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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 and the proxy form to the purchaser or transferee or to the bank, a licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)**

## **CONTINUING CONNECTED TRANSACTIONS**

**Independent financial adviser to  
the Independent Board Committee and the Shareholders**



**First Shanghai Capital Limited**

A letter from the Independent Board Committee is set out on pages 16 to 17 of this circular. A letter from First Shanghai containing its advice to the Independent Board Committee and the Shareholders in connection with the Continuing Connected Transactions is set out on pages 18 to 29 of this circular.

A notice convening the EGM to be held at Concord Rooms 2-3, 8th Floor, Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong on Monday, 14 December 2009 at 10:30 a.m. is set out on pages 38 to 39 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the registered office of the Company at Room 2703, 27th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof if you so wish.

26 November 2009

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## DEFINITIONS

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

“Announcement”	announcement of the Company dated 9 November 2009 in relation to, among other things, the Continuing Connected Transactions and the Revised Caps
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“CE Water Investments”	China Everbright Water Investments Limited (formerly known as China Everbright Environmental Protection Investment Limited), a limited liability company incorporated under the laws of the British Virgin Islands, a wholly-owned subsidiary of the Company
“China Everbright Holdings”	China Everbright Holdings Company Limited (中國光大集團有限公司), a company incorporated in Hong Kong and a controlling shareholder of the Company with approximately 48.37% interest in the issued share capital of the Company
“Company”	China Everbright International Limited (中國光大國際有限公司), a company incorporated under the laws of Hong Kong, the Shares of which are listed on the Stock Exchange
“Continuing Connected Transactions”	continuing connected transactions between the Project Company and connected persons of the Company contemplated under the Waste Water Treatment Agreement and/or the Operation and Maintenance Agreement
“Directors”	the directors of the Company
“EB-VW”	EB-VW HK Holding Company Limited (formerly known as Eagle Choice Investment Limited), a limited liability company incorporated under the laws of Hong Kong on 15 October 2003, the equity interest of which is held as to 40% by Veolia Water and as to 60% by CE Water Investments

## DEFINITIONS

“EGM”	the extraordinary general meeting of the Company proposed to be held on Monday, 14 December 2009 for the purposes of considering and, if thought fit, approving, among other things, the Continuing Connected Transactions and the Revised Caps as set out in this circular
“Facilities”	existing waste water treatment plants known as “Qingdao Haibohe” and “Qingdao Maidaο” and the extension thereto (the “Extended Facilities”) upon the completion of the relevant construction works and the Leased Facilities, together with all fixed and moveable assets necessary or incidental to the construction, operation and maintenance of the Facilities and the Extended Facilities, all being located in the municipality of Qingdao, Shandong Province, the PRC
“First Shanghai”	First Shanghai Capital Limited, an independent financial adviser appointed by the Company to advise the Independent Board Committee and the Shareholders in relation to the Continuing Connected Transactions and the Revised Caps
“Group”	the Company and its subsidiaries
“Independent Board Committee”	independent committee of the Board comprises Sir David Akers Jones, Mr. Li Kwok Sing, Aubrey and Mr. Mar Selwyn, all of whom are independent non-executive Directors, formed to advise the Shareholders as to the Continuing Connected Transactions and the Revised Caps
“Latest Practicable Date”	19 November 2009, being the latest practicable date for ascertaining certain information in this circular prior to its publication
“Leased Facilities”	facilities related to the two waste water treatment plants known as “Qingdao Haibohe” and “Qingdao Maidaο” leased by Qingdao Drainage to the Project Company for the purpose of operating and maintaining the whole of the Facilities pursuant to a lease agreement dated 1 November 2003 between the parties, and such lease constitutes a <i>de minimis</i> transaction which is exempt from the reporting, announcement and independent shareholders’ approval requirements under the Listing Rules

## DEFINITIONS

“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Operation and Maintenance Agreement”	operation and maintenance agreement dated as of 1 June 2004 and entered into between the Project Company and the Operation Company pursuant to which the Project Company subcontracts the provision of operation and maintenance services in respect of the Facilities to the Operation Company
“Operation and Maintenance Annual Cap(s)”	annual maximum total amount of the transactions contemplated under the Operation and Maintenance Agreement
“Operation Company”	Qingdao Veolia Water Operating Company Limited, a Sino-foreign co-operative joint venture company established under the laws of the PRC, which is 21% owned by CE Water Investments, 78% owned by Veolia Water and 1% owned by Qingdao Drainage
“Operation Company JV Contract”	joint venture contract dated 1 November 2003 entered into between CE Water Investments, Veolia Water and Qingdao Drainage for the purpose of forming the Operation Company
“PRC”	The People’s Republic of China
“Previous Cap(s)”	maximum annual value(s) of each of the Continuing Connected Transactions for the three years ending 31 December 2009 previously approved by Guildford Limited
“Project”	the Project Company JV Contract and the Operation Company JV Contract as well as all the works and services in respect of the Facilities mentioned in the aforesaid two joint venture contracts
“Project Company”	Qingdao EB-VW Waste Water Treatment Co., Ltd., a Sino-foreign co-operative joint venture established under the laws of the PRC and owned as to 60% by EB-VW and the remaining 40% by Qingdao Drainage which shall operate as a project company to carry out the Project

## DEFINITIONS

“Project Company JV Contract”	joint venture contract dated 1 November 2003 entered into between Qingdao Drainage and EB-VW for the purpose of forming the Project Company
“Qingdao Drainage”	Qingdao Municipal Drainage Company, a State-owned company in the PRC
“Revised Cap(s)”	maximum annual value(s) of the transactions contemplated under the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the year ending 31 December 2009 and each of the Continuing Connected Transactions for the three years ending 31 December 2012 subject to the approval by the Shareholders at the EGM
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time
“Shares”	ordinary shares of the Company with par value of HK\$0.10 each
“Shareholder(s)”	registered holder(s) of shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	has meaning ascribed to it under the Listing Rules
“Veolia Asia”	Veolia Water Asia Limited, a limited liability company incorporated under the laws of Hong Kong, which is a member of the Veolia Group
“Veolia Group”	Veolia Environnement (a French company, the shares of which are listed on the Paris Stock Exchange) and its subsidiaries, with headquarters in Paris, France
“Veolia Water”	Veolia Water, a French company, which is a member of the Veolia Group
“Waste Water Treatment Agreement”	waste water treatment agreement dated as of 1 June 2004 and entered into between the Project Company and Qingdao Drainage pursuant to which the Project Company provides waste water treatment services and other related services to Qingdao Drainage

## DEFINITIONS

“Waste Water Treatment Annual Cap(s)”	annual maximum total amounts of the transactions contemplated under the Waste Water Treatment Agreement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

*For the purposes of illustration only and unless otherwise stated, the conversion of RMB into HK\$ is based on the exchange rate of RMB1.0 = HK\$1.1347. 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.*



**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

26 November 2009

*To the Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS**

**BACKGROUND**

As disclosed in the announcements of the Company dated 16 June 2004 and 19 January 2007, Qingdao Drainage and EB-VW, a non wholly-owned subsidiary of the Company, formed the Project Company for the purpose of operating and maintaining the Facilities as well as treating and processing waste water in Qingdao Municipality, Shandong Province, the PRC. The Project Company is responsible for the construction of the Extended Facilities and leasing the Leased Facilities from Qingdao Drainage for the purpose of operating and maintaining the whole of the Facilities.

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



## LETTER FROM THE BOARD

### INTRODUCTION

Reference is made to the Announcement in respect of, among other things, the continuing connected transactions contemplated under the Waste Water Treatment Agreement and the Operation and Maintenance Agreement and their respective Previous Caps, which were approved by Guildford Limited, the intermediate controlling Shareholder.

On 9 November 2009, the Board announced in the Announcement that, the annual transaction value of the transactions contemplated under each of the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the year ending 31 December 2009 will exceed the relevant Previous Cap, and therefore proposes to increase the Previous Cap in respect of each of the above transactions.

In addition, the Board announced in the Announcement that, as the Previous Caps related to the Waste Water Treatment Agreement and the Operation and Maintenance Agreement were approved for the three years ending 31 December 2009 and will be expired on 31 December 2009, the Company is, once again, required to comply with the reporting, announcement and shareholders' approval requirements under the Listing Rules for the Continuing Connected Transactions starting from 1 January 2010.

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

### THE WASTE WATER TREATMENT AGREEMENT

**Dated as of:** 1 June 2004

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

Qingdao Drainage is a substantial shareholder of the Project Company, a non wholly-owned subsidiary of the Company. As a result, Qingdao Drainage is a connected person of the Company and the transactions contemplated under the Waste Water Treatment Agreement constitute continuing connected transactions of the Company under the Listing Rules.

**Subject matter:**

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

## LETTER FROM THE BOARD

### Duration and termination:

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

In the circular of the Company dated 8 July 2004 relating to certain continuing connected transactions of the Company, the independent financial adviser appointed by the Company had opined that it is a normal business practice for the Waste Water Treatment Agreement to be of such duration, which is a period longer than three years.

### Service fee and terms of payment:

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

### Previous Caps and Revised Caps:

The table below sets out the historical amounts, the estimated amount and the Waste Water Treatment Annual Caps relating to the Waste Water Treatment Agreement for the three years ending 31 December 2009:

Year ended 31 December 2007 (RMB'000)		Year ended 31 December 2008 (RMB'000)		Year ending 31 December 2009 (RMB'000)	
Annual cap	Actual amount	Annual cap	Actual amount	Annual cap	Estimated amount
71,000	67,723	71,000	67,095	71,000	79,000

As stated in the table above, the actual amounts received by the Project Company under the Waste Water Treatment Agreement were within the Waste Water Treatment Annual Caps for the two years ended 31 December 2008. The Company has already incurred RMB65,491,000 (equivalent to approximately HK\$74,313,000) under the Waste Water Treatment Agreement for the ten months ended 31 October 2009 and expects that the annual transaction value of the transactions contemplated under the Waste Water Treatment Agreement for the year ending 31 December 2009 will exceed the relevant Previous Cap. This is mainly because under the Waste Water Treatment Agreement, the Project Company is entitled to apply for payment for price adjustments subject to the discretionary approval by the relevant PRC authorities. On 31 May 2009, the Project Company received a lump sum payment from Qingdao Drainage in respect of the adjustments for the three years ended 31 December 2008 that has significantly increased the amount of the service charge paid to the Project Company for the year ending 31 December 2009. As the Company expects that the relevant Previous Cap will be exceeded, it proposes to increase such Previous Cap to RMB79,000,000 (equivalent to approximately HK\$89,641,000), and is required under Rule 14A.36 of the Listing Rules to re-comply with Rules 14A.35(3) and (4) of the Listing Rules in respect of the increased annual cap.

## LETTER FROM THE BOARD

The Company expects that there will be a significant increase in the annual transaction values of the transactions contemplated under the Waste Water Treatment Agreement for the three years ending 31 December 2012. Accordingly, the Waste Water Treatment Annual Caps for the three years ending 31 December 2012 will be significantly higher than those for the preceding three years ending 31 December 2009. Such increase in transaction values is mainly caused by the expected increase in the consumer price index under an adjustment mechanism mutually agreed by the relevant parties, which would allow the Project Company to charge at a higher price, and the increase in the projected volume of waste water to be treated for the three years ending 31 December 2012.

In light of the above, the Company proposes that the Waste Water Treatment Annual Caps for the three years ending 31 December 2012 should be RMB80,000,000 (equivalent to approximately HK\$90,776,000), RMB98,000,000 (equivalent to approximately HK\$111,201,000) and RMB108,000,000 (equivalent to approximately HK\$122,548,000), respectively.

As the Waste Water Treatment Annual Caps are determined by reference to the daily maximum volume of waste water to be treated by the Facilities, the daily maximum charge rate payable by Qingdao Drainage for the waste water treatment and the expected adjustment according to an adjustment mechanism mutually agreed by the parties after an arm's length negotiation prior to the entering into of the Waste Water Treatment Agreement, the Directors (including the independent non-executive Directors) are of the view that (1) the terms of the Waste Water Treatment Agreement and the Waste Water Treatment Annual Caps for the three years ending 31 December 2012, and (2) the Revised Cap for the transactions contemplated under the Waste Water Treatment Agreement for the year ending 31 December 2009 are fair and reasonable and that (1) the terms of the Waste Water Treatment Agreement and the Waste Water Treatment Annual Caps for the three years ending 31 December 2012, and (2) the Revised Cap for the transactions contemplated under the Waste Water Treatment Agreement for the year ending 31 December 2009 are in the interests of the Company and the Shareholders as a whole.

Pursuant to Rule 14A.35 of the Listing Rules, the Continuing Connected Transactions and the Revised Cap for the year ending 31 December 2009 and the Waste Water Treatment Annual Caps for the three years ending 31 December 2012 contemplated under the Waste Water Treatment Agreement are subject to the reporting, announcement and independent shareholders' approval requirements and is also subject to the requirements of annual review by the independent non-executive Directors and the auditors of the Company in accordance with Rules 14A.37 to 14A.39 of the Listing Rules.

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

## LETTER FROM THE BOARD

### **Condition Precedent:**

The revision of (1) the Waste Water Treatment Annual Caps for the three years ending 31 December 2012 and (2) the Revised Cap for the transactions contemplated under the Waste Water Treatment Agreement for the year ending 31 December 2009 are subject to the approval by the Shareholders at the EGM.

### **THE OPERATION AND MAINTENANCE AGREEMENT**

**Dated as of:** 1 June 2004

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

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

### **Subject matter:**

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

### **Duration and termination:**

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

In the circular of the Company dated 8 July 2004 relating to certain continuing connected transactions of the Company, the independent financial adviser appointed by the Company had opined that it is a normal business practice for the Operation and Maintenance Agreement to be of such duration, which is a period longer than three years.

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

## LETTER FROM THE BOARD

### **Service fee and terms of payment:**

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

### **Previous Caps and Revised Caps:**

The table below sets out the historical amounts, the estimated amount and the Operation and Maintenance Annual Caps relating to the Operation and Maintenance Agreement for the three years ending 31 December 2009:

<b>Year ended</b> <b>31 December 2007</b> <i>(RMB'000)</i>		<b>Year ended</b> <b>31 December 2008</b> <i>(RMB'000)</i>		<b>Year ending</b> <b>31 December 2009</b> <i>(RMB'000)</i>	
<b>Annual cap</b>	<b>Actual amount</b>	<b>Annual cap</b>	<b>Actual amount</b>	<b>Annual cap</b>	<b>Estimated amount</b>
38,000	26,861	36,000	34,921	33,000	39,000

As stated in the table above, the actual amounts received by the Operation Company under the Operation and Maintenance Agreement were within the Operation and Maintenance Annual Caps for the two years ended 31 December 2008. The Company has already incurred RMB31,232,000 (equivalent to approximately HK\$35,439,000) for the ten months ended 31 October 2009 under the Operation and Maintenance Agreement and expects that the annual transaction value of the transactions contemplated under the Operation and Maintenance Agreement for the year ending 31 December 2009 will exceed the relevant Previous Cap. This is mainly because under the Operation and Maintenance Agreement, the Operation Company is entitled to apply for payment for price adjustments if the relevant PRC authorities have approved the payment for the price adjustments to the Project Company under the Waste Water Treatment Agreement. On 9 June 2009, the Operation Company received a lump sum payment from the Project Company in respect of the adjustments for the three years ended 31 December 2008 that has significantly increased the amount of the service fee paid to the Operation Company for the year ending 31 December 2009. As the Company expects that the relevant Previous Cap will be exceeded, it proposes to increase such Previous Cap to RMB39,000,000 (equivalent to approximately HK\$44,253,000), and is required under Rule 14A.36 of the Listing Rules to re-comply with Rules 14A.35(3) and (4) of the Listing Rules in respect of the increased annual cap.

The Company expects that there will be a significant increase in the annual transaction values of the transactions contemplated under the Operation and Maintenance Agreement for the three years ending 31 December 2012. Accordingly, the Operation and Maintenance Annual Caps for the three years ending 31 December 2012 will be significantly higher than those for the preceding three years ending 31 December

## LETTER FROM THE BOARD

2009. Such increase in transaction value is mainly caused by the expected increase of the consumer price index under an adjustment mechanism mutually agreed by the relevant parties, which would allow the Operation Company to charge at a higher price and the expected increase in the projected volume of waste water to be treated for the three years ending 31 December 2012. The Company proposes that the Operation and Maintenance Annual Caps for the three years ending 31 December 2012 should be RMB38,000,000 (equivalent to approximately HK\$43,119,000), RMB43,000,000 (equivalent to approximately HK\$48,792,000) and RMB54,000,000 (equivalent to approximately HK\$61,274,000), respectively.

As the Operation and Maintenance Annual Caps are determined by reference to the daily maximum volume of the waste water to be treated by the Facilities, the daily maximum charge rate payable by the Project Company for the waste water treatment and the expected adjustment according to an adjustment mechanism mutually agreed by the parties after an arm's length negotiation prior to the entering into of the Waste Water Treatment Agreement and the Operation and Maintenance Agreement, the Directors (including the independent non-executive Directors) are of the view that (1) the terms of the Operation and Maintenance Agreement and the Operation and Maintenance Annual Caps for the three years ending 31 December 2012, and (2) the Revised Cap for the transactions contemplated under the Operation and Maintenance Agreement for the year ending 31 December 2009 are fair and reasonable and that (1) the terms of the Operation and Maintenance Agreement and the Operation and Maintenance Annual Caps for the three years ending 31 December 2012, and (2) the Revised Cap for the transactions contemplated under the Operation and Maintenance Agreement for the year ending 31 December 2009 are in the interests of the Company and the Shareholders as a whole.

Pursuant to Rule 14A.35 of the Listing Rules, the Continuing Connected Transactions and the Revised Cap for year ending 31 December 2009 and Operation and Maintenance Annual Caps for the three years ending 31 December 2012 contemplated under the Operation and Maintenance Agreement are subject to the reporting, announcement and independent shareholders' approval requirements and is also subject to the requirements of annual review by the independent non-executive Directors and the auditors of the Company in accordance with Rules 14A.37 to 14A.39 of the Listing Rules.

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

### **Condition Precedent:**

The revision of (1) the Operation and Maintenance Annual Caps for the three years ending 31 December 2012 and (2) the Revised Cap for the transactions contemplated under the Operation and Maintenance Agreement for the year ending 31 December 2009 are subject to the approval by the Shareholders at the EGM.

## LETTER FROM THE BOARD

### REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

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

The Directors (including the independent non-executive Directors) are of the view that (1) the terms of the Waste Water Treatment Agreement and the Waste Water Treatment Annual Caps for the three years ending 31 December 2012, (2) the terms of the Operation and Maintenance Agreement and the Operation and Maintenance Annual Caps for the three years ending 31 December 2012, and (3) the Revised Cap for the transactions contemplated under each of the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the year ending 31 December 2009 are fair and reasonable and that (1) the terms of the Waste Water Treatment Agreement and the Waste Water Treatment Annual Caps for the three years ending 31 December 2012, (2) the terms of the Operation and Maintenance Agreement and the Operation and Maintenance Annual Caps for the three years ending 31 December 2012, and (3) the Revised Cap for the transactions contemplated under each of the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the year ending 31 December 2009 are in the interests of the Company and the Shareholders as a whole.

### LISTING RULES IMPLICATIONS

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

As far as revision of the Waste Water Treatment Annual Cap and the Operation and Maintenance Annual Cap for the year ending 31 December 2009 is concerned, as one or more of the relevant percentage ratios in relation to the Revised Caps in respect of the transactions contemplated under each of the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the year ending 31 December 2009 exceed 2.5%, such Revised Caps are subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

Regarding revision of the Waste Water Treatment Annual Caps and the Operation and Maintenance Annual Caps for three years ending 31 December 2012, as one or more of the relevant percentage ratios in relation to each of the Revised Caps in respect of the transactions contemplated under each of the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the three years ending 31 December 2012 exceed 2.5%, such transactions are subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

## LETTER FROM THE BOARD

### GENERAL INFORMATION

The Group is principally engaged in the business of environmental protection investment, infrastructure operation and project management in the PRC.

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

The Veolia Group is one of the world leaders in water services and one of the leading designers and suppliers of water treatment facilities, equipment and systems for the industrial and commercial sectors. With headquarters in Paris, France, the Veolia Group operates worldwide and offers a comprehensive range of water and waste water management services, including turnkey plants and systems, refurbishment, equipment, operations and maintenance and outsourcing.

### EGM

The Company will convene the EGM, among other things,

- (a) to consider and approve the terms of the Waste Water Treatment Agreement and the Waste Water Treatment Annual Caps for the three years ending 31 December 2012;
- (b) to consider and approve the terms of the Operation and Maintenance Agreement and the Operation and Maintenance Annual Caps for the three years ending 31 December 2012; and
- (c) to consider and approve the Revised Cap for the transactions contemplated under each of the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the year ending 31 December 2009.

A notice convening the EGM is set out on pages 38 to 39 of this circular. The EGM will be held at Concord Rooms 2-3, 8th Floor, Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong on Monday, 14 December 2009 at 10:30 a.m..

Pursuant to Rule 13.39(4) of the Listing Rules, the votes of Shareholders taken at the EGM must be taken on poll.

As no Shareholders have any interest in each of the Waste Water Treatment Agreement and the Operation and Maintenance Agreement, no Shareholders are required to abstain from voting for approving the Continuing Connected Transactions and the Revised Caps at the EGM.

### INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising Sir David Akers Jones, Mr. Li Kwok Sing, Aubrey and Mr. Mar Selwyn, all of whom are independent non-executive Directors, has been established to advise the Shareholders in relation to the Continuing Connected Transactions and the Revised Caps.



## LETTER FROM THE BOARD

### INDEPENDENT FINANCIAL ADVISER

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

### RECOMMENDATIONS

Your attention is drawn to the advice of the Independent Board Committee set out in its letter on pages 16 to 17 of this circular which contains its recommendations to the Shareholders on the Continuing Connected Transactions and the Revised Caps.

Your attention is also drawn to the letter of advice from First Shanghai, which are set out on pages 18 to 29 in this circular, to the Independent Board Committee and the Shareholders in respect of the Continuing Connected Transactions and the Revised Caps.

The Independent Board Committee, having taken into account of the advice of First Shanghai, considered (1) the terms of the Waste Water Treatment Agreement and the Waste Water Treatment Annual Caps for the three years ending 31 December 2012, (2) the terms of the Operation and Maintenance Agreement and the Operation and Maintenance Annual Caps for the three years ending 31 December 2012, and (3) the Revised Cap for the transactions contemplated under each of the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the year ending 31 December 2009 are in the best interests of the Company and the Shareholders as a whole.

Accordingly, the Independent Board Committee recommends the Shareholders to vote in favour of the resolutions to approve (1) the terms of the Waste Water Treatment Agreement and the Waste Water Treatment Annual Caps for the three years ending 31 December 2012, (2) the terms of the Operation and Maintenance Agreement and the Operation and Maintenance Annual Caps for the three years ending 31 December 2012, and (3) the Revised Cap for the transactions contemplated under each of the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the year ending 31 December 2009.

### ADDITIONAL INFORMATION

Your attention is also drawn to the general information as set out in the Appendix of 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)**

26 November 2009

*To the Shareholders*

Dear Sir or Madam,

#### CONTINUING CONNECTED TRANSACTIONS

We refer to the circular of the Company dated 26 November 2009 (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 Waste Water Treatment Agreement and the Operation and Maintenance Agreement were entered into between the Project Company and connected persons of the Company. Accordingly, the transactions contemplated under the Waste Water Treatment Agreement and the Operation and Maintenance Agreement are continuing connected transactions for the Company under Chapter 14A of the Listing Rules. The Continuing Connected Transactions are subject to the reporting, announcement and independent shareholders’ approval requirements.

As the annual transaction value of the transactions contemplated under each of the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the year ending 31 December 2009 will exceed the relevant Previous Cap, the Company proposes to increase such Previous Cap under each of the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the year ending 31 December 2009.

As the Previous Caps related to the Waste Water Treatment Agreement and the Operation and Maintenance Agreement were approved for the three years ended 31 December 2009 and will be expired on 31 December 2009, the Company is, once again, required to comply with the reporting, announcement and independent shareholders’ approval requirements under the Listing Rules for the Continuing Connected Transactions starting from 1 January 2010.

As no Shareholders have any interest in each of the Waste Water Treatment Agreement and the Operation and Maintenance Agreement, no Shareholders are required to abstain from voting for approving the Continuing Connected Transactions contemplated thereunder and the Revised Caps at the EGM.

## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We have been appointed as the members of the Independent Board Committee to consider the Continuing Connected Transactions and to advise the Shareholders as to the fairness and reasonableness of (1) the terms of the Waste Water Treatment Agreement and the Waste Water Treatment Annual Caps for the three years ending 31 December 2012, (2) the terms of the Operation and Maintenance Agreement and the Operation and Maintenance Annual Caps for the three years ending 31 December 2012, and (3) the Revised Cap for the transactions contemplated under each of the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the year ending 31 December 2009. 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 Waste Water Treatment Agreement and the Operation and Maintenance Agreement; and (ii) the letter from First Shanghai to the Independent Board Committee and the Shareholders which contains its opinion in respect of (1) the terms of the Waste Water Treatment Agreement and the Waste Water Treatment Annual Caps for the three years ending 31 December 2012, (2) the terms of the Operation and Maintenance Agreement and the Operation and Maintenance Annual Caps for the three years ending 31 December 2012, and (3) the Revised Cap for the transactions contemplated under each of the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the year ending 31 December 2009 as set out on pages 18 to 29 of the Circular.

After taking into consideration the advice from First Shanghai, we concur with the views of First Shanghai and consider that the Continuing Connected Transactions (including the Waste Water Treatment Annual Caps and the Operation and Maintenance Annual Caps for the three years ending 31 December 2012) and the Revised Caps for the year ending 31 December 2009 are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Shareholders are concerned. We recommend that the Shareholders should vote in favour of the resolutions to approve (1) the terms of the Waste Water Treatment Agreement and the Waste Water Treatment Annual Caps for the three years ending 31 December 2012, (2) the terms of the Operation and Maintenance Agreement and the Operation and Maintenance Annual Caps for the three years ending 31 December 2012, and (3) the Revised Cap for the transactions contemplated under each of the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the year ending 31 December 2009 at the EGM.

Yours faithfully,

**Independent Board Committee**

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

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

**MAR Selwyn**  
*Independent Non-executive  
Director*

## LETTER FROM FIRST SHANGHAI

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



### FIRST SHANGHAI CAPITAL LIMITED

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

26 November 2009

To the Independent Board Committee  
and the Shareholders

China Everbright International Limited  
Room 2703, 27th Floor  
Far East Finance Centre  
16 Harcourt Road  
Hong Kong

Dear Sir or Madam,

### CONTINUING CONNECTED TRANSACTIONS

#### INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Shareholders on (i) the Revised Caps for the continuing connected transactions under the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the year ending 31 December 2009; and (ii) the terms of the Waste Water Treatment Agreement and the Operation and Maintenance Agreement and the transactions contemplated thereunder including the Revised Caps for the three years ending 31 December 2012, details of which are set out in the circular of the Company dated 26 November 2009 (the "Circular") to the Shareholders of which this letter forms a part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Circular.

Reference is made to the circular of the Company dated 9 February 2007 (the "Previous Circular") in relation to the Continuing Connected Transactions for the three years ending 31 December 2009 and the relevant Previous Caps, which were approved by Guildford Limited, the intermediate controlling Shareholder. The Company expects that the annual transaction values of the transactions contemplated under the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the year ending 31 December 2009 will exceed the relevant Previous Caps, and therefore proposes to

## LETTER FROM FIRST SHANGHAI

increase the Previous Caps in respect of each of the above transactions. In addition, as the Previous Caps relating to the Waste Water Treatment Agreement and the Operation and Maintenance Agreement which were approved for the three years ending 31 December 2009 will expire on 31 December 2009, the Company is required to comply with the reporting, announcement and independent shareholders' approval requirements under the Listing Rules again for the Continuing Connected Transactions starting from 1 January 2010. As no Shareholders have any interest in each of the Waste Water Treatment Agreement and the Operation and Maintenance Agreement, no Shareholders are required to abstain from voting to approve the Continuing Connected Transactions contemplated under the Waste Water Treatment Agreement and the Operation and Maintenance Agreement and the Revised Caps in the EGM.

The Independent Board Committee, comprising the independent non-executive Directors, namely Sir David Akers-Jones, Mr. Li Kwok Sing, Aubrey and Mr. Mar Selwyn, has been established to advise the Shareholders on the Continuing Connected Transactions and the Revised Caps. We, First Shanghai Capital Limited, have been appointed to advise the Independent Board Committee and the Shareholders in this regard.

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

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In formulating our opinion, we have considered the following principal factors and reasons:

#### **1. Background to and reasons for the entering into of the Waste Water Treatment Agreement and the Operation and Maintenance Agreement**

As disclosed in the circular of the Company dated 8 July 2004 and the Previous Circular, EB-VW, a non wholly-owned subsidiary of the Company, and Qingdao Drainage formed the Project Company for the purpose of operating and maintaining the Facilities, and treating and processing waste water in Qingdao Municipality,

## LETTER FROM FIRST SHANGHAI

Shandong Province, the PRC. The Project Company and Qingdao Drainage entered into the Waste Water Treatment Agreement on 1 June 2004, pursuant to which the Project Company will provide Qingdao Drainage with design, construction, maintenance and operation services for waste water treatment facilities and the provision of waste water treatment services in Qingdao, the PRC. In addition, CE Water Investments, a wholly-owned subsidiary of the Company, Veolia Water and Qingdao Drainage formed the Operation Company to act as the contractor of the Project Company for (i) the operation and maintenance of the Facilities; (ii) treating and processing waste water in Qingdao Municipality, Shandong Province, the PRC; and (iii) other services as provided in the Operation and Maintenance Agreement. The Project Company and the Operation Company entered into the Operation and Maintenance Agreement on 1 June 2004, pursuant to which the Operation Company will provide the Project Company with operation and maintenance services in respect of the Project.

The Group has been focusing on the environmental protection business since 2002. Currently, the Group is principally engaged in environmental protection investment, infrastructure operation and project management in the PRC. As stated in the annual report of the Company for the year ended 31 December 2008 (the "Annual Report") and the interim report of the Company for the six months ended 30 June 2009, the Group's environmental water project construction and operation business accounted for approximately 47.8% and 62.5% of the Group's total turnover for the year ended 31 December 2008 and the six months ended 30 June 2009 respectively.

As mentioned in the "Letter from the Board" in the Circular, to the best of the Company's knowledge, information and belief and having made all reasonable enquiries, Qingdao Drainage is a State-owned company and is principally engaged in the investment in, construction of, and management of, waste water treatment facilities in Qingdao Municipality, Shandong Province, the PRC.

As set out in the "Letter from the Board" in the Circular, the Veolia Group is one of the world leaders in water services and one of the leading designers and suppliers of water treatment facilities, equipment and systems for the industrial and commercial sectors. With headquarters in Paris, France, the Veolia Group operates worldwide and offers a comprehensive range of water and waste water management services, including turnkey plants and systems, refurbishment, equipment, operations and maintenance and outsourcing.

Having considered that (i) the environmental water project construction and operation business is one of the major business segments of the Group; (ii) the advantages of having Qingdao Drainage and Veolia Group as the Group's partners in waste water treatment business; and (iii) the continuation of the transactions under the Waste Water Treatment Agreement and the Operation and Maintenance Agreement are essential for the continuous operation of the Project Company and the Operation Company, we consider the Waste Water Treatment Agreement and the Operation and Maintenance Agreement are carried out in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole.

## LETTER FROM FIRST SHANGHAI

### 2. The Revised Caps for the year ending 31 December 2009

The following is a summary of (i) the actual transaction amounts for the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the two years ended 31 December 2008 and the ten months ended 31 October 2009, (ii) the Previous Caps for the three years ending 31 December 2009, and (iii) the Revised Caps for the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the year ending 31 December 2009:

	Year ended 31 December 2007		Year ended 31 December 2008		Year ending 31 December 2009		
	Actual amount  <i>RMB'000</i>	Previous Cap  <i>RMB'000</i>	Actual amount  <i>RMB'000</i>	Previous Cap  <i>RMB'000</i>	Actual amount  <i>RMB'000</i>	Previous Cap  <i>RMB'000</i>	Revised Cap  <i>RMB'000</i>
<b>Waste Water Treatment Agreement</b>	67,723	71,000	67,095	71,000	65,491 <i>(note)</i>	71,000	79,000
<b>Operation and Maintenance Agreement</b>	26,861	38,000	34,921	36,000	31,232	33,000	39,000

*Note:* For the ten months ended 31 October 2009

As mentioned in the “Letter from the Board” in the Circular, the Project Company is entitled to apply for price adjustments subject to the discretionary approval by the relevant PRC authorities under the Waste Water Treatment Agreement, and the Operation Company is entitled to apply for payment for the price adjustments if the Project Company obtained approval from the relevant PRC authorities for the price adjustments. On 31 May 2009 and 9 June 2009, the Project Company and the Operation Company received the lump sum payments from Qingdao Drainage and the Project Company respectively in respect of the price adjustments for the three years ended 31 December 2008. As a result of the receipt of such lump sum payments, the Company expects that the annual transaction amounts for the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the year ending 31 December 2009 will exceed the relevant Previous Caps, and proposes to increase the Previous Caps for the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the year ending 31 December 2009 to RMB79,000,000 and RMB39,000,000 respectively.

## LETTER FROM FIRST SHANGHAI

In analyzing the Revised Caps for the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the year ending 31 December 2009, we have discussed with the management of the Group the relevant bases and understood that they were determined after considering:

- (i) the actual transaction amounts for the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the two years ended 31 December 2008 and the ten months ended 31 October 2009;
- (ii) the amount of the lump sum payments received from Qingdao Drainage and from the Project Company in respect of the price adjustments for the three years ended 31 December 2008; and
- (iii) the estimated transaction amounts for the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the two months ending 31 December 2009.

In evaluating the Revised Caps for the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the year ending 31 December 2009, we have reviewed:

- (i) the actual transaction amounts for the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the two years ended 31 December 2008 and the ten months ended 31 October 2009;
- (ii) a report prepared by certified public accountants in the PRC in respect of the calculation of adjustment factors under the terms of the Waste Water Treatment Agreement and the Operation and Maintenance Agreement;
- (iii) the calculation of the lump sum payments in respect of the price adjustments for the three years ended 31 December 2008 received by the Project Company and the Operation Company; and
- (iv) the bases in arriving at the estimated transaction amounts for the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the two months ending 31 December 2009.

We noted that (i) the calculation of the lump sum payment which received by the Project Company and the Operation Company in respect of the price adjustments for the three years ended 31 December 2008 is calculated in accordance with the terms of the Waste Water Treatment Agreement and the Operation and Maintenance Agreement; and (ii) the estimated transaction amounts for the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the two months ending 31 December 2009 is based on the designed daily capacity of the Facilities (the "Designed Daily Volume") with a 10% buffer to cater for the volume of waste water treated in excess of the Designed Daily Volume and the current applicable service charge pursuant to the terms of the Waste Water Treatment Agreement and the Operation and Maintenance Agreement. In this



regards, we have reviewed the average daily volume of waste water treated by the Facilities for the ten months ended 31 October 2009 and noted that the average of the daily volume of waste water treated by the Facilities for the ten months ended 31 October 2009 amounted to approximately 84% of the Designed Daily Volume and the usage of the Facilities has once exceeded the Designed Daily Volume during the ten months ended 31 October 2009. Having considered that (i) the Facilities have been used close to and once exceeded its Designed Daily Volume, and (ii) the buffer included in the Revised Caps (a) provides flexibility for the Project Company and the Operation Company to provide services to Qingdao Drainage and the Project Company, pursuant to the terms of the Waste Water Treatment Agreement and the Operation and Maintenance Agreement, respectively; and (b) the services provided under the Waste Water Treatment Agreement and the Operation and Maintenance Agreement are in revenue nature to the Project Company and the Operation Company respectively which in turn is beneficial to the Group, we consider that it is reasonable for the Revised Caps for the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the two months ending 31 December 2009 being based on the Designed Daily Volume with a 10% buffer.

Based on the bases and assumptions on which the Revised Caps for the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the year ending 31 December 2009 were determined as described above, we are of the view that the Revised Caps for the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the year ending 31 December 2009 are fair and reasonable.

**3. Principal terms of the Waste Water Treatment Agreement and the Operation and Maintenance Agreement**

*I. Pricing policies under the Waste Water Treatment Agreement and the Operation and Maintenance Agreement*

Pursuant to the terms of the Waste Water Treatment Agreement, Qingdao Drainage shall pay the Project Company a waste water treatment service charge (the "Service Charge") for the provision of services under the Waste Water Treatment Agreement. Pursuant to the terms of the Operation and Maintenance Agreement, the Project Company shall pay the Operation Company an operation and maintenance fee (the "Operation and Maintenance Fee") for the provision of services under the Operation and Maintenance Agreement.

The Service Charge and the Operation and Maintenance Fee both consist of a base service charge (the "Base Service Charge") and a basic fee (the "Basic Fee") minus or plus any adjustments (in accordance with the terms of the Waste Water Treatment Agreement and the Operation and Maintenance Agreement) respectively. The Base Service Charge and the Basic Fee are calculated based on (i) the projected volume of waste water to be treated as stated in the Waste Water Treatment Agreement and the Operation and Maintenance Agreement (the "Projected Daily Volume"); and (ii) the daily treatment charge per cubic meter (the "Daily Treatment Charge") for the Base Service Charge and the daily service fee per cubic meter (the "Daily Service Fee") for the Basic Fee which are adjustable depending on a number of factors

## LETTER FROM FIRST SHANGHAI

including, among others, change in electricity price paid by the Project Company and the Operation Company, change in average wages in the Stated-owned companies in Qingdao, the Project Company and the Operation Company, change in chemicals price paid by the Project Company and the Operation Company, change in the price consumer index in Qingdao, and the change in exchange rate of RMB.

According to the Waste Water Treatment Agreement and the Operation and Maintenance Agreement, the Projected Daily Volume for the three years ending 31 December 2012 are 170,000 cubic meter, 200,000 cubic meter and 200,000 cubic meter respectively. In excess of the Projected Daily Volume, an adjusted treatment charge (the “Adjusted Treatment Charge”) and an adjusted service fee (the “Adjusted Service Fee”) will be applied under the Waste Water Treatment Agreement and the Operation and Maintenance Agreement respectively for such volume of waste water being treated. The Adjusted Treatment Charge and the Adjusted Service Fee are also adjustable on the same bases with that of the Daily Treatment Charge and the Daily Service Fee respectively. The table below shows a summary of the Projected Daily Volume, the Daily Treatment Charge, the Daily Treatment Charge after price adjustment, the Adjusted Treatment Charge, the Adjusted Treatment Charge after price adjustment, the Daily Service Fee, the Daily Service Fee after price adjustment, the Adjusted Service Fee and the Adjusted Service Fee after price adjustment from 2007 to 2012:

Year	Waste Water Treatment Agreement					Operation and Maintenance Agreement			
	Projected Daily Volume <i>Cubic meter</i>	Daily Treatment Charge	Daily Treatment Charge after price adjustment	Adjusted Treatment Charge	Adjusted Treatment Charge after price adjustment	Daily Service Fee	Daily Service Fee after price adjustment	Adjusted Service Fee	Adjusted Service Fee after price adjustment
		<i>RMB/ cubic meter</i>	<i>RMB/ cubic meter</i>	<i>RMB/ cubic meter</i>	<i>RMB/ cubic meter</i>	<i>RMB/ cubic meter</i>	<i>RMB/ cubic meter</i>	<i>RMB/ cubic meter</i>	<i>RMB/ cubic meter</i>
2007	150,000	1.00	1.04	0.24	0.25	0.350	0.364	0.14	0.15
2008	170,000	1.06	1.11	0.24	0.25	0.533	0.558	0.24	0.25
2009	170,000	1.06	1.11	0.24	0.25	0.501	0.525	0.24	0.25
2010	170,000	1.06	-	0.24	-	0.456	-	0.24	-
2011	200,000	1.06	-	0.24	-	0.437	-	0.24	-
2012	200,000	1.06	-	0.24	-	0.505	-	0.24	-

As advised by the management of the Group, the Designed Daily Volume is 220,000 cubic meter. Assume that the volume of waste water being treated reaches the Designed Daily Volume, the average daily treatment charge per cubic meter under the Waste Water Treatment Agreement (before price adjustment on the Daily Treatment Charge and the Adjusted Treatment Charge) (the “Average Daily Treatment Charge”) will be approximately RMB0.87, RMB0.99 and RMB0.99 for the three years ending 31 December 2012 respectively; while the average daily service fee per cubic meter under the Operation and Maintenance Agreement (before price adjustment on the Daily Service Fee and the Adjusted Service Fee) (the “Average Daily Service Fee”) will be approximately RMB0.407, RMB0.419 and RMB0.481 for the three years ending 31 December 2012 respectively.

## LETTER FROM FIRST SHANGHAI

To assess the fairness and reasonableness on the treatment charges per cubic meter under the Waste Water Treatment Agreement, we have identified nine waste water treatment plants operated in the PRC (the “Comparable Plants”) by the companies whose shares are listed on the Stock Exchange. Among the nine Comparable Plants, seven of them, namely the three waste water treatment plants in Zibo (the “Zibo Southern Plant”, “Zibo Northern Plant” and the “Zibo High-tech Zone Plant”), the waste water treatment plant in Boxing (the “Boxing Plant”), the two waste water treatment plants in Jinan (the “Jinan No.1 Plant” and the “Jinan No.2 Plant) and the waste water treatment plant in Jiangyin (the “Jiangyin Plant”) are operated by the Group and the information of which are provided by the Group. For the waste water treatment plant in Taiyuan (the “Taiyuan Plant”) operated by Interchina Holdings Company Limited and the waste water treatment plant in Xian (the “Xian Plant”) operated by Tianjin Capital Environmental Protection Company Limited, the information is obtained from the website of the Stock Exchange.

Province/city	Comparable Plants	Daily treatment charge per cubic meter RMB
Shandong/Zibo	Zibo Southern Plant <i>(note 1)</i>	0.980
Shandong/Zibo	Zibo Northern Plant <i>(note 1)</i>	0.980
Shandong/Zibo	Zibo High-tech Zone Plant <i>(note 1)</i>	0.950
Shandong/Boxing	Boxing Plant <i>(note 1)</i>	0.900
Shandong/Jinan	Jinan No.1 Plant <i>(note 1)</i>	1.012
Shandong/Jinan	Jinan No.2 Plant <i>(note 1)</i>	1.012
Jiangsu/Jiangyin	Jiangyin Plant <i>(note 2)</i>	2.520
Shanxi/Taiyuan	Taiyuan Plant	0.998
Shanxi/Xian	Xian Plant	0.800
<b>Maximum</b>		2.520
<b>Average</b>		1.128
<b>Minimum</b>		0.800
<b>Shandong/Qingdao</b>	<b>The Facilities</b>	
	<b>Daily Treatment Charge for the three years ending 31 December 2012</b>	<b>1.06</b>
	<b>Average Daily Treatment Charge for the year ending 31 December 2010</b>	<b>0.87</b>
	<b>Average Daily Treatment Charge for the two years ending 31 December 2012</b>	<b>0.99</b>

*Notes:*

1. Wholly owned by the Company
2. Not wholly-owned by the Company

## LETTER FROM FIRST SHANGHAI

As shown in the table above, the daily treatment charges of the Comparable Plants range from RMB0.80 to RMB2.52 per cubic meter, with an average daily treatment charge of approximately RMB1.128 per cubic meter. The Daily Treatment Charge for the three years ending 31 December 2012 of RMB1.06, the Average Daily Treatment Charge for the year ending 31 December 2010 of RMB0.87 and the Average Daily Treatment Charge for the two years ending 31 December 2012 of RMB0.99 are all within the range of the Comparable Plants. Having considered the above, we consider the pricing policies under the Waste Water Treatment Agreement fair and reasonable.

To assess the fairness and reasonableness on the service fee per cubic meter under the Operation and Maintenance Agreement, we have discussed with the management of the Group the bases for the Daily Service Fee and the Adjusted Service Fee, and understood that they are determined with reference to the estimated costs to be incurred by the Operation Company for the provision of the operation and maintenance services under the Operation and Maintenance Agreement.

Under the Operation and Maintenance Agreement, the Project Company subcontracts the operation and maintenance services in respect of the Facilities under the Waste Water Treatment Agreement to the Operation Company. The setup of the Project Company and the Operation Company, the entering into of the Waste Water Treatment Agreement, the Operation and Maintenance Agreement and other related agreements all represent an essential part of the overall business model in relation to the operation of the Facilities. In addition, as mentioned in the circular of the Company dated 8 July 2004, the Operation Company was formed principally for the purpose as the contractor of the Project Company. At the time of the establishment of the Project Company and the Operation Company on 1 November 2003, Veolia Water, the controlling shareholder of the Operation Company, had not yet become a connected party of the Group. Having considered the above, in particular the independence of Veolia Water at the time of the establishment of the Operation Company, we are of the opinion that the pricing policies under the Operation and Maintenance Agreement is fair and reasonable. We are also advised by the management of the Group that none of the major terms under the Operation and Maintenance Agreement, including but not limited to the Daily Service Fee and the Adjusted Service Fee, were changed or revised after the signing of the Operation and Maintenance Agreement on 1 June 2004.

### *II. Payment terms under the Waste Water Treatment Agreement and the Operation and Maintenance Agreement*

Regarding the payment terms, according to the Waste Water Treatment Agreement and the Operation and Maintenance Agreement, the Service Charge and the Operation and Maintenance Fee should be paid in cash on a monthly basis. As stated in the Annual Report, debts of the Group are usually due within 30 days from the date of billing, which are comparable to the payment terms of the Waste Water Treatment Agreement and the Operation and Maintenance Agreement.

## LETTER FROM FIRST SHANGHAI

Based on the above analysis, we are of the view that the pricing policies and payment terms of the Waste Water Treatment Agreement and the Operation and Maintenance Agreement are fair and reasonable.

#### 4. The Revised Caps for the three years ending 31 December 2012

The following is a summary of (i) the actual transaction amounts for the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the two years ended 31 December 2008 and the ten months ended 31 October 2009, and (ii) the Revised Caps for the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the four years ending 31 December 2012:

	Actual transaction amounts			Revised Caps			
	For the year ended		For	For the year ending 31 December			
	31 December	2008	the ten	2009	2010	2011	2012
	2007	RMB'000	months	RMB'000	RMB'000	RMB'000	RMB'000
Waste Water Treatment Agreement	67,723	67,095	ended	79,000	80,000	98,000	108,000
Operation and Maintenance Agreement	26,861	34,921	ended	39,000	38,000	43,000	54,000

We understand from the management of the Group that the Revised Caps for the Waste Water Treatment Agreement and the Operation and Maintenance Agreement were determined principally based on (i) the daily maximum volume of waste water to be treated by the Facilities; (ii) the Daily Treatment Charge, the Adjusted Treatment Charge, the Daily Service Fee and the Adjusted Service Fee; and (iii) the expected price adjustments according to the adjustment mechanism mutually agreed by the parties after arm's length negotiation prior to the entering into of the Waste Water Treatment Agreement and the Operation and Maintenance Agreement.

In evaluating the Revised Caps for the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the three years ending 31 December 2012, we have discussed with the management of the Group and understood that the daily maximum volume of waste water to be treated by the Facilities is based on the Designed Daily Volume of the Facilities with a 10% buffer to cater for the volume of waste water would be treated in case it is above the Designed Daily Volume. In this regards, we have reviewed the average daily volume of waste water treated by the Facilities for the ten months ended 31 October 2009 and noted that the average of the daily volume of waste water treated by the Facilities for the ten months ended 31 October 2009 amounted to approximately 84% of the Designed Daily Volume and

## LETTER FROM FIRST SHANGHAI

the usage of the Facilities has once exceeded the Designed Daily Volume during the ten months ended 31 October 2009. Having considered that (i) the Facilities have been used close to and once exceeded its Designed Daily Volume, and (ii) the buffer included in the Revised Caps (a) provides flexibility for the Project Company and the Operation Company to provide services to Qingdao Drainage and the Project Company, pursuant to the terms of the Waste Water Treatment Agreement and the Operation and Maintenance Agreement, respectively; and (b) the services provided under the Waste Water Treatment Agreement and the Operation and Maintenance Agreement are in revenue nature to the Project Company and the Operation Company respectively which in turn is beneficial to the Group, we consider that it is reasonable for the Revised Caps for the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the three years ending 31 December 2012 being based on the Designed Daily Volume with a 10% buffer.

We also understood that in determining the Revised Caps for the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the three years ending 31 December 2012, the management of the Group also expects that the Daily Treatment Charge, the Adjusted Treatment Charge, the Daily Service Fee and the Adjusted Service Fee would increase by 10% annually according to the adjustment mechanism under the Waste Water Treatment Agreement and the Operation and Maintenance Agreement, which is comparable to the economic growth of the PRC for the past few years.

We noted the increases in the actual transaction amounts for the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the ten months ended 31 October 2009 which were mainly due to the receipt of the lump sum payments by the Project Company and the Operation Company from Qingdao Drainage and the Project Company respectively in respect of the price adjustments for the three years ended 31 December 2008, details of which are discussed in the section "The Revised Caps for the year ending 31 December 2009" above. In addition, we also noted that the increases in the Revised Caps for the three years ending 31 December 2012 are mainly attributable to (i) the increase in the Projected Daily Volume pursuant to the terms of the Waste Water Treatment Agreement and the Operation and Maintenance Agreement; and (ii) the expected increases in the Daily Treatment Charge and the Daily Service Fee after taking into account the adjustment mechanism under the Waste Water Treatment Agreement and the Operation and Maintenance Agreement.

Having considered that the Revised Caps for the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the three years ending 31 December 2012 are determined principally based on (i) the daily maximum volume of waste water to be treated which made reference to the Designed Daily Volume; (ii) the expected increase in the Daily Treatment Charge, the Adjusted Treatment Charge, the Daily Service Fee and the Adjusted Service Fee which made reference to the past economic growth of the PRC; and (iii) the pricing policies under the Waste Water Treatment Agreement and the Operation and Maintenance Agreement are fair and reasonable as discussed in the section "Principal terms of the Waste Water Treatment Agreement and the Operation and

## LETTER FROM FIRST SHANGHAI

Maintenance Agreement" above, we are of the view that the Revised Caps for the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the three years ending 31 December 2012 are reasonably determined. The Continuing Connected Transactions are subject to annual review by the independent non-executive Directors and the Company's auditors on, among others, the terms of the Continuing Connected Transactions and the Revised Caps not being exceeded. Such annual review shall safeguard the interests of the Shareholders.

### RECOMMENDATIONS

Having taken into account the above principal factors, we consider that the Continuing Connected Transactions, being made in the ordinary and usual course of business of the Group, are in the interests of the Company and the Shareholders as a whole, and (1) the terms of the Waste Water Treatment Agreement and the Waste Water Treatment Annual Caps for the three years ending 31 December 2012, (2) the terms of the Operation and Maintenance Agreement and the Operation and Maintenance Annual Caps for the three years ending 31 December 2012, and (3) the Revised Cap for the transactions contemplated under each of the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the year ending 31 December 2009 are on normal commercial terms and are fair and reasonable.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves advise, the Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve (1) the terms of the Waste Water Treatment Agreement and the Waste Water Treatment Annual Caps for the three years ending 31 December 2012, (2) the terms of the Operation and Maintenance Agreement and the Operation and Maintenance Annual Caps for the three years ending 31 December 2012, and (3) the Revised Cap for the transactions contemplated under each of the Waste Water Treatment Agreement and the Operation and Maintenance Agreement for the year ending 31 December 2009.

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	0.22
WONG Kam Chung, Raymond	Beneficial Owner	Personal	1,500,000	0.04
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	0.11
LI Xueming	29.09.2003	0.296	29.03.2004 – 25.05.2013 (Note 1)	18,000,000	0.50
	03.08.2006	0.850	03.08.2007 – 25.05.2013 (Note 2)	4,000,000	0.11
CHEN Xiaoping	29.09.2003	0.296	29.03.2004 – 25.05.2013 (Note 1)	16,000,000	0.44
	03.08.2006	0.850	03.08.2007 – 25.05.2013 (Note 2)	5,000,000	0.14
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	0.08
ZHANG Weiyun	29.09.2003	0.296	29.03.2004 – 25.05.2013 (Note 1)	4,000,000	0.11
	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 03 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 03 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 a 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	Beneficial Owner	1,758,595,910 (Note 1)	48.37

Notes:

1. Out of the 1,758,595,910 Shares, 1,758,215,910 Shares are held by Guildford Limited ("Guildford"). Guildford is owned as to 55% by Datten Investments Limited ("Datten") and as to 45% by China Everbright Holdings. Datten is a wholly-owned subsidiary of China Everbright Holdings. The remaining 380,000 Shares are held by Everbright Investment & Management Limited ("EIM"), a wholly-owned subsidiary of China Everbright Holdings. Accordingly, China Everbright Holdings 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 China Everbright Holdings. Ms. ZHANG Weiyun, another executive Director, is also an employee of China Everbright Holdings.
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	China Everbright Holdings	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
Everbright Water (Jiangyin) Limited <sup>#</sup>	Jiangyin City Xin Guo Lian Investment and Development Co., Ltd. <sup>##</sup>	–	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.

## For identification purpose only

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.

**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 2008, 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, the Directors are not aware of any 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.

**6. COMPETING INTEREST**

As at the Latest Practicable Date, as far as the Directors are aware, Mr. LI Xueming and Mr. FAN Yan Hok, Philip are both non-executive directors of HKC (Holdings) Limited, a company incorporated in Bermuda with limited liability, whose shares are listed on the Stock Exchange and its business activities include property development and investments, alternative energy investment and management, and infrastructure and construction, of which, property investment, infrastructure, and alternative energy investment, in particular, waste-to-energy, are considered to compete or likely to compete with the business of the Group. Although, both Mr. LI Xueming and Mr. FAN Yan Hok, Philip are non-executive directors of HKC (Holdings) Limited, they do not engage in the daily operation of HKC (Holdings) Limited and thus the Group is capable of carrying on its business independently from HKC (Holdings) Limited.

Save as disclosed above, as at the Latest Practicable Date and as 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.

## 7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2008, being the date of the latest published audited financial statements of the Company.

## 8. EXPERT

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

<b>Name</b>	<b>Qualification</b>
First Shanghai	A licensed corporation under the SFO to carry out type 6 (advising on corporate finance) regulated activity

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

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

First Shanghai does not have any direct or indirect interests in any assets which have been, since 31 December 2008 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

## 9. 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) In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

**10. 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 13 December 2009.

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

## NOTICE OF THE EGM



# CHINA EVERBRIGHT INTERNATIONAL LIMITED

## 中國光大國際有限公司

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 257)**

**NOTICE IS HEREBY GIVEN** that the extraordinary general meeting (the “EGM”) of China Everbright International Limited (the “Company”) will be held at Concord Rooms 2-3, 8th Floor, Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong on Monday, 14 December 2009 at 10:30 a.m. for the purpose of considering and, if thought fit, passing with or without modifications or amendments, the following resolutions as ordinary resolutions on a vote taken by way of poll:

### ORDINARY RESOLUTIONS

1. “**THAT** the continuing connected transactions contemplated under the Waste Water Treatment Agreement, a copy of which has been initialled by the chairman of this meeting (the “**Chairman**”) and for the purpose of identification marked as “A” together with the proposed Waste Water Treatment Annual Caps for the three years ending 31 December 2012 be and are hereby generally and unconditionally approved.”
2. “**THAT** the continuing connected transactions contemplated under the Operation and Maintenance Agreement, a copy of which has been initialled by the Chairman of this meeting and for the purpose of identification marked as “B” together with the proposed Operation and Maintenance Annual Caps for the three years ending 31 December 2012 be and are hereby generally and unconditionally approved.”
3. “**THAT** the Revised Cap for the continuing connected transactions contemplated under each of the Waste Water Treatment Agreement and the Operation Maintenance Agreement for the year ending 31 December 2009 be and is hereby generally and unconditionally approved.”

By order of the board of Directors  
**China Everbright International Limited**  
**Chen Xiaoping**  
*Chief Executive Officer*

Hong Kong, 26 November 2009

*Registered Office:*  
Room 2703, 27th Floor  
Far East Finance Centre  
16 Harcourt Road  
Hong Kong



## NOTICE OF THE EGM

*Notes:*

1. A member entitled to attend and vote at the EGM may appoint one or more proxies to attend and, on a poll, to vote in his stead. A proxy need not be a member of the Company but must be present in person to represent the member.
2. Where there are joint registered holders of any shares, any one of such persons may attend and vote at the EGM, either personally or by proxy, in respect of such shares as if he were solely entitled thereto; but if more than one of such joint holders be present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.
3. In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed on it together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of it must be returned to the registered office of the Company at Room 2703, 27th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof if you so wish.
4. The register of members of the Company will be closed from Friday, 11 December 2009 to Monday, 14 December 2009, both days inclusive, during which no transfer of shares will be registered. In order to qualify for attending the EGM, all completed transfer forms accompanied by the relevant share certificates of the Company must be lodged with the Company's share registrar, Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on Thursday, 10 December 2009.
5. Unless otherwise defined, capitalised terms used herein have the same meaning as defined in the circular dated 26 November 2009.