

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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



CHINA EVERBRIGHT INTERNATIONAL LIMITED

中國光大國際有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 0257)

**MAJOR TRANSACTION
DISPOSAL OF INTERESTS IN
NEWTON INDUSTRIAL LIMITED**

20 September 2006

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	
Introduction	4
The Disposal	5
Reasons for and Benefits of the Disposal	8
Financial Effects of the Disposal	8
Use of Proceeds	9
General	9
Additional Information	10
Appendix I – Financial Information of the Group	11
Appendix II – General Information	13

DEFINITIONS

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

“Agreement”	the agreement dated 28 August 2006 entered into between the Company, the Purchaser and the Guarantor in relation to the Disposal
“Announcement”	the announcement of the Company dated 29 August 2006 in relation to the Disposal
“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“CEH”	China Everbright Holdings Company Limited, a company incorporated in Hong Kong with limited liability
“Company”	China Everbright International Limited, a company incorporated in Hong Kong with limited liability whose shares are listed on the main board of the Stock Exchange
“Completion”	completion of the Disposal pursuant to the Agreement
“Conditions”	the conditions to which Completion is subject to
“connected person”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“Disposal”	the disposal of the Transferred Interests by the Seller to the Purchaser pursuant to the Agreement
“EGM”	an extraordinary general meeting of the Company to consider the ordinary resolution to approve the Disposal
“Group”	the Company and its subsidiaries
“Guarantor”	Shenzhen Energy Group
“Guildford”	Guildford Limited, a company incorporated in the British Virgin Islands and the controlling shareholder of the Company

DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Latest Practicable Date”	15 September 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Mawan”	Shenzhen Mawan Power Company Limited, a sino-foreign joint venture established in the PRC which currently operates two power plants in Shenzhen, the PRC
“MOFCOM”	the Ministry of Commerce of the PRC
“Newton Industrial”	Newton Industrial Limited, a company incorporated in the British Virgin Islands and an associate company of the Group. Newton Industrial is owned as to (a) approximately 55.88% by Shenzhen Investment Limited and (b) approximately 44.12% by the Company
“percentage ratio(s)”	the percentage ratio(s) under Rule 14.07 of the Listing Rules
“PRC”	The People’s Republic of China, which for the purpose of this circular, shall exclude Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Purchaser”	Shenzhen Energy (Hong Kong)
“SAFE”	the State Administration of Foreign Exchange of the PRC, the PRC governmental agency responsible for matters relating to foreign exchange administration
“Seller”	the Company
“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
“Shareholder(s)”	holder(s) of the Shares

DEFINITIONS

“Shenzhen Energy Group”	Shenzhen Energy Group Co., Ltd., a limited liability company established in the PRC and the controlling shareholder of the Purchaser
“Shenzhen Energy (Hong Kong)”	Shenzhen Energy (H.K.) International Limited, a company incorporated in Hong Kong and a wholly owned subsidiary of Shenzhen Energy Group
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning ascribed to it under the Listing Rules
“Transferred Interests”	the 15 “A” shares of Newton Industrial, representing approximately 44.12% of the issued share capital of Newton Industrial, to be bought and sold pursuant to the terms and conditions of the Agreement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

In this circular, for reference purpose only and unless otherwise stated, the conversion of RMB into HK\$ is calculated by using an exchange rate of RMB1.00 to HK\$0.9668. No representation is made that any amount in RMB or HK\$ has been or could have been or could be converted at the above rate or at any other rates or at all.

LETTER FROM THE BOARD



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

(Incorporated in Hong Kong with limited liability)

(Stock Code: 0257)

Executive Directors:

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

Registered Office:

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

Independent non-executive Directors:

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

20 September 2006

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION DISPOSAL OF INTERESTS IN NEWTON INDUSTRIAL LIMITED

INTRODUCTION

The Board announced in the Announcement that on 28 August 2006 the Company entered into the Agreement with Shenzhen Energy (Hong Kong) pursuant to which the Company agreed to sell as beneficial owner and Shenzhen Energy (Hong Kong) agreed to purchase the Transferred Interests for a consideration of RMB663,626,955 (equivalent to approximately HK\$641,595,000).

Shenzhen Energy Group also entered into the Agreement with the Seller and the Purchaser to guarantee the performance by the Purchaser of its obligations under the Agreement in favour of the Seller.

LETTER FROM THE BOARD

As the applicable percentage ratio(s) as defined in the Listing Rules exceed(s) 25% but less than 75%, the Disposal constitutes a major transaction for the Company under the Listing Rules and is therefore subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

No Shareholders are required to abstain from voting at the EGM if the Company was to convene the EGM and the Company has obtained from Guildford, which currently holds 1,758,215,910 Shares, representing approximately 57.42% of the issued share capital of the Company, written approval for the Agreement, the Disposal and the transactions contemplated thereunder. Pursuant to Rule 14.44 of the Listing Rules, the Disposal which constitutes a major transaction for the Company has been approved by way of written shareholders' approval in lieu of holding a general meeting of the Company seeking approval from the Shareholders.

The purpose of this circular is to provide the Shareholders with further information on the Disposal and other information in compliance with the requirements of the Listing Rules.

THE DISPOSAL

The Agreement

The principal terms of the Agreement are set out as follows:

Date: 28 August 2006

Parties: (a) Seller: the Company
(b) Purchaser: Shenzhen Energy (Hong Kong)
(c) Guarantor: Shenzhen Energy Group

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Purchaser, the Guarantor and their ultimate beneficial owners are third parties independent of the Company, independent of any connected persons of the Company and do not have any past relationship with the Group.

Asset to be disposed

Pursuant to the Agreement, subject to fulfillment of the Conditions, the Seller shall sell and the Purchaser shall purchase the Transferred Interests, which comprise 15 "A" shares of Newton Industrial, representing approximately 44.12% of its issued share capital. The balance of the issued share capital of Newton Industrial is owned by Shenzhen Investment Limited which is an independent third party not connected with the Company or any connected persons of the Company.

LETTER FROM THE BOARD

Newton Industrial, an associate company of the Group, is a company incorporated in the British Virgin Islands on 3 July 1998. Newton Industrial is an investment holding company which holds 34% equity interest in Mawan, a sino-foreign joint venture established in the PRC which currently operates two power plants in Shenzhen, the PRC.

The book value of the Transferred Interests in the Company's consolidated financial statements as at 31 December 2005 was approximately HK\$412,702,000. A valuation of Mawan was conducted by Beijing China Enterprise Appraisals Company Limited, a qualified independent asset valuer in the PRC, on 25 August 2006 using primarily the discounted cash flow method. The valuation took into account the projected future profits of Mawan, and assessed the value of the entire equity interest in Mawan as at RMB5,024,179,700 (equivalent to approximately HK\$4,857,377,000). As the Transferred Interests represent approximately 44.12% of the entire issued share capital of Newton Industrial which owns 34% equity interest in Mawan, the assessed value of Mawan attributable to the Transferred Interests (being a 15% effective interest) amounted to RMB753,627,000 (equivalent to approximately HK\$728,607,000).

The audited net profits (before and after taxation and extraordinary items) attributable to the Transferred Interests and the audited net profits of the Group, both prepared under Hong Kong GAAP for the two years ended 31 December 2005 were as follows:

	Attributable to the Transferred Interests (Before and after taxation and extraordinary items)	The Group (After tax)
Net profit for the year ended 31 December 2004	Approximately HK\$72,634,000	Approximately HK\$86,218,000
Net profit for the year ended 31 December 2005	Approximately HK\$68,033,000	Approximately HK\$120,844,000

Consideration

The consideration for the Transferred Interests is RMB663,626,955 (equivalent to approximately HK\$641,595,000) which shall be paid by cash and the Consideration shall be paid within 20 working days after the Conditions are satisfied.

Pursuant to the resolutions of the board of directors of Mawan dated 26 April 2006, a final dividend of RMB600,000,000 (equivalent to approximately HK\$580,080,000) was declared for the financial years up to 31 December 2005. Parties to the Agreement have agreed that such dividend to the extent applicable to the Company (i.e. the Company's 15% effective interest in Mawan through its 44.12% interest in Newton Industrial) of approximately RMB90,000,000 (equivalent to approximately HK\$87,012,000) shall vest with the Seller.

LETTER FROM THE BOARD

The Consideration which was at a premium of 97% to the book value of the Transferred Interests in the Company's consolidated financial statements as at 31 December 2005 of HK\$412,702,000 net of dividend receivable of HK\$87,012,000 (being the Company's share of the final dividend declared by the board of directors of Newton Industrial for the financial years up to 31 December 2005) was arrived at after arm's length negotiations between the Seller and the Purchaser and with reference to the book value of Mawan prepared under PRC GAAP as at 31 December 2005, the dividend declared by Mawan for the financial years up to 31 December 2005 and the valuation of Mawan prepared by China Enterprise Appraisals Company Limited, a qualified independent asset valuer in the PRC, on 25 August 2006 details of which were as set out above.

The Board (including the independent non-executive Directors) consider that the terms of the Agreement and the Disposal are normal commercial terms which are fair and reasonable and in the interests of the Shareholders as a whole.

Conditions and Completion

Completion is subject to fulfillment of the following conditions:

- (i) approval of the Agreement and the Disposal by the Board in accordance with the requirements of the Listing Rules;
- (ii) approval of the Agreement, the Disposal and Shenzhen Energy Group acting as the guarantor of Shenzhen Energy (Hong Kong) by the respective boards of directors and shareholders of Shenzhen Energy (Hong Kong) and Shenzhen Energy Group; and
- (iii) receipt of relevant approvals, information and/or confirmations from MOFCOM and SAFE in relation to foreign exchange needs, the Agreement, the Disposal and transactions contemplated under the Agreement.

Completion shall take place within 20 working days following the satisfaction by the Seller or the Purchaser of the Conditions to which their obligations are subject; provided, however, that if Completion has not occurred by 30 June 2007, then the Agreement shall be terminated automatically and cease to have any effect. Further no party shall have any liability thereunder (but without prejudice to the rights of any party against the others for antecedent breaches of the Agreement).

Guarantee

Shenzhen Energy Group, the shareholder of Shenzhen Energy (Hong Kong), is a party to the Agreement pursuant to which it acts as the guarantor of the Purchaser to guarantee the performance by the Purchaser of its obligations under the Agreement in favour of the Seller.

As part of the guarantee, Shenzhen Energy Group as guarantor shall pay to the Seller security money in the sum of RMB40,000,000 within five (5) working days from the date of the Agreement.

LETTER FROM THE BOARD

Further, in the event Completion was to take place and should the Purchaser fail to pay the Consideration (i) before 31 October 2006, the Guarantor shall pay to the Seller 30% of the Consideration as additional security money; and (ii) before 20 December 2006, the Guarantor shall pay to the Seller a further 20% of the Consideration as additional security money. Upon the Purchaser provides evidence to the Seller due payment of the Consideration, the Seller shall within seven (7) working days refund all security money and accrued interest to the Guarantor. If Completion has not occurred by 30 June 2007 and the Agreement has been terminated and cease to have any effect, the Seller shall refund all security money and accrued interest held by the Seller to the Guarantor.

REASONS FOR AND BENEFITS OF THE DISPOSAL

The Company acquired the Transferred Interests in October 1998. Since then, the Group has diversified into different businesses, including toll bridge operation, environmental protection business and property investment and management. In recent years, the Group has been focusing on the environmental protection business. By disposing its shareholdings in Newton Industrial, the Group can concentrate in development and growing its environmental protection business and municipal public works business which the Group believed to have great potential in the PRC in the coming years.

Upon Completion, the Group is expected to realize an estimated gain of approximately HK\$325,105,000 (before taxation and expenses) which is based on (i) the consideration of approximately HK\$641,595,000; (ii) the Group's share of net assets of Newton Industrial of approximately HK\$412,702,000 as at 31 December 2005 net of dividend receivable of HK\$87,012,000 (being the Company's share of the final dividend declared by the board of directors of Newton Industrial for the financial years up to 31 December 2005); and (iii) the exchange reserve of approximately HK\$9,200,000 realized on disposal of the investment in Newton Industrial. It is currently expected that the estimated gain will be accounted for in the financial statements of the Group for the year ending 31 December 2006.

The actual profit of the Disposal will be adjusted to reflect for the Group's share of results and reserves of Newton Industrial from 1 January 2006 up to the date of completion of the Disposal.

Having considered the terms of the Agreement and the above reasons and benefits, the Board (including the independent non-executive Directors) are of the view that the terms of the Agreement are normal commercial terms which are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE DISPOSAL

Earnings

It is expected that the disposal will generate a gain on disposal (before tax and expenses) of approximately HK\$325,105,000, representing approximately 309% of the audited consolidated net profit attributable to equity shareholders of the Company of approximately HK\$105,330,000 for the year ended 31 December 2005. Such gain on disposal is currently expected to be reflected in the Group's financial results for the year ending 31 December 2006.

LETTER FROM THE BOARD

Net asset value

Notwithstanding the interest in associates, which are mainly represented by the interest in Newton Industrial, will be reduced upon completion, the Disposal will increase the consolidated net asset value of the Group by approximately HK\$315,905,000, being the estimated gain as a result of the Disposal less the exchange reserve realized on the Disposal. Such amount represents an increase in the consolidated net asset value of the Group by approximately 27% as compared with the Group's audited consolidated net asset value attributable to equity shareholders of the Company of approximately HK\$1,176,857,000 as at 31 December 2005.

Gearing

As at 30 June 2006, the Group had total liabilities amounted to approximately HK\$1,490,253,000 whilst its total assets amounted to approximately HK\$3,165,597,000. Based on this, the Group's gearing ratio, represented by dividing the total liabilities by the total assets, was approximately 47%. Following completion of the Disposal, the Group will receive a cash consideration of approximately HK\$641,595,000. The net proceeds of approximately HK\$441,000,000 generated from the Disposal will be used to reduce liabilities of the Group whereas the remaining HK\$200,000,000 will provide the Group with additional cash which could be used as working capital of the Group for its investment in the environmental protection business and municipal public works business. Given that the cash on hand will be increased and the total liabilities will be decreased, the gearing level of the Group will accordingly be reduced. As such, the Disposal will have positive impact on the gearing level of the Group.

USE OF PROCEEDS

The Disposal is a cash transaction. The net proceeds of approximately HK\$441,000,000 generated from the Disposal will be used to reduce liabilities of the Group whereas the remaining HK\$200,000,000 will provide the Group with additional cash which could be used as working capital of the Group for its investment in the environmental protection business and municipal public works business.

The Group has been considering acquisition opportunities from time to time, but at present has not yet concluded any negotiation or made any commitment in respect of potential acquisitions.

GENERAL

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

Shenzhen Energy Group is principally engaged in the development, manufacture, operation and management of different types of energy resources, energy engineering projects and related equipments as well as the related personnel training and consultancy services. The principal business activities of Shenzhen Energy (Hong Kong) are investment holding of equity interest in energy companies in the PRC and trading of fuel and parts for electricity generators.

LETTER FROM THE BOARD

Major Transaction

As the applicable percentage ratio(s) as defined in the Listing Rules exceed(s) 25% but less than 75%, the Disposal constitutes a major transaction for the Company under the Listing Rules and is therefore subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

No Shareholders are required to abstain from voting at the EGM if the Company was to convene the EGM and the Company has obtained from Guildford, which currently holds 1,758,215,910 Shares, representing approximately 57.42% of the issued share capital of the Company, written approval for the Agreement, the Disposal and the transactions contemplated thereunder. Pursuant to Rule 14.44 of the Listing Rules, the Disposal which constitutes a major transaction for the Company has been approved by way of written shareholders' approval in lieu of holding a general meeting of the Company seeking approval from the Shareholders.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices of this circular.

Yours faithfully,
For and on behalf of
China Everbright International Limited
CHEN Xiaoping
Chief Executive Officer

1. INDEBTEDNESS OF THE GROUP

As at the close of business on 31 July 2006, being the most recent practicable date for the purpose of ascertaining certain information relating to this indebtedness statement, the Group had outstanding indebtedness of approximately HK\$1,323,751,000, comprising the following:

	<i>HK\$'000</i>
Secured bank loans	784,694
Loans from and amount due to the ultimate holding company (<i>Note</i>)	<u>539,057</u>
Total	<u><u>1,323,751</u></u>

Note: The loans from the ultimate holding company are unsecured, bear interest at normal commercial rate (except that a portion of the loans is interest free) and are not expected to be settled within one year. The amount due to the ultimate holding company is unsecured, interest free and expected to be settled within one year.

At 31 July 2006, the banking facilities of the Group are secured by revenue from the operations of toll bridge, waste-water treatment plants and waste-to-energy power plant, bank deposits, mortgages on fixed assets and shares of a subsidiary of the Company.

Save as disclosed above and apart from intra-group liabilities and normal trade payables in the ordinary course of business, as at the close of business on 31 July 2006, the Group did not have any outstanding debt securities, whether issued and outstanding or authorised or otherwise created but unissued, term loans, other borrowings or indebtedness in the nature of borrowings including bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptable credits, hire purchase commitments, mortgages, charges, guarantees or other material contingent liabilities.

2. FINANCIAL AND TRADING PROSPECTS

The Central Government has stepped up its economic austerity measures to suppress overheated industries in the country. For environmental protection projects, however, its investment will increase. The State's 11th Five-year Plan places special emphasis on "natural environment protection and establishment of an energy saving and environmental friendly society". As environmental protection is a key area encouraged and supported by the Central Government, the Group is optimistic about the industry's prospects.

The Group will seize upcoming business opportunities in the PRC to consolidate the foundation of its infrastructure investment and property investment businesses, and ultimately create significant and stable income sources from its operation. The Group will continue to build its “Everbright Environment” brand by operating with honesty, advanced technology, high quality and at fair prices and to enhance its sustainable core competitiveness. Regarding the development strategy of the environmental protection business, the Group will first focus on the Yangtze River Delta, the Pearl River Delta Regions and the Bohai Bay Area. It will continue to foster continual development striving for high efficiency and pragmatism while strengthening internal management and risk control, so as to realize the target of becoming an influential and leading infrastructure investment and environmental protection conglomerate and to maximize returns to Shareholders.

The Directors are of the opinion that the sale proceeds from the Disposal will increase the working capital of the Group and decrease its debts levels, which will help the Group to exploit further opportunities in its environmental protection business.

The Disposal will have no adverse impact on the trading prospects of the Group.

3. WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that, taking into account the available banking facilities, loans from the ultimate holding company, internal financial resources of the Group and receipt of the proceeds from the Disposal, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months commencing from the date of this circular.

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) Share options in the Company

Name of Director	Date of grant	Exercise price (HK\$)	Exercise period	Number of underlying Shares pursuant to share options	Approximate % of the Company's total issued share capital (%)
WANG Mingquan	29.09.2003	0.296	29.03.2004 – 25.05.2013 (Note 1)	25,400,000	0.83
	03.08.2006	0.850	03.08.2007 – 25.05.2013 (Note 2)	5,000,000	0.16
ZANG Qiutao	03.08.2006	0.850	03.08.2007 – 25.05.2013 (Note 2)	4,000,000	0.13

Name of Director	Date of grant	Exercise price (HK\$)	Exercise period	Number of underlying Shares pursuant to share options	Approximate % of the Company's total issued share capital (%)
LI Xueming	29.09.2003	0.296	29.03.2004 – 25.05.2013 (Note 1)	18,000,000	0.59
	03.08.2006	0.850	03.08.2007 – 25.05.2013 (Note 2)	4,000,000	0.13
CHEN Xiaoping	29.09.2003	0.296	29.03.2004 – 25.05.2013 (Note 1)	18,000,000	0.59
	03.08.2006	0.850	03.08.2007 – 25.05.2013 (Note 2)	5,000,000	0.16
FAN Yan Hok, Philip	29.09.2003	0.296	29.03.2004 – 25.05.2013 (Note 1)	10,000,000	0.33
	03.08.2006	0.850	03.08.2007 – 25.05.2013 (Note 2)	4,000,000	0.13
HUANG Chaohua	29.09.2003	0.296	29.03.2004 – 25.05.2013 (Note 1)	9,000,000	0.29
	03.08.2006	0.850	03.08.2007 – 25.05.2013 (Note 2)	3,000,000	0.10
WONG Kam Chung, Raymond	29.09.2003	0.296	29.03.2004 – 25.05.2013 (Note 1)	9,000,000	0.29
	03.08.2006	0.850	03.08.2007 – 25.05.2013 (Note 2)	3,000,000	0.10

Name of Director	Date of grant	Exercise price (HK\$)	Exercise period	Number of underlying Shares pursuant to share options	Approximate % of the Company's total issued share capital (%)
CHEN Shuang	29.09.2003	0.296	29.03.2004 – 25.05.2013 (Note 1)	4,000,000	0.13
	03.08.2006	0.850	03.08.2007 – 25.05.2013 (Note 2)	1,000,000	0.03
ZHANG Weiyun	29.09.2003	0.296	29.03.2004 – 25.05.2013 (Note 1)	4,000,000	0.13
	03.08.2006	0.850	03.08.2007 – 25.05.2013 (Note 2)	1,000,000	0.03
Sir David AKERS-JONES	29.09.2003	0.296	29.03.2004 – 25.05.2013 (Note 1)	1,000,000	0.03
LI Kwok Sing, Aubrey	29.09.2003	0.296	29.03.2004 – 25.05.2013 (Note 1)	1,000,000	0.03

Notes:

- (1) The option(s) relating to half of the total number of the underlying Shares indicated in the next column can be exercised during the period from 29 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.

(b) Share options in China Everbright Limited ("CEL"), an associated corporation (within the meaning of Part XV of the SFO) of the Company

Name of Director	Date of grant	Exercise price (HK\$)	Exercise period	Number of underlying shares of CEL pursuant to share options	Approximate % of the total issued share capital of CEL (%)
WANG Mingquan	07.07.2003	2.375	08.07.2004 – 07.01.2007	3,000,000	0.19
	03.05.2005	2.850	04.05.2006 – 03.05.2010	1,920,000	0.12
CHEN Shuang	03.09.2004	3.225	04.09.2005 – 03.03.2008	750,000	0.05
	03.05.2005	2.850	04.05.2006 – 03.05.2010	1,280,000	0.08

The table below sets out the Directors who held post in other associated corporations of the Company as at the Latest Practicable Date:

The Company

Name of Director	Posts held in the Company
WANG Mingquan	Executive Director and Chairman
CHEN Shuang	Executive Director

CEL

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

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of

the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) to be entered in the register required to be kept by the Company pursuant to section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as contained in the Listing Rules.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to the Directors and chief executive of the Company, the following person or corporation (not being Director or chief executive of the Company), had an interest or short position in the Shares and underlying Shares 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) The Company

Name of substantial Shareholder	Capacity	Interests in Shares (Shares)	Approximate % of the Company's total issued share capital (%)
CEH	Beneficial owner	1,758,595,910 (Note 1)	57.44

Notes:

- 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.
- Mr. WANG Mingquan, Mr. Zang Qiutao, Mr. LI Xueming, Mr. CHEN Xiaoping and Mr. CHEN Shuang, five of the executive Directors, are also directors of CEH. Ms. ZHANG Weiyun, another executive Director, is also an employee of CEH.
- Mr. WANG Mingquan, Mr. CHEN Xiaoping and Ms. ZHANG Weiyun, three of the executive Directors, are also directors of Guildford.
- 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) Subsidiaries

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

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

Save as disclosed above, as at the Latest Practicable Date, the Directors are not aware of any other person who, had an interest or short position in the Shares or underlying Shares 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 Group (other than the Company).

4. DIRECTORS' INTERESTS IN CONTRACTS

(a) As at the Latest Practicable Date, none of the Directors had entered, or was proposing to enter, into a service contract with any member of the Group which does not expire or is not determinable by the relevant member of the Group within one year without compensation, other than statutory compensation.

(b) As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which had been, since 31 December 2005, being the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

- (c) As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting as at the date of this circular and which is significant in relation to the business of the Group.

5. LITIGATION

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

6. MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business, have been entered into by the Group within the two years preceding the date of this circular:

- (a) a share purchase agreement entered into between the Company and Kerry Properties (China) Limited ("Kerry China") on 14 December 2004 pursuant to which the Company agreed to dispose to Kerry China (i) 800,000 shares of HK\$1.00 each in the capital of Hong Kong Shanghai Development Co Ltd. ("HKSDL") (representing 10% of the then current issued share capital of HKSDL) and (ii) the loan in the principal amounts of HK\$36,100,000 and US\$19,141,400 (equivalent to approximately HK\$149,302,920) owing by HKSDL to the Company, for a total cash consideration of HK\$180,250,000;
- (b) a share purchase agreement entered into between the Company and Cheung Kong (China Property Development) Limited ("CK China") on 14 December 2004 pursuant to which the Company agreed to dispose to CK China (i) 1,200,000 shares of HK\$1.00 each in the capital of HKSDL (representing 15% of the then current issued share capital of HKSDL) and (ii) the loan in the principal amounts of HK\$54,150,000 and US\$28,712,100 (equivalent to approximately HK\$223,954,380) owing by HKSDL to the Company, for a total cash consideration of HK\$270,375,000;
- (c) two loan extension agreements dated 4 March 2005 entered into between the Company as borrower and CEH as lender pursuant to which the Company and CEH both agreed to renew the shareholders' loan of US\$43,885,932.20 and HK\$100,000,000 respectively;

- (d) the following contracts entered into between Qingdao EB-VW Waste Water Treatment Co. Ltd. (a company which is owned as to 60% by EB-VW HK Holding Company Limited and 40% by Qingdao Municipal Drainage Company) and subsidiaries of Veolia Water Systems S.A. on 3 March 2005:
1. an engineering, procurement & construction contract for the Madao Extension Facilities (the “EPC Contract”) with a consortium of OTV Engineering (Shenzhen) Company Ltd. (“OTV Shenzhen”), Veolia Water Systems Shanghai Company Ltd. and Tianjin Municipal Engineering Design Institute pursuant to which the consortium led by OTV Shenzhen will design and construct the Madao Extension Facilities. The contract price of the EPC Contract is RMB163,292,170 (equivalent to approximately HK\$154,049,217) (inclusive of value added tax and other taxes);
 2. an equipment supply contract for the Madao Extension Facilities (the “ES Contract”) with OTV SA pursuant to which OTV SA will supply foreign equipment to be used in the construction of the Madao Extension Facilities. The contract price of the ES Contract is Euro848,850 (equivalent to approximately RMB8,522,454 or approximately HK\$8,040,051) (inclusive of freight, any taxes, levies or duties payable outside of the PRC and exclusive of business tax, withholding tax and enterprise income tax or any other taxes, levies, duties payable inside the PRC); and
 3. a service contract for the Madao Extension Facilities (the “Service Contract”) with OTV SA pursuant to which OTV SA will provide offshore basic design, offshore project management, other technical services, process guarantee, patent and proprietary provision to be used in the construction of the Madao Extension Facilities. The contract price of the Service Contract is Euro3,431,608 (equivalent to approximately RMB34,453,344.32 or approximately HK\$32,503,155) (inclusive of any taxes, levies or duties payable in Euro outside of the PRC and exclusive of business tax, withholding tax and enterprise income tax or any other taxes, levies, duties payable inside the PRC);
- (e) an undertaking dated 26 April 2005 entered into between the Company and the Construction Bureau of Yixing City in relation to the set up of a waste-to-energy plant in Yixing City, Jiangsu Province (the “Plant”). Pursuant to the undertaking, the Company has agreed to invest through a project company (currently known as Everbright Environmental Energy (Yixing) Limited) to be established under the laws of the PRC, (“Yixing Project Company”) approximately RMB238,300,000 (equivalent to approximately HK\$224,669,000) to set up the Plant on a build-operate-transfer basis. In return for Yixing Project Company’s investment in the Plant, the Construction Bureau has agreed to pay Yixing Project Company waste handling fees and undertake to procure the local power grid operating entities to enter into on-grid agreement and power purchase agreement with Yixing Project Company to purchase electricity generated by the Plant during waste incineration;

- (f) the following contracts were signed on 26 September 2005:
1. an asset transfer agreement entered into between China Everbright Water Investments Limited (a wholly owned subsidiary of the Company) (“Everbright Water Investments”), Zibo Finance Bureau and Zibo Environmental Waste Water Treatment Company (“Zibo Environmental”) pursuant to which Zibo Finance Bureau and Zibo Environmental agreed to sell and Everbright Water Investments, on behalf of the project company (currently known as Everbright Water (Zibo) Limited) to be established in the PRC (“Zibo Project Company”) which will be wholly owned by Everbright Water Investments to invest in the business of waste water treatment service in Zibo City through the acquisition and operation of the waste water treatment plants (including the land use right, the “Transferred Assets”) and to provide waste water treatment service in certain specified areas in Zibo City), agreed to acquire the Transferred Assets at a total consideration of RMB224,055,000 which shall be paid in US\$27,691,880 (approximately HK\$214,780,000);
 2. a concession right agreement entered into between Zibo City Water Resources and Fisheries Bureau and Everbright Water Investments (on behalf of Zibo Project Company) in respect of the granting of an exclusive right to Zibo Project Company to operate the Waste Water Treatment Plants for a period of 25 years (the “Term”);
 3. a waste water treatment service agreement entered into between Zibo City Water Resources and Fisheries, Zibo City Environmental Protection Bureau and Everbright Water Investments (on behalf of Zibo Project Company) in respect of the provision of waste water treatment service by Zibo Project Company during the Term; and
 4. a supplemental agreement entered into between Zibo Municipal Government, the Company and Everbright Water Investments in relation to the investment in the business of waste water treatment service in Zibo City through the acquisition and operation of the Waste Water Treatment Plants and to provide waste water treatment service in certain specified areas in Zibo City pursuant to the aforementioned agreements;
- (g) a memorandum relating to the concession right agreement and waste treatment agreement entered into between the Company and Jiangyin Construction Bureau dated 26 December 2005 pursuant to which the Company has agreed to invest through a project company to be established under the laws of the PRC with a registered capital of not less than RMB155,490,000 to invest in a business of waste-to-energy service in Jiangyin City of Jiangsu Province. The Project is operated on a build-operate-transfer basis;

- (h) two loan extension agreements dated 23 March 2006 entered into between the Company as borrower and CEH as lender pursuant to which the Company and CEH both agreed to renew the shareholders' loan of US\$43,885,932.20 and HK\$100,000,000 respectively;
- (i) an agreement for sale and purchase entered into between On Land Limited (a wholly-owned subsidiary of the Company) ("On Land") and CITIC Ka Wah Bank Limited ("CITIC Ka Wah") on 13 April 2006 pursuant to which On Land agreed to sell and CITIC Ka Wah agreed to purchase the property on the 8th Floor of Tower One of Lippo Centre, No. 89 Queensway, Hong Kong at a purchase price of HK\$122,098,000;
- (j) a placing and subscription agreement entered into between the Company, Deutsche Bank AG, Hong Kong Branch and Guildford on 25 April 2006 pursuant to which Deutsche Bank agreed to place, on an underwritten basis, an aggregate of 510,000,000 existing Shares at a price of HK\$0.66 per Share on behalf of Guildford and Guildford agreed to subscribe, on a conditional basis, an aggregate of 510,000,000 new Shares at the same price per Share;
- (k) a concession operating framework agreement entered into between the Company and Changzhou Urban Management Bureau dated 5 June 2006 pursuant to which the Company has agreed to invest through a project company to be established under the laws of the PRC with a registered capital of not less than RMB137,485,835 to invest in a business of waste-to-energy service in Changzhou City of Jiangsu Province. The Project is operated on a build-operate-transfer basis;
- (l) a cooperative agreement dated 23 June 2006 entered into between Everbright Water Investments, State-owned Assets Supervision and Administration Commission of Jinan People's Government and Jinan Municipal Public Utilities Authority to agree to certain terms in relation to the acquisition by a project company ("Jinan Project Company") to be established by Everbright Water Investments, two waste water treatment plants in Jinan City and the establishment of the Jinan Project Company; and
- (m) the Agreement.

7. COMPETING INTEREST

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

8. GENERAL

- (a) The registered office of the Company is located at Room 2703, 27th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong.
- (b) The share registrar and transfer office of the Company is Tengis Limited of 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (c) The secretary of the Company is Ms. POON Yuen Ling. Ms. Poon is an associate member of The Hong Kong Institute of Company Secretaries and The Institute of Chartered Secretaries and Administrators.
- (d) The qualified accountant of the Company is Mr. WONG Kam Chung, Raymond, an executive Director. Mr. Wong is a member of the Institute of Certified Public Accountants of Hong Kong.
- (e) In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be 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, up to and including 11 October 2006:

- (a) the memorandum and articles of association of the Company;
- (b) the contracts referred to in the section headed "Material Contracts" in this Appendix II;
- (c) the audited financial statements of the Company for the year ended 31 December 2005; and
- (d) the circulars issued pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing Rules which have been issued since the date of the latest published audited accounts of the Company.