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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: 0257)

DISCLOSEABLE TRANSACTION

ACQUISITION OF WASTE WATER TREATMENT PLANTS IN JINAN CITY, SHANDONG PROVINCE, THE PRC

Further to the Announcement, the Board is pleased to announce that on 31 October 2006, the Project Company, an indirect wholly owned subsidiary of the Company, entered into, among other agreements, the Asset Transfer Agreement with Jinan State-owned Assets Commission and Jinan Utilities Authority, pursuant to which Jinan State-owned Assets Commission and Jinan Utilities Authority agreed to sell and the Project Company agreed to acquire the Transferred Assets at a total consideration of RMB400,000,000 (equivalent to approximately HK\$393,920,000).

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Jinan State-owned Assets Commission and Jinan Utilities Authority and their ultimate beneficial owners are not connected persons of the Company and are Independent Third Parties.

The terms of the Asset Transfer Agreement were negotiated on an arm's length basis. The entering into of the Asset Transfer Agreement constitutes a discloseable transaction for the Company under Rule 14.06(2) of the Listing Rules, and will accordingly be subject to reporting and announcement requirements of the Listing Rules, but no shareholders' approval of the Asset Transfer Agreement is required.

A circular containing, among other things, further information on the Acquisition will be dispatched to the shareholders of the Company as soon as practicable after the publication of this announcement.

BACKGROUND

Reference is made to the Announcement in relation to the Cooperative Agreement relating to the Acquisition and the establishment of the Project Company.

As disclosed in the Announcement, in order to improve operational efficiency of public utilities in Jinan City, the Jinan People's Government had decided to authorize Jinan State-owned Assets Commission to transfer the Transferred Assets to the Project Company to be established by Everbright Water Investments. On 23 June 2006, Jinan State-owned Assets Commission and Jinan Utilities Authority entered into the Cooperative Agreement with Everbright Water Investments in respect of certain terms of the Acquisition and the establishment of the Project Company. Save for the Cooperative Agreement, the Group has not entered into any prior transaction with Jinan State-owned Assets Commission and/or Jinan Utilities Authority.

On 10 October 2006, the Project Company was established by Everbright Water Investments. Pursuant to the Cooperative Agreement, Jinan State-owned Assets Commission, Jinan Utilities Authority and the Project Company desire to enter into the Asset Transfer Agreement as well as the Concession Right Agreement, the Waste Water Treatment Service Agreement and the Employee Arrangement Agreement.

THE ASSET TRANSFER AGREEMENT

Date: 31 October 2006

Parties:

Transferor: Jinan State-owned Assets Commission. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Jinan State-owned Assets Commission and Jinan Utilities Authority (a party to the Concession Right Agreement and the Waste Water Treatment Service Agreement) and their ultimate beneficial owners are not connected persons of the Company and are Independent Third Parties.

Transferee: The Project Company, a wholly foreign owned enterprise set up by Everbright Water Investments in the PRC on 10 October 2006 and an indirect wholly owned subsidiary of the Company.

Assets to be acquired:

Jinan State-owned Assets Commission agreed to sell and the Project Company agreed to acquire the Transferred Assets which comprise the assets relating to the Waste Water Treatment Plants valued at an aggregate amount of approximately RMB453,710,000 (approximately HK\$446,813,608).

The Waste Water Treatment Plants comprise a total of two waste water treatment factories. The two waste water treatment factories are yet to commence commercial operation, accordingly historical revenue and profit relating to the Transferred Assets which are relevant to shareholders of the Company are not available. Upon completion of the Asset Transfer Agreement, waste water treatment service charge payable by Jinan Utilities Authority will be determined in accordance with the terms of the Waste Water Treatment Agreement and the waste water treatment factories will be in operation to generate waste water treatment service charges for the Project Company.

Consideration and payment terms:

The total consideration for the Acquisition shall be RMB400,000,000.

35% of the total consideration being RMB140,000,000 shall be paid by the Transferee to the Transferor within five working days from the date of signing of the Asset Transfer Agreement.

The remaining 65% of the total consideration being RMB260,000,000 shall be paid by the Transferee within six months after the date of the signing of the Asset Transfer Agreement.

The Company currently intends to fund US\$18,500,000 (equivalent to approximately HK\$144,115,000) being the registered capital of the Project Company by cash and the remaining amount will be funded by way of long term financing arrangements of the Project Company.

The consideration has been arrived at after arm's length negotiations between the Transferor and the Project Company with reference to the valuation of Waste Water Treatment Plant No. 1 as at 31 December 2005 and the valuation of Waste Water Treatment Plant No. 2 as at 31 October 2005 of an aggregate amount of approximately RMB453,710,000 prepared using the replacement cost method and a discount of RMB53,710,000 offered by the Transferor being the estimated expenses for pre-transfer performance test, estimated costs relating to the staff arrangement pursuant to the Employee Arrangement Agreement and estimated costs for repair and replacement as a result of any imperfection or defects of the Transferred Assets.

Completion of the Asset Transfer:

The asset transfer is not subject to any condition precedent. Completion of the transfer of the Transferred Assets is estimated to take place within six months after the date of the signing of the Asset Transfer Agreement.

CONCESSION RIGHT AGREEMENT

Pursuant to the Concession Right Agreement, the Project Company was granted the exclusive right to, inter alia, operate the Waste Water Treatment Plants to provide waste water treatment service in certain specified areas in Jinan City during the Term, with further right to invest, construct, operate and provide reusable water generation service during the Term depending on Jinan City water resources development plans and market demands at the relevant time, and to collect service charges in connection therewith during the Term. In the event that the waste water treatment capacity of the Waste Water Treatment Plants shall become insufficient to process all waste water generated in the specified areas, Jinan State-owned Assets Commission and Jinan Utilities Authority may permit the construction of new waste water treatment facilities in the same area but the Project Company shall have the first right to invest, construct and operate such new facilities to provide further waste water treatment services to the specified areas.

The Group's treatment of the Transferred Assets shall be consistent with the Group's existing accounting treatment of similar assets. The fair value of the Transferred Assets are recognised as finance lease receivables. The lease receivables are reduced when lease payments, being a portion of the waste-water treatment revenue, are received and an imputed finance lease income on the lease receivables is recognised using an estimate of the lessee's incremental borrowing rate of interest. Upon expiry of the Term, it is expected that the Transferred Assets shall be almost fully amortised and the Transferred Assets shall be transferred back to Jinan People's Government at nil consideration (the "Returned Assets") and the Project Company shall cease to have any rights and obligations under the Concession Right Agreement, and the Waste Water Treatment Service Agreement and the Asset Transfer Agreement shall be automatically terminated simultaneously.

WASTE WATER TREATMENT SERVICE AGREEMENT

Pursuant to the Waste Water Treatment Service Agreement, Jinan Utilities Authority agreed to engage the service of the Project Company to provide waste water treatment service to certain specified areas in Jinan City during the Term and the Project Company shall receive monthly service charges from Jinan Utilities Authority based on the volume of waste water processed.

The Project Company shall during the Term have the obligations to maintain the facilities and equipments of the Waste Water Treatment Plants in good condition in accordance with all applicable PRC regulatory requirements and standards and the provisions of the Waste Water Treatment Service Agreement. In the event that any of the facilities or equipments is incapable of providing normal waste water treatment service in accordance with the Waste Water Treatment Service Agreement, the Project Company shall have the obligation to promptly repair or upgrade such facilities and equipments.

EMPLOYEE ARRANGEMENT AGREEMENT

Pursuant to the Employee Arrangement Agreement, Jinan Utilities Commission and the Project Company have agreed certain staff arrangement for the staff currently employed at the Waste Water Treatment Plants. A total of 150 employees shall be retained to operate waste water treatment plant no. 1 and a total of 124 employees shall be retained to operate waste water treatment plant no. 2. Employees who are not to be retained shall be compensated according to the relevant PRC employment regulations.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in toll bridge operation, property investment and management, environmental protection investment and operation, environmental protection project management and consultancy and investment holdings. To the best of the Company's knowledge, Jinan Utilities Authority is principally engaged in the provision of waste water treatment service.

The Group has been developing the environmental protection businesses since 2002. Urban sewage treatment has been one of the development directions of the Group's environmental protection business. To date, the Group has participated in waste water treatment projects in Qingdao City and in Zibo City, the PRC which have shown encouraging progress. Riding on the success of the above projects, the Group intends to expand its environmental protection business in Shandong Province, the PRC which prove to have good potential for development of environmental protection business.

The Board (including the independent non-executive Directors) believes that the Acquisition and the Project will further strengthen the Group's environmental protection business and the terms of the transactions under the Asset Transfer Agreement and other related agreements (which are determined with reference to, among other things, the valuation conducted on the Transferred Assets within a period of 12 months, the discount offered by the Transferor, the ability for the Group to be exposed to a market with potential, to utilize the Transferred Assets which can commence commercial operations in the short term and to charge service fees based on volume) are in normal commercial terms, fair and reasonable and in the interests of the shareholders of the Company as a whole.

LISTING RULES IMPLICATIONS

Taking into account the consideration of RMB400,000,000 (approximately HK\$393,920,000) for the Acquisition, the Asset Transfer Agreement constitutes a discloseable transaction for the Company under Rule 14.06(2) of the Listing Rules, and will accordingly be subject to reporting and announcement under the Listing Rules but no shareholders' approval is required. A circular containing, among other things, further information on the Acquisition will be dispatched to the shareholders of the Company as soon as practicable after the publication of this announcement.

DEFINITIONS

In this announcement, unless context otherwise requires, the following expressions have the following meanings:

“Acquisition”	acquisition by the Project Company of the Transferred Assets from Jinan State-owned Assets Commission pursuant to the Asset Transfer Agreement
“Announcement”	announcement of the Company dated 23 June 2006 published pursuant to Rule 13.09(1) of the Listing Rules relating to the Cooperative Agreement
“Asset Transfer Agreement”	asset transfer agreement entered into between Jinan State-owned Assets Commission and the Project Company on 31 October 2006 in respect of the Acquisition
“Board”	board of Directors
“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 of Hong Kong Limited
“Concession Right Agreement”	concession right agreement entered into between Jinan Utilities Authority and the Project Company on 31 October 2006 in respect of the granting of an exclusive right to the Project Company to operate the Waste Water Treatment Plants during the Term
“Cooperative Agreement”	cooperative agreement entered into between Jinan State-owned Assets Commission, Jinan Utilities Authority and Everbright Water Investments on 23 June 2006 in respect of certain terms of the Acquisition and the establishment of the Project Company
“Directors”	directors of the Company
“Employee Arrangement Agreement”	employee arrangement agreement entered into between Jinan Utilities Authority and the Project Company on 31 October 2006 in respect of the arrangement for the existing employees of the Waste Water Treatment Plants
“Everbright Water Investments”	China Everbright Water Investments Limited (中國光大水務投資有限公司), a company incorporated in the British Virgin Islands and a wholly owned subsidiary of the Company
“Independent Third Parties”	third parties not connected with any director, chief executive or substantial shareholder of the Company or any of its subsidiaries or their respective associates according to the Listing Rules
“Jinan State-owned Assets Commission” or “Transferor”	濟南市人民政府國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of Jinan People's Government*)
“Jinan Utilities Authority”	濟南市市政公用事業局 (Jinan Municipal Public Utilities Authority*)
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	The People's Republic of China
“Project”	investment in the business of waste water treatment service in Jinan City, the PRC through the acquisition and operation of the Waste Water Treatment Plants and to provide waste water treatment service in certain specified areas in Jinan City pursuant to the Project Agreements

“Project Agreements”	the Asset Transfer Agreement, the Concession Right Agreement and the Waster Water Treatment Service Agreement
“Project Company” or “Transferee”	Everbright Water (Ji’nan) Limited, a wholly foreign owned enterprise with registered capital of US\$18,500,000 approximately (HK\$144,115,000) established in the PRC and wholly owned by Everbright Water Investments which shall operate as a project company to carry out the Project
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	has meaning ascribed to it under the Listing Rules
“Term”	a period of 30 years commencing from the date of completion of the transfer of the Transferred Assets pursuant to the Asset Transfer Agreement
“Transferred Assets”	assets relating to the Waste Water Treatment Plants to be transferred by Jinan state-owned Assets Commission to the Project Company pursuant to the Asset Transfer Agreement
“Waste Water Treatment Plant No. 1”	waste water treatment plant no.1 situated in Jinan City which is a state-owned asset held by the Jinan People’s Government as at the date of the Asset Transfer Agreement including all facilities and equipments in connection therewith, the assets relating to such plant were valued at approximately RMB221,716,000 (approximately HK\$218,345,917) as at 31 December 2005 by Shandong Tianyuantongtai Certified Public Accountants Company Limited, a third party independent to the Company and its associates, using the replacement cost method
“Waste Water Treatment Plant No. 2”	waste water treatment plant no.2 situated in Jinan City which is a state-owned asset held by the Jinan People’s Government as at the date of the Asset Transfer Agreement including all facilities and equipments in connection therewith, the assets relating to such plant were valued at approximately RMB231,994,000 (approximately HK\$228,467,691) as at 31 October 2005 by Shandong Xin Lianyi Certified Public Accountants Company Limited, a third party independent to the Company and its associates, using the replacement cost method
“Waste Water Treatment Plants”	Waste Water Treatment Plant No.1 and Waste Water Treatment Plant No.2
“Waste Water Treatment Service Agreement”	the waste water treatment service agreement entered into between Jinan Utilities Commission and the Project Company on 31 October 2006 in respect of the provision of waste water treatment service by the Project Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

For the purposes of illustration only and unless otherwise stated, the conversion of RMB into HK\$ is based on the exchange rate of RMB1.00 = HK\$0.9848 and the conversion of US\$ into HK\$ is based on the exchange rate of US\$1.00 = HK\$7.79. Such conversions should not be construed as a representation that the amounts in question have been, could have been or could be converted at any particular rate or at all.

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

Hong Kong, 31 October 2006

As at the date of this announcement, the Board comprises the following members:

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

Independent non-executive Directors

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

* *For identification purpose only*

“Please also refer to the published version of this announcement in The Standard.”