treatment of the Sewage Piping Network:** The Group's treatment of the Sewage Piping Network shall be consistent with the Group's existing accounting treatment of similar assets. The consideration of the Sewage Piping Network is recognized as a receivable included in the consolidated balance sheet under "Debtors, other receivables, deposits and prepayments" in compliance with the requirements under the HK (IFRIC) 12: "Service Concession Arrangements". Such receivable is reduced when payments, being a portion of the waste water treatment revenue are received. Finance income on the receivable is recognized using an estimate of the service concession grantors' incremental borrowing rate of interest. Upon expiry of the Term, it is expected that the receivable will be reduced to

LETTER FROM THE BOARD

zero and the Sewage Piping Network shall be transferred back to the Jiangyin Construction Bureau or other government authority as designated by the Jiangyin People's Government at nil consideration, and the Project Company shall cease to have any rights and obligations under the Concession Right Agreement and the Concession Right Supplemental Agreement; and the Asset Transfer Agreements, the Sewage Piping Network Transfer Agreement, the Waste Water Treatment Service Agreement and the Waste Water Treatment Service Supplemental Agreement shall automatically be terminated simultaneously.

THE CONCESSION RIGHT SUPPLEMENTAL AGREEMENT

- Date:** 18 March 2008
- Parties:**
- (1) The Jiangyin Construction Bureau
 - (2) The Project Company
- Subject matter:** The Concession Right Supplemental Agreement is supplemental to the Concession Right Agreement entered into between the Jiangyin Construction Bureau, Xin Guo Lian, Everbright Wuxi and the Project Company on 16 November 2007. In addition to an exclusive right granted to the Project Company under the Concession Right Agreement to operate the Waste Water Treatment Plants, pursuant to the Concession Right Supplemental Agreement, the Project Company has been granted a right to, inter alia, operate and maintain the Sewage Piping Network during the Term upon the terms and conditions contained therein.
- Term:** A period of 30 years commencing from the first business day after the first installment of the aggregate consideration for the transfer of the assets relating to the Waste Water Treatment Plants has been paid by the Project Company pursuant to the payment terms of each of the Asset Transfer Agreements.

THE WASTE WATER TREATMENT SERVICE SUPPLEMENTAL AGREEMENT

- Date:** 18 March 2008
- Parties:**
- (1) The Jiangyin Construction Bureau
 - (2) The Jiangyin Finance Bureau
 - (3) The Project Company

LETTER FROM THE BOARD

Change of service fees: The Waste Water Treatment Service Supplemental Agreement is supplemental to the Waste Water Treatment Service Agreement entered into on 16 November 2007 between the Jiangyin Construction Bureau, the Jiangyin Finance Bureau, Xin Guo Lian, Everbright Wuxi and the Project Company. For the provision of waste water treatment services by the Project Company under the Waste Water Treatment Service Agreement, the Jiangyin Construction Bureau and the Jiangyin Finance Bureau shall pay to the Project Company service fees at an adjusted rate of RMB2.52 per cubic meter upon the terms and conditions contained therein.

Proposed Annual Caps: The original proposed Annual Caps for the three years ending 31 December 2008, 2009 and 2010 as disclosed in the circular of the Company dated 10 December 2007 were as follows:

	Year ending 31 December 2008	Year ending 31 December 2009	Year ending 31 December 2010
RMB	140,000,000	161,000,000	161,000,000

The Company confirms that the above original Annual Cap of RMB140,000,000 for the year ending 31 December 2008 has not been exceeded as at the date of this circular.

Due to the adjustment of the waste water treatment service fees pursuant to the Waste Water Treatment Service Supplemental Agreement, it is now proposed that the Annual Caps for the three years ending 31 December 2008, 2009 and 2010 should be as follows:

	Year ending 31 December 2008	Year ending 31 December 2009	Year ending 31 December 2010
RMB	167,000,000	193,000,000	193,000,000

The above Annual Caps have been determined by reference to the designed daily capacity and maximum annual capacity of the amount of waste water to be treated by the Waste Water Treatment Plants and service fees at the adjusted rate of RMB2.52 per cubic meter for waste water treatment by the Waste Water Treatment Plants.

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THE JOINT VENTURE SUPPLEMENTAL AGREEMENT

- Date:** 18 March 2008
- Parties:** (1) Xin Guo Lian
(2) Everbright Wuxi
- Subject matter:** The Joint Venture Supplemental Agreement is supplemental to the Joint Venture Agreement entered into on 16 November 2007 between Xin Guo Lian and Everbright Wuxi. Pursuant to the Joint Venture Supplemental Agreement, the Joint Venture Agreement shall be amended as follows:
- (i) The total investment of the Project Company shall be increased from RMB624,028,230 (equivalent to approximately HK\$667,274,000) to RMB891,468,900 (equivalent to approximately HK\$953,248,000); and
 - (ii) The business scope of the Project Company shall also include “operation and maintenance of the Sewage Piping Network”.

INFORMATION ABOUT THE GROUP AND THE COUNTERPARTIES

The Group is primarily engaged in the business of environmental protection investment, infrastructure operation, property investment and project management in the PRC. The Group has been developing its environmental protection business since 2002. Development of urban sewage treatment has been one of the key development goals of its environmental protection business.

To the best of the Company’s knowledge, information and belief and having made all reasonable enquiries, the Jiangyin State-owned Assets Commission is a Jiangyin People’s Government authority principally engaged in the administration of state-owned assets in Jiangyin City.

To the best of the Company’s knowledge, information and belief and having made all reasonable enquiries, Xin Guo Lian is a state-owned company duly organized and existing under the laws of the PRC and registered with the Administration of Industry and Commerce of Jiangyin, Wuxi City, Jiangsu Province, the PRC. It is principally engaged in the investment in, construction and management of waste water treatment facilities in Jiangyin City.

To the best of the Company’s knowledge, information and belief and having made all reasonable enquiries, the Jiangyin Finance Bureau is a Jiangyin People’s Government authority principally engaged in formulating and enforcing financial development strategies, policies, plans and reform proposals in Jiangyin City.

LETTER FROM THE BOARD

To the best of the Company's knowledge, information and belief and having made all reasonable enquiries, the Jiangyin Construction Bureau is a Jiangyin People's Government authority principally engaged in the planning and management of the construction and real estate industry in Jiangyin City.

REASONS FOR AND BENEFITS OF THE ENTERING INTO OF THE TRANSACTIONS

To ensure the sustainability of the country's economic development, the PRC Government has set a high priority for environmental protection. With the rising awareness of the importance of environmental protection in society, there are enormous opportunities for growth of the environmental protection industry in the PRC. The acquisition of the Sewage Piping Network pursuant to the Sewage Piping Network Transfer Agreement and the grant of the concession right in respect of the Sewage Piping Network pursuant to the Concession Right Supplemental Agreement will enhance the Group's waste water treatment operation in Jiangyin City, the PRC, to become the Group's first project to integrate waste water treatment plants and sewage piping network in the urban and rural areas as one system in the PRC. The Board (including the independent non-executive Directors) believes that this will not only lay a good foundation for the Group to acquire other projects along the Taihu Lake but will also further strengthen the Group's strategic position in environmental protection industry in the PRC. Besides, in consideration of the Project Company's acquisition of the Sewage Piping Network, the Jiangyin Construction Bureau and the Jiangyin Finance Bureau have agreed to an upwards adjustment of the service fees chargeable under the Waste Water Treatment Service Agreement pursuant to the Waste Water Treatment Service Supplemental Agreement.

The aggregate consideration actually payable by the Group under the Joint Venture Agreement, the Joint Venture Supplemental Agreement, the Asset Transfer Agreements and the Sewage Piping Network Transfer Agreement, being RMB891,468,900 (equivalent to approximately HK\$953,248,000) (which includes the total consideration of RMB267,440,670 (equivalent to approximately HK\$285,974,000) for the transfer of the Sewage Piping Network), was determined through arm's length negotiations among the parties thereto after considering a number of factors including the economic benefits for entering into the Sewage Piping Network Transfer Agreement, the Concession Right Supplemental Agreement and the Waste Water Treatment Service Supplemental Agreement, the future prospect for the Company to further invest in the waste water treatment business in Jiangsu Province and a good foundation for getting other projects along Taihu Lake. The valuation of the Sewage Piping Network was RMB283,700,000 (equivalent to approximately HK\$303,360,000) based on the appraisal report dated 20 February 2008 prepared by Grant Sherman, an independent professional valuer appointed by the Company, on the basis of fair market value and adopting the income approach technique known as the discounted cash flows. Pursuant to the Rule 14.62 of the Listing Rules, KPMG, the auditor of the Company, has reviewed the accounting policies and calculations for the valuation in the aforesaid appraisal report in accordance with Hong Kong Standards on Related Services 4400 "Engagements to perform agreed-upon procedures regarding financial information". The Board confirms that the valuation in the aforesaid appraisal report has been made after due and careful enquiry. The Board (including the independent non-executive Directors) believes that the terms of the transactions under the Joint Venture Supplemental Agreement and the Sewage Piping Network Transfer Agreement are on normal commercial terms, fair and reasonable and in the interests of the Shareholders as a whole.

LETTER FROM THE BOARD

The Board (including the independent non-executive Directors) is also of the view that the terms of the Waste Water Treatment Service Supplemental Agreement are on normal commercial terms, fair and reasonable and the aforesaid proposed Annual Caps are fair and reasonable and that the entering into of the Waste Water Treatment Service Supplemental Agreement is in the interest of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE SEWAGE PIPING NETWORK TRANSFER

The Company plans to fund the consideration for the transfer of the Sewage Piping Network by bank borrowings of the Project Company. The Company will comply with further disclosure requirements if so required under the Listing Rules in respect of any change of such plan.

It is expected that the Group's total assets will increase by approximately RMB891,468,900 (equivalent to approximately HK\$953,248,000) following completion of the Asset Transfer and the Sewage Piping Network Transfer, whilst current assets will decrease and long-term liabilities will increase depending on the amount funded by bank borrowings of the Project Company. The Company believes that the Asset Transfer and the Sewage Piping Network Transfer will have a positive effect on the earnings of the Group subsequent to completion of the Asset Transfer and the Sewage Piping Network Transfer, although the quantum cannot be ascertained at present, which will depend on the final terms for the provision of services.

IMPLICATIONS UNDER THE LISTING RULES

Discloseable transaction

The transaction contemplated under the Joint Venture Supplemental Agreement is required to be aggregated with those contemplated under the Joint Venture Agreement pursuant to Rule 14.22 of the Listing Rules. As the applicable ratios as defined in the Listing Rules in relation to the Joint Venture Agreement and the Joint Venture Supplemental Agreement exceeds 5% but is less than 25%, the entering into of the Joint Venture Agreement and the Joint Venture Supplemental Agreement constitutes a discloseable transaction of the Company under Rule 14.06(2) of the Listing Rules.

The transaction contemplated under the Sewage Piping Network Transfer Agreement is required to be aggregated with those contemplated under the Asset Transfer Agreements pursuant to Rule 14.22 of the Listing Rules. As the applicable ratios as defined in the Listing Rules in relation to the Asset Transfer Agreements and the Sewage Piping Network Transfer Agreement exceeds 5% but is less than 25%, the entering into of the Asset Transfer Agreements and the Sewage Piping Network Transfer Agreement constitutes a discloseable transaction of the Company under Rule 14.06(2) of the Listing Rules and is therefore subject to the Shareholders' approval.

LETTER FROM THE BOARD

Connected transactions and continuing connected transactions

The Project Company is owned as to 70% by Everbright Wuxi and as to 30% by Xin Guo Lian, which in turn is a state-owned company. As Xin Guo Lian is a substantial shareholder of the Project Company, each of Xin Guo Lian and the Jiangyin People's Government is a connected person of the Company within the meaning of the Listing Rules. Therefore, (a) the entering into of the Joint Venture Agreement and the Joint Venture Supplemental Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules; (b) the entering into of the Asset Transfer Agreements and the Sewage Piping Network Transfer Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules; and (c) the transactions contemplated under the Waste Water Treatment Service Supplemental Agreement (which are required to be aggregated with those contemplated under the Waste Water Treatment Service Agreement pursuant to Rule 14A.25 of the Listing Rules) constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The Joint Venture Supplemental Agreement qualifies the exemption under Rule 14A.65(3)(b)(i) of the Listing Rules and therefore is not subject to any Shareholders' approval on the basis that the revised total investment of RMB891,468,900 (approximately HK\$953,248,000), (a) if required to be funded by way of registered capital or shareholders' loans, will be contributed by both shareholders of the Project Company on a pro rata basis in accordance with their respective equity interests in the Project Company; and (b) if required to be funded by banks or other third parties, each shareholder of the Project Company will provide or procure the provision of or make available such form of financial assistance on a pro rata and several basis in accordance with its equity interest in the Project Company.

The Directors expect that the relevant percentage ratios in relation to the transactions contemplated under the Waste Water Treatment Service Agreement and the Waste Water Treatment Service Supplemental Agreement in aggregate will exceed 2.5% or the relevant consideration will be more than HK\$10,000,000 as set out in Chapter 14A of the Listing Rules, such transactions therefore constitute non-exempt continuing connected transactions under Rule 14A.35 of the Listing Rules and are subject to the reporting, announcement and independent shareholders' approval requirements under Rules 14A.45 to 14A.48 of the Listing Rules as well as the annual review requirements under Rules 14A.37 to 14A.40 of the Listing Rules. Details of the Continuing Connected Transactions will be included in the Company's annual reports and accounts.

The Annual Caps for the years ending 31 December 2008, 2009 and 2010 for the continuing connected transactions contemplated under the Concession Right Agreement and the Waste Water Treatment Service Agreement were specified in the circular dated 10 December 2007 despatched by the Company to the Shareholders. Such Annual Caps are proposed to be adjusted upwards in light of the change in service fee pursuant to the Waste Water Treatment Service Supplemental Agreement, and the revised Annual Caps for the years ending 31 December 2008, 2009 and 2010 are set out above in this circular.

LETTER FROM THE BOARD

The Company has fulfilled the requirements under Rule 14A.43(1) and (2) on the basis that: (1) no Shareholders have any interest in any of the Asset Transfer Agreements, the Sewage Piping Network Transfer Agreement, the Waste Water Treatment Service Agreement and the Waste Water Treatment Service Supplemental Agreement and no Shareholders are required to abstain from the Shareholders' approval of the Transactions; and (2) Guildford, the Controlling Shareholder which holds approximately 56.06% of the issued share capital of the Company, approved the Transactions in writing on 18 March 2008. Accordingly, there is no need to convene a Shareholders' meeting to approve the Transactions. Based on the above grounds, the Company has applied to the Stock Exchange a waiver under Rule 14A.43 of the Listing Rules from convening a Shareholders' meeting to approve the Transactions.

First Shanghai, the independent financial adviser, has been appointed by the Company to advise the Independent Board Committee and the Shareholders as to whether the transactions contemplated under the Sewage Piping Network Transfer Agreement and the Waste Water Treatment Service Supplemental Agreement, are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and the Shareholders as a whole and the Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Independent Board Committee has been established to give an opinion to the Shareholders in connection with the terms of the transactions contemplated under the Sewage Piping Network Transfer Agreement and the Waste Water Treatment Service Supplemental Agreement and the Annual Caps after taking into account the opinion issued by First Shanghai.

ADDITIONAL INFORMATION

Your attention is drawn to the letter of the Independent Board Committee set out on pages 16 to 17 of this circular, the letter of advice from First Shanghai set out on pages 18 to 31 of this circular and the additional information set out in the appendix to this circular.

Yours faithfully,
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 for inclusion in 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: 257)

9 April 2008

To the Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

We refer to the circular of the Company dated 9 April 2008 (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 Asset Transfer Agreements, the Sewage Piping Network Transfer Agreement, the Waste Water Treatment Service Agreement and the Waste Water Treatment Service Supplemental Agreement were entered into between the Company and connected persons of the Company. Accordingly, (a) the entering into of the Asset Transfer Agreements and the Sewage Piping Network Transfer Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules; and (b) the transactions contemplated under the Waste Water Treatment Service Supplemental Agreement (which are required to be aggregated with those contemplated under the Waste Water Treatment Service Agreement pursuant to Rule 14A.25 of the Listing Rules) constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The Asset Transfer Agreement, the Sewage Piping Network Transfer Agreement, the Waste Water Treatment Service Agreement and the Waste Water Treatment Service Supplemental Agreement and the Transactions are subject to the reporting, announcement and independent Shareholders' approval requirements.

As (1) no Shareholders have any interest in any of the Asset Transfer Agreements, the Sewage Piping Network Transfer Agreement, the Waste Water Treatment Service Agreement and the Waste Water Treatment Service Supplemental Agreement and no Shareholders are required to abstain from the Shareholders' approval of the Transactions; and (2) Guildford, the Controlling Shareholder which holds approximately 56.06% of the issued share capital of the Company, has approved the Transactions in writing on 18

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

March 2008. Accordingly, there is no need to convene a Shareholders' meeting to approve the Transactions. 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 Transactions.

We have been appointed as members of the Independent Board Committee to consider the transactions contemplated under the Sewage Piping Network Transfer Agreement and the Waste Water Treatment Service Supplemental Agreement, and to advise the Shareholders as to the fairness and reasonableness of the aforesaid transactions and the Annual Caps. 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 6 to 15 of the Circular, which provides the terms of, and the reasons for entering into, the Transactions, and (ii) the letter from First Shanghai to the Independent Board Committee and the Shareholders which contains its opinion in respect of the transactions contemplated under the Sewage Piping Network Transfer Agreement and the Waste Water Treatment Service Supplemental Agreement and the Annual Caps as set out on pages 18 to 31 of the Circular.

After taking into consideration the advice from First Shanghai, we concur with the view of First Shanghai and consider of the transactions contemplated under the Sewage Piping Network Transfer Agreement and the Waste Water Treatment Service Supplemental Agreement and the Annual Caps 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 transactions contemplated under the Sewage Piping Network Transfer Agreement and the Waste Water Treatment Service Supplemental Agreement and the Annual Caps for the three years ending 31 December 2010.

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 for inclusion in this circular.



FIRST SHANGHAI CAPITAL LIMITED

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

9 April 2008

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,

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Shareholders in respect of the transactions contemplated under the Sewage Piping Network Transfer Agreement and the Waste Water Treatment Service Supplemental Agreement and the Annual Caps, details of which are set out in the circular of the Company dated 9 April 2008 (the "Circular") to the Shareholders of which this letter forms a part. Reference is made to the circular of the Company dated 10 December 2007 (the "Previous Circular") in relation to the transfer of the Waste Water Treatment Plants in Jiangyin City, Jiangsu Province, the PRC and the relevant continuing connected transactions. Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Circular and the Previous Circular.

On 19 March 2008, the Board announced that on 18 March 2008, the Project Company entered into the Sewage Piping Network Transfer Agreement with the Jiangyin State-owned Assets Commission, pursuant to which the Project Company will acquire the Sewage Piping Network for a consideration of RMB267,440,670 (equivalent to approximately HK\$285,974,000).

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On the same day, the Project Company also entered into the following supplemental agreements: (i) the Concession Right Supplemental Agreement with the Jiangyin Construction Bureau, pursuant to which a right to, inter alia, operate and maintain the Sewage Piping Network during the Term was granted to the Project Company upon the terms and conditions contained therein; (ii) the Waste Water Treatment Service Supplemental Agreement with the Jiangyin Construction Bureau and the Jiangyin Finance Bureau, pursuant to which service fee payable by the Jiangyin Construction Bureau and the Jiangyin Finance Bureau to the Project Company under the Waste Water Treatment Service Agreement was adjusted upwards to RMB2.52 per cubic meter upon the terms and conditions contained therein; and (iii) the Joint Venture Supplemental Agreement to increase the total investment of the Project Company from RMB624,028,230 (equivalent to approximately HK\$667,274,000) to RMB891,468,900 (equivalent to approximately HK\$953,248,000) and to extend the business scope of the Project Company to the operation and maintenance of the Sewage Piping Network.

The transaction contemplated under the Sewage Piping Network Transfer Agreement is required to be aggregated with those contemplated under the Asset Transfer Agreements pursuant to Rule 14.22 of the Listing Rules. As the applicable percentage ratios as defined in the Listing Rules in relation to the Asset Transfer Agreements and the Sewage Piping Network Transfer Agreement exceeds 5% but is less than 25%, the entering into of the Asset Transfer Agreements and the Sewage Piping Network Transfer Agreement constitutes a discloseable transaction of the Company under 14.06(2) of the Listing Rules.

As the Project Company is owned by Everbright Wuxi as to 70% and Xin Guo Lian (a state-owned company) as to 30%, each of Xin Guo Lian and the Jiangyin People's Government is a connected person of the Company (as defined in the Listing Rules) and therefore, the transactions contemplated under the Asset Transfer Agreements and the Sewage Piping Network Transfer Agreement constitute a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the Shareholders' approval.

The transactions contemplated under the Waste Water Treatment Service Supplemental Agreement (which are required to be aggregated with those contemplated under the Waste Water Treatment Service Agreement pursuant to Rule 14A.25 of the Listing Rules) constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the Directors expect that the relevant percentage ratios in relation to the transactions contemplated under the Waste Water Treatment Service Agreement and the Waste Water Treatment Service Supplemental Agreement in aggregate will exceed 2.5% or the relevant consideration 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 and are subject to the reporting, announcement and independent shareholders' approval requirements under Rules 14A.45 to 14A.48 of the Listing Rules, and the annual review requirements under Rules 14A.37 to 14A.40 of the Listing Rules.

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The Annual Caps for the years ending 31 December 2008, 2009 and 2010 for the continuing connected transactions contemplated under the Waste Water Treatment Service Agreement (the "Previous Caps") were specified in the Previous Circular and were approved by Guildford, the Controlling Shareholder, on 16 November 2007. The Previous Caps are proposed to be adjusted upwards in view of the change in service fee pursuant to the Waste Water Treatment Service Supplemental Agreement.

As no Shareholders have any interest in any of the Sewage Piping Network Transfer Agreement and the Waste Water Treatment Service Supplemental Agreement, no Shareholders are required to abstain from voting in the general meeting of the Company for approving the transactions contemplated under the aforesaid agreements and the Annual Caps.

The Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 14A.43 of the Listing Rules from convening a Shareholders' meeting to approve the transactions contemplated under the Sewage Piping Network Transfer Agreement and the Waste Water Treatment Service Supplemental Agreement on the basis that (i) Guildford, the Controlling Shareholder which holds approximately 56.06% of the issued share capital of the Company, has approved in writing on 18 March 2008 the Sewage Piping Network Transfer Agreement and the connected transaction contemplated thereunder; and the Waste Water Treatment Service Supplemental Agreement and the continuing connected transactions contemplated thereunder; and (ii) no Shareholders are required to abstain from voting at the general meeting, if one was to be held, to approve the Transactions.

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 established to advise the Shareholders in relation to the terms of each of the Sewage Piping Network Transfer Agreement, the Waste Water Treatment Service Supplemental Agreement and the proposed Annual Caps. We, First Shanghai Capital Limited, have been appointed as the independent financial adviser to the Independent Board Committee and the Shareholders in this regard.

BASIS OF OUR OPINION

In putting forth our opinion and recommendation, we have relied on the accuracy of the information and representations included in the Previous Circular and the Circular and provided to us by the Directors and the management of the Company (the "Management"), and have assumed that all such information and representations made or referred to in the Previous Circular and the Circular and provided to us by the Directors and the Management were true at the time they were made and continued to be true as at the date hereof. We have also relied on the information and representation in the valuation report of Grant Sherman, an independent valuer, dated 20 February 2008 in relation to the valuation of the Sewage Piping Network. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Previous Circular and 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 the Management 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 Previous Circular and the Circular.

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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 Previous Circular and 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 Previous Circular and the Circular and provided to us by the Directors and the Management nor have we conducted any form of investigation into the business, affairs or future prospects of the Group. We have taken the reasonable steps as required under Rule 13.80 of the Listing Rules and its annexed notes in forming our opinion.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendations as to the fairness and reasonableness of the terms of the Sewage Piping Network Transfer Agreement, the Waste Water Treatment Service Supplemental Agreement, and the proposed Annual Caps, we have taken into account the following principal factors and reasons:

(A) Sewage Piping Network Transfer

1. *Background to and reasons for the Sewage Piping Network Transfer*

The principal activities of the Group are environmental protection investment, infrastructure operation, property investment and project management in the PRC. The Group has been focusing on its environmental protection business since 2002. For the year ended 31 December 2006, the environmental protection business of the Group has become its key revenue generator and contributed approximately 90% of the restated total turnover of the Group, of which approximately 34% were generated from the Group's waste water treatment business in Qingdao City, Zibo City and Jinan City in Shandong Province in the PRC.

For the year ended 31 December 2007, revenue from the waste water treatment projects contributed approximately 41% of the total turnover of the Group. As stated in the annual report of the Company for the year ended 31 December 2007, the Group will make more significant advancements with its environmental protection business and will strive to promote the environmental protection industries of the country. Development of waste water treatment has been one of the key development goals of the Group's environmental protection business. During the year of 2007, the Group processed approximately 289,700,000 tonnes of waste water, representing approximately 2 times when compared to that of the previous year.

On 16 November 2007, Everbright Wuxi entered into the Joint Venture Agreement with Xin Guo Lian in relation to the establishment of the Project Company, with a registered capital of RMB360,000,000. On the same day, Everbright Wuxi, Xin Guo Lian and the Project Company also entered into (i) the Qing Yuan Waste Water Treatment Plants Transfer Agreement and (ii) the Chengshi Waste Water Treatment Plant Transfer Agreement with, among others, the government authorities in the Jiangsu Province in relation to the purchases of the Qing Yuan Waste Water Treatment Plants and the Chengshi Waste Water Treatment Plant for an aggregate consideration of RMB624,028,230 (equivalent to approximately HK\$667,274,000).

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The Project Company was established for the purpose of operating and maintaining the four waste water treatment plants (namely, Binjiang, Chengxi, Shizhuang and Chengshi) and their ancillary facilities as well as treating and processing waste water in Jiangyin City, Jiangsu Province, the PRC. Pursuant to the Waste Water Treatment Service Agreement, the Project Company provides the Jiangyin Construction Bureau with design, construction, maintenance and operation services for waste water treatment facilities and the provision of waste water treatment services in certain specified areas in Jiangyin City, Jiangsu Province, the PRC. The Project Company is also responsible for reconstructing and expanding the waste water treatment plants.

The Sewage Piping Network is already constructed and built in the urban area of Jiangyin City with a total length of 53,906 kilometers together with a sewage pumping station and three sewage closures, which is connecting the households in the Jiangyin City. As detailed in the “Letter from the Board” in the Circular, the transfer of the Sewage Piping Network pursuant to the Sewage Piping Network Transfer Agreement will enhance the Group’s waste water treatment operation in Jiangyin City to integrate waste water treatment plants and sewage piping network in the urban and rural areas as one system in the PRC. The Directors also believe that this investment will enhance the Group’s leading position in the waste water treatment industry in the PRC and lay a good foundation to acquire other projects along the Taihu Lake. We understand from the Management that each of the Waste Water Treatment Plants is situated in different location for processing waste water, the transfer of the Sewage Piping Network will enhance operational efficiency of the Waste Water Treatment Plants, and allow the Group to capture the potential growth of the waste water treatment business in the PRC. The Group can also enjoy exclusive concession right of operation in waste water treatment in the region.

The entering into of the Sewage Piping Network Transfer Agreement with the Jiangyin People’s Government constitutes a transfer-operate-transfer (TOT) arrangement, under which the project company will be granted a concession right with a concession period to operate and maintain the assets to provide service, and the assets are to be transferred back to the government at nil consideration upon the expiry of the concession right period. This is a common business model for transfer of waste water treatment plants and their ancillary facilities from the government in the PRC. By charging the waste water treatment service charge, the Project Company shall be able to recover its capital expenditure for the Sewage Piping Network Transfer and make positive contribution to the Group’s overall earnings base during and upon the expiry of the Term. The Project Company will be assured of a basic amount of revenue to be generated in each year during the Term and the business performance of the Project Company is guaranteed at a basic level.

Having considered the above reasons and factors, we consider that the Sewage Piping Network Transfer is in line with the stated business focus of the Group and is in the interests of the Company and the Shareholders as a whole.

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2. *Principal terms of the Sewage Piping Network Transfer Agreement*

Consideration

The aggregate consideration for the Sewage Piping Network Transfer of RMB267,440,670 (equivalent to approximately HK\$285,974,000) was arrived at after arm's length negotiation with reference to the independent valuation of the Sewage Piping Network conducted by Grant Sherman as at 20 February 2008 (the "Valuation"), representing a discount of approximately 5.73% to the Valuation. In assessing the fairness and reasonableness of the consideration payable for the Sewage Piping Network Transfer, we have reviewed and discussed with Grant Sherman on the methodology, and the principal bases and assumptions adopted in arriving at the Valuation.

Valuation methodology

We note that in determining the fair market value of the Sewage Piping Network, Grant Sherman has adopted the income approach technique known as the discounted cash flow (the "DCF") method, which we consider is a common valuation method in establishing the fair market value of investments. We understand that Grant Sherman has considered other different generally accepted valuation approaches, namely market approach and cost approach. However, as market approach requires to identify similar transactions and cost approach does not take future growth potential of the business into consideration, Grant Sherman is of the view, and we concur with them, that the income approach is the most appropriate valuation approach for the Valuation.

Bases and assumptions for the Valuation

We were advised that it has taken into consideration all relevant and pertinent factors including, among others, the nature and the prospects of the waste water treatment business, industry and market conditions, financial projections and the relevant risks relating to the business in arriving at the Valuation. In ascertaining the fairness and reasonableness of the bases and assumptions underlying the Valuation, we have also reviewed and discussed with Grant Sherman, the related projected revenues and expenses in relation to the Waste Water Treatment Plants and the Sewage Piping Network.

In the DCF model, the present worth of the Project Company's future attributable free cash flows to be derived from the Sewage Piping Network is discounted at a rate of 8.77% per annum (the "Discount Rate"). The Discount Rate is equivalent to the expected rate of return that an investor would have to give up by investing in the subject investment instead of in available alternative investments that are comparable in terms of risk and other investment characteristics. The Discount Rate is based on a weighted average cost of capital developed through the application of the Capital Asset Pricing

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Model. We note that Grant Sherman has taken into consideration the rates of return of several listed companies engaged in the waste water treatment businesses, return on risk free investment and the discount required for the specific risks pertaining to the investment. The risk free rate associated with the Sewage Piping Network is the yield on bonds issued by the PRC Government in which it locates. We have reviewed the parameters used for the calculation of the Discount Rate and discussed with the Management in this respect. We consider such bases and assumptions to be reasonable. Shareholders are advised to note that the conclusions of the fair market value of the Sewage Piping Network were based on generally accepted valuation procedures and practices that rely exclusively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

Payment term of the consideration

Pursuant to the Sewage Piping Network Transfer Agreement, the consideration shall be paid by the Project Company to the Jiangyin State-owned Assets Commission within 120 days after the date on which the land use right certificate and building ownership certificate of Binjiang waste water treatment plant and the land use right certificate of Chengxi waste water treatment plant were transferred to the Project Company provided that the transaction was approved by all relevant government authorities, or if only obtaining the approval from the relevant government authorities after the 120 days period, the next business day after obtaining approval from the relevant government authorities.

As mentioned in the "Letter from the Board", the Company plans to fund the consideration for the transfer of the Sewage Piping Network by bank borrowings of the Project Company. Given the transfer is by way of TOT model, we were advised by the Management that it is a common industry practice to fund the consideration by additional equity or loans from shareholders and/or by bank borrowings of the Project Company.

We consider the payment term and the form of financing to be on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Conclusion

Having considered the above and in particular (i) the consideration for the Sewage Piping Network of RMB267,440,670 (equivalent to approximately HK\$285,974,000), when compared with its fair market value of RMB283,700,000 (equivalent to approximately HK\$303,360,000) as set out in the Valuation, represents a discount of approximately 5.73%; (ii) the bases, assumptions and methodologies adopted by Grant Sherman are in line with the market practices and fair and reasonable; and (iii) the Sewage Piping Network Transfer is in

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line with the Group's business strategy of future development, we are of the view that the terms of the Sewage Piping Network Transfer Agreement are fair and reasonable so far as the Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

(B) Continuing Connected Transactions

1. Background to and reasons for the entering into of the Waste Water Treatment Service Supplemental Agreement

On 16 November 2007, Everbright Wuxi, Xin Guo Lian, Jiangyin Construction Bureau and Jiangyin Finance Bureau (in the case of the Waste Water Treatment Service Agreement) entered into (i) the Concession Right Agreement in relation to the granting of an exclusive concession right to the Project Company to operate the Waste Water Treatment Plants; and (ii) the Waste Water Treatment Service Agreement in relation to the provision of waste water treatment service in certain specified areas in Jiangyin City, Jiangsu Province, the PRC to the Jiangyin Construction Bureau by the Project Company.

In consideration of the Project Company's acquisition of the Sewage Piping Network, the Project Company entered into the Concession Right Supplemental Agreement to extend the subject matter to the Sewage Piping Network. In addition, the Jiangyin Construction Bureau and the Jiangyin Finance Bureau have agreed to an upward adjustment of the waste water treatment service charge (the "Service Charge") chargeable under the Waste Water Treatment Service Agreement. Accordingly, the Project Company entered into the Waste Water Treatment Service Supplemental Agreement to adjust the Service Charge payable under the Waste Water Treatment Service Agreement.

The entering into of the Concession Right Supplemental Agreement and the Waste Water Treatment Service Supplemental Agreement represents an essential part of the overall business model of the Group in relation to the Sewage Piping Network Transfer. It provides an opportunity for the Group to expand its waste water treatment business in the region where the Directors expect to have excellent development potential given its economic growth. In light of the current principal activities and business strategies of the Group, we consider that the Waste Water Treatment Service Supplemental Agreement has been entered into in the ordinary and usual course of business of the Group.

2. Principal terms of the Continuing Connected Transactions

The Waste Water Treatment Service Agreement was entered into for a period of 30 years, pursuant to which Jiangyin Construction Bureau will engage the Project Company to, among others, operate the Waste Water Treatment Plants, to provide waste water treatment services in certain specified areas in Jiangyin City, Jiangsu Province, the PRC. Jiangyin Construction Bureau will be responsible for supplying

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waste water to the Project Company and will collect the treated waste water at discharge points in accordance with the terms of the Waste Water Treatment Service Agreement.

Pursuant to the Waste Water Treatment Service Agreement, the minimum projected daily volume of the supply of waste water from Jiangyin Construction Bureau (the “Minimum Projected Daily Volume”) is estimated to be approximately 86,300 cubic meters for the first year of operation, approximately 135,300 cubic meters for the second year of operation and approximately 170,500 cubic meters for the third year of operation. Jiangyin Construction Bureau is required to pay to the Project Company the Service Charge on a monthly basis. In the event that the waste water being treated by the Waste Water Treatment Plants falls short of the Minimum Projected Daily Volume, Jiangyin Construction Bureau will be required to pay the Service Charge based on the Minimum Projected Daily Volume. In the event the waste water being treated by the Waste Water Treatment Plants exceeds the Minimum Projected Daily Volume, the excess waste water will be charged at a discounted rate. The Service Charge from the year of 2008 to 2010 is RMB2.1 per cubic meter of waste water treated. Pursuant to the Waste Water Treatment Service Agreement, the Service Charge will be adjusted every two years after the completion of the expansion of the waste water treatment plant in Chengxi region. We were advised by the Directors that the expansion of this waste water treatment plant is expected to be completed by 2008 or 2009.

Pursuant to the Waste Water Treatment Service Supplemental Agreement, the Service Charge is revised to RMB2.52 per cubic meter of waste water being treated (the “Revised Service Charge”). Other terms and conditions under the Waste Water Treatment Service Agreement remain unchanged.

The sewage piping networks in other areas of the PRC are mainly owned by the government. We cannot find any comparable transactions that are similar to the Sewage Piping Network Transfer arrangement between the Project Company and the Jiangyin State-owned Assets Commission. Hence, we do not have any information to make direct comparison with the Revised Service Charge. However, we have identified five waste water treatment plants operated in the PRC (the “Comparable Plants”) by the companies whose shares are listed on the Stock Exchange. We have obtained information from the website of the Stock Exchange regarding a waste water treatment plant in Zhuozhou City (the “Zhuozhou Plant”) operated by Interchina Holdings Company Limited and four waste water treatment plants operated by Tianjin Capital Environmental Protection Company Limited in Hangzhou City (the “Hangzhou Plant”) and Tianjin City, namely the Jizhuangzi Plant (the “Jizhuangzi Plant”), Xianyanglu Plant (the “Xianyanglu Plant”) and Beicang Plant (the “Beicang Plant”).

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The table below sets out a summary and an analysis of the service charges per cubic meter of waste water treatment of the Comparable Plants:

Province/ city	Comparable Plants	Service charge per cubic meter RMB
Hebei	Zhuozhou Plant	0.75
Zhejiang	Hangzhou Plant	0.84
Tianjin	Beicang Plant	1.93
Tianjin	Jizhuangzi Plant	1.93
Tianjin	Xianyanglu Plant	1.93
Maximum		1.93
Average		1.48
Median		1.93
Minimum		0.75
<i>Jiangsu</i>	<i>The Waste Water Treatment Plants</i>	<i>2.10</i>
	<i>The Waste Water Treatment Plants (after the Sewage Piping Network Transfer)</i>	<i>2.52</i>

As shown, the service charges of waste water treatment of the Comparable Plants ranged from RMB0.75 to RMB1.93 per cubic meter, with an average charge of RMB1.48 per cubic meter.

It has come to our attention that, before the transfer of the Sewage Piping Network, the Service Charge of RMB2.1 per cubic meter payable under the Waste Water Treatment Service Agreement is already above the service charges per cubic meter of the Comparable Plants in the PRC. Having considered the injection of capital expenditure for the transfer of the Sewage Piping Network and the location of the Waste Water Treatment Plants and the Sewage Piping Network being in Jiangsu Province, where there is an increasing concern for environmental protection because of the contamination of the Taihu Lake, we are of the view that the Revised Service Charge of RMB2.52 per cubic meter in excess of those Comparable Plants are fair and reasonable and the terms of the Waste Water Treatment Service Supplemental Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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3. *Annual Caps*

The table below sets out the proposed Annual Caps relating to the Waste Water Treatment Service Supplemental Agreement and the Previous Caps for the three years ending 31 December 2010:

	For the year ending 31 December 2008	For the year ending 31 December 2009	For the year ending 31 December 2010
Proposed Annual Caps (RMB)	167,000,000	193,000,000	193,000,000
Previous Caps (RMB)	140,000,000	161,000,000	161,000,000

The Previous Caps were determined on the basis of the aggregate estimated maximum annual capacity of the amount of waste water which can be treated by the Waste Water Treatment Plants and the Service Charge (RMB2.1) per cubic meter payable by Jiangyin Construction Bureau to the Project Company as agreed for under the Waste Water Treatment Service Agreement. The proposed Annual Caps have been determined by revising the Previous Caps to reflect the Revised Service Charge (RMB2.52) per cubic meter as agreed for under the Waste Water Treatment Service Supplemental Agreement. The service fee per cubic meter is adjusted from RMB2.1 to RMB2.52 per cubic meter, representing a 20% increase.

We note that the aggregate estimated maximum annual capacity of the amount of waste water to be treated by the Waste Water Treatment Plants was determined based on the designed daily capacity for the four Waste Water Treatment Plants of approximately 165,000 cubic meters in aggregate for the year 2008 and approximately 190,000 cubic meters in aggregate for each of the years 2009 and 2010 plus a moderate buffer of about 10%, respectively. The expansion plan of the waste water treatment plant in Chengxi region is expected to be completed by 2008 or 2009 (as mentioned in (2) above), and thus, the aggregated designed daily capacity for the four Waste Water Treatment Plants will increase from 2008 or 2009 onwards.

Having considered that (i) the Minimum Projected Daily Volume is the least usage committed by Jiangyin Construction Bureau; (ii) the Company's internal projection of daily treatment volume to be close to the designed daily capacity; (iii) the increasing concern for environmental protection as a result of the contamination of the Taihu Lake which would increase the demand of waste water treatment services within the region; and (iv) the expansion of the waste water treatment plant in Chengxi region which demonstrate the increasing demand of waste water treatment services within the region, we consider it is reasonable to calculate the Annual Caps based on the designed manufacture capacity of the Waste Water Treatment Plants. As to the buffer factored in the calculation of the Annual Caps, it provides flexibility for the Group to cater for any potential increase in the capacity of the Waste Water Treatment Plants in the future.

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Based on the above, we are of the view that the Annual Caps have been reasonably determined by the Company and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Shareholders should note that the proposed Annual Caps should not be construed as an assurance or forecast by the Group of its future revenue.

4. Reasons for the terms of the Continuing Connected Transactions in excess of three years

In assessing the reasonableness for the Company entering into the Continuing Connected Transactions in excess of three years as required by the Listing Rules, we have discussed with the Management the rationale for the duration of the Continuing Connected Transactions. Same as the Sewage Piping Network Transfer Agreement, the entering into of the Concession Right Supplemental Agreement and the Waste Water Treatment Service Supplemental Agreement constitute a TOT arrangement. It is an industry practice that the duration of the Concession Right Agreement, the Concession Right Supplemental Agreement, the Waste Water Treatment Service Agreement and the Waste Water Treatment Service Supplemental Agreement are coterminous (or as nearly as possible) under a TOT arrangement.

Furthermore, as huge capital resources are required to acquire, operate and maintain the Sewage Piping Network, the exclusive right granted under the Concession Right Supplemental Agreement is necessary for the Group to operate and derive profit from the Sewage Piping Network. Given the substantial capital commitments required in the waste water treatment industry, the Directors are of the view that it is reasonable for the Group to enter into the Concession Right Supplemental Agreement and the Waste Water Treatment Supplemental Service Agreement for a term of more than three years. Therefore, we are of the opinion that a period longer than three years is required for the Group to lock-in the return from the operation of the Sewage Piping Network.

In addition to the above, we have reviewed the waste water treatment services agreements entered into by the Group in connection to the waste water treatment plants operated by the Group in other cities within the Shandong Province of the PRC, including Jinan City, Qingdao City and Zibo City, as well as similar arrangements in relation to the Comparable Plants, and noted that the terms of these agreements are between 25 years to 30 years on average.

In light of the above, we are of the opinion that it is normal business practice for the Waste Water Treatment Service Supplemental Agreement to be of a term of more than three years.

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5. *Annual review requirements under the Listing Rules*

The Continuing Connected Transactions are subject to a number of annual review requirements under the Listing Rules which include, among other things:

- (i) the Continuing Connected Transactions for the three years ending 31 December 2010 will not exceed their respective Annual Caps;
- (ii) the independent non-executive Directors must review the Continuing Connected Transactions and confirm in the Company's annual report and accounts that the Continuing Connected Transactions have been entered into (a) in the ordinary and usual course of business of the Company; (b) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from independent third parties; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (iii) the auditors of the Company will, in accordance with Rule 14A.38 of the Listing Rules, review the Continuing Connected Transactions and confirm the same in a letter to the Directors (a copy of which will be provided to the Stock Exchange at least 10 business days prior to the bulk printing of the annual report of the Company) in respect of each of the three years ending 31 December 2010, during which the Continuing Connected Transactions have been conducted;
- (iv) the Company will allow and will procure that the other parties to the Continuing Connected Transactions will provide the auditors of the Company with sufficient access to the relevant records of the Continuing Connected Transactions for the purpose of the auditors of the Company's review as referred to in paragraph (iii) above. The Directors must state in the annual report whether the auditors have confirmed the matters stated in Rule 14A.38 of the Listing Rules; and
- (v) the Company will comply with the applicable provisions of the Listing Rules governing connected transactions in the event that the total amount of the Continuing Connected Transactions exceeds the Annual Caps, or that there is any material amendment to the terms of the Continuing Connected Transactions.

LETTER FROM FIRST SHANGHAI

In light of the annual review requirements attached to the Continuing Connected Transactions, in particular, (i) the restriction on the value of the Continuing Connected Transactions by way of the Annual Caps; and (ii) the ongoing review by the independent non-executive Directors and the auditors of the Company of the terms of the Continuing Connected Transactions and the Annual Caps not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the Continuing Connected Transactions and safeguard the interests of the Shareholders.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that the entering into of the Sewage Piping Network Transfer Agreement and the Waste Water Treatment Service Supplemental Agreement are in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole and that the terms of each of the Sewage Piping Network Transfer Agreement, the Waste Water Treatment Service Supplemental Agreement and the proposed Annual Caps are fair and reasonable in so far as the Shareholders are concerned. If a general meeting of the Shareholders is to be held for the purpose of considering and approving the transactions contemplated under each of the Sewage Piping Network Transfer Agreement and the Waste Water Treatment Service Supplemental Agreement and the Annual Caps, we would recommend the Shareholders to vote in favour of the ordinary resolution(s) in respect of approving the aforesaid transactions and the proposed Annual Caps.

Yours faithfully,

For and on behalf of

First Shanghai Capital Limited

Helen Zee

Managing Director

Fanny Lee

Executive Director

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 ordinary Shares held	Approximate % of the Company's total issued share capital (%)
FAN Yan Hok, Philip	Beneficial owner	Personal	8,000,000	0.26
WONG Kam Chung, Raymond	Beneficial owner	Personal	1,500,000	0.05
LI Kwok Sing, Aubrey	Beneficial owner	Personal	1,000,000	0.03

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

Name of Director	Date of grant	Exercise price (HK\$)	Exercise period	No. of ordinary 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	0.57
	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	0.57
	03.08.2006	0.850	03.08.2007 – 25.05.2013 (Note 2)	5,000,000	0.16
FAN Yan Hok, Philip	03.08.2006	0.850	03.08.2008 – 25.05.2013	2,000,000	0.06
WONG Kam Chung, Raymond	03.08.2006	0.850	03.08.2007 – 25.05.2013 (Note 2)	3,000,000	0.10
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

- 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 March 2004 to 25 May 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 September 2004 to 25 May 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 3 August 2007 to 25 May 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 3 August 2008 to 25 May 2013.

The table below shows the posts held by Directors in the Company and China Everbright Limited ("CEL") respectively as at the Latest Practicable Date:

The Company

<u>Name of Director</u>	<u>Posts held in the Company</u>
TANG Shuangning	Executive Director and Chairman
ZANG Qiutao	Executive Director and Vice-chairman

CEL

<u>Name of Director</u>	<u>Posts held in CEL</u>
TANG Shuangning	Executive Director and Chairman
ZANG Qiutao	Executive Director and Deputy Chairman

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 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	Approximate % of the Company's total issued share capital (%)
China Everbright Holdings Company Limited ("CEH")	Beneficial owner	1,758,595,910 (Note 1)	56.07

Notes:

- (1) Out of the 1,758,595,910 Shares, 1,758,215,910 Shares are held by 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. TANG Shuangning, Mr. ZANG Qiutao, Mr. LI Xueming and Mr. CHEN Xiaoping, four of the executive Directors, are also directors of CEH. Ms. ZHANG Weiyun, another executive Director, is also an employee of CEH.
- (3) Mr. CHEN Xiaoping and Ms. ZHANG Weiyun, two 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 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
China Everbright Road & Bridge (Fujian) Investment Limited	CEH	20 shares	20
Qingdao EB-VW Waste Water Treatment Co. Ltd.*	Qingdao Municipal Drainage Company	–	40
Everbright Water (Jiangyin) Limited#	Xin Guo Lian	–	30

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

Registered under the laws of the PRC as sino-foreign equity 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 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 Transactions and the Annual Caps 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 or 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 2007, 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, there was no member of the Group who 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, 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, there was no material adverse change in the financial or trading position of the Group since 31 December 2007, being the date of the latest published audited financial statements of the Company.

9. EXPERTS

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

Name	Qualifications
First Shanghai	A licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO
Grant Sherman	Independent professional valuer

Grant Sherman was established in January 2002 by a group of experienced professionals with international qualifications. Since establishment, Grant Sherman has served a lot of listed companies in Hong Kong, including main board and growth enterprise market board, for their initial public offering or notifiable transaction purposes.

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.

Grant Sherman has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its advice with respect to the valuation of the Sewage Piping Network or its name in the form and context in which they respectively appear.

Neither First Shanghai nor Grant Sherman has 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.

Neither First Shanghai nor Grant Sherman has any direct or indirect interests in any assets which have been, since 31 December 2007 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed or 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 Tricor 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 April 2008.

- (a) the Joint Venture Agreement;
- (b) the Qing Yuan Waste Water Treatment Plants Transfer Agreement;
- (c) the Chengshi Waste Water Treatment Plant Transfer Agreement;
- (d) the Waste Water Treatment Service Agreement;
- (e) the Concession Right Agreement;
- (f) the Joint Venture Supplemental Agreement;
- (g) the Sewage Piping Network Transfer Agreement;
- (h) the Waste Water Treatment Service Supplemental Agreement;
- (i) the Concession Right Supplemental Agreement;
- (j) 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;
- (k) the letter from First Shanghai, the text of which is set out under the section headed "Letter from First Shanghai" of this circular;
- (l) the consent letter from First Shanghai referred to in the paragraph headed "Expert" in this Appendix; and
- (m) the consent letter from Grant Sherman referred to in the paragraph headed "Expert" in this Appendix.