

CHINA EVERBRIGHT WATER LIMITED

Company Registration No.: 34074

(Incorporated in Bermuda)

THE PROPOSED ACQUISITION OF XUZHOU MUNICIPAL ENGINEERING DESIGN INSTITUTE CO., LTD.

1. INTRODUCTION

The Board of Directors (the “**Board**”) of China Everbright Water Limited (the “**Company**”) wishes to announce that:

- (i) Beijing Everbright Water Investment Management Co., Ltd. (北京光大水务投资管理有 限公司) (“**CEWL Subsidiary**”), which is an indirect wholly-owned subsidiary of the Company, has today entered into an equity stake purchase agreement (the “**Agreement**”), to acquire the entire equity interest (the “**Sale Equity**”) in Xuzhou Municipal Engineering Design Institute Co., Ltd. (徐州市市政设计院有限公司) (the “**Target**”) from the existing shareholders (the “**Sellers**”) of the Target (the “**Proposed Transaction**”);
- (ii) the Proposed Transaction constitutes a disclosable transaction as defined in Chapter 10 of the Listing Manual (the “**Listing Manual**”) of the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”), details of which are set out in paragraph 7 of this Announcement; and
- (iii) upon the completion of the Proposed Transaction (“**Completion**”), the Target will become an indirect wholly-owned subsidiary of the Company.

2. INFORMATION ON THE CEWL SUBSIDIARY AND THE TARGET

2.1 Information on the CEWL Subsidiary

The CEWL Subsidiary was incorporated in the People’s Republic of China (“**PRC**”) on 26 October 2010 as a limited company. The CEWL Subsidiary is an indirect wholly-owned subsidiary of the Company and is principally engaged in investment management.

2.2 Information on the Target

The Target, a company incorporated in PRC, is principally engaged in the survey, mapping, design and consultation of projects relating to roads, bridges, tunnels, water supply, drainage, heat, gas, electricity, construction, landscape, sanitation, highways and water conservancy, as well as the consultation of project costs, review of construction drawing, bidding agency and project management.

3. PRINCIPAL TERMS OF THE AGREEMENT

3.1 Acquisition of the Sale Equity by the CEWL Subsidiary

Under the terms of the Agreement, the Sellers shall sell, and the CEWL Subsidiary shall purchase, the Sale Equity.

3.2 Consideration

3.2.1 The sale consideration payable by the CEWL Subsidiary to the Sellers in respect of the Proposed Transaction is a fixed amount of RMB82,000,000 (equivalent to approximately HK\$101,007,600¹) in cash (the “**Consideration**”).

3.2.2 The Consideration is payable by the CEWL Subsidiary to the Sellers as follows:

- (i) an amount equivalent to 40 per cent. of the Consideration, being RMB32,800,000 (equivalent to approximately HK\$40,403,040), is payable within 10 working days from the date of the Agreement;
- (ii) an amount equivalent to 50 per cent. of the Consideration, being RMB41,000,000 (equivalent to approximately HK\$50,503,800), is payable within 10 working days from the registration of the transfer of the Sale Equity from the Sellers to the CEWL Subsidiary, on the basis that the Target does not undergo any material adverse change on or prior to the date of such payment; and
- (iii) an amount equivalent to the remaining 10 per cent. of the Consideration is payable within six months from the registration of the transfer of the Sale Equity from the Sellers to the CEWL Subsidiary and within 10 working days from the completion of certain actions by the Target, including but not limited to the closure and deregistration of certain branches of the Target.

3.2.3 The Consideration was arrived at on a negotiated, willing-buyer willing-seller basis and after taking into account (a) the assets and operating conditions of the Target, (b) the warranties and guarantees given by the Sellers, in particular, the Performance Guarantee (as defined below) and (c) the fair market value of the Sale Equity as at 31 March 2018 based on the independent valuation (the “**Valuation**”) conducted by Grant Sherman Appraisal Limited (“**Independent Valuer**”), being RMB82,001,000 (equivalent to approximately HK\$101,009,000) in amount. Please refer to paragraph 5.3 for more details on the Valuation. To determine the financial conditions of the Target, the CEWL Subsidiary also appointed an independent auditor (“**Appointed Auditor**”) to conduct an audit on the Target for the purposes of the Proposed Transaction. References to the audited consolidated financial statements² of the Target and its subsidiaries (collectively, the “**Target Group**”, and such audited

¹ All references to the Hong Kong Dollars equivalent of the relevant RMB amount in this Announcement is based on the exchange rate of RMB\$1 : HK\$1.2318.

² The audited consolidated financial statements of the Target Group do not include the profit and/or loss of the subsidiary and associated company which the Target will deregister and divest respectively before the Completion, as mentioned in paragraphs 3.5.1(vii) and 3.5.1(viii), but include the initial capital investment of the Target in such subsidiary and associated company.

consolidated financial statements, the “**Target’s Audited Consolidated Financial Statements**”) in this Announcement are to such audited consolidated financial statements of the Target Group produced by the Appointed Auditor for the purposes of the Proposed Transaction.

3.3 Uncertain Receivables and Contingent Payment

3.3.1 There are some receivables (the “**Uncertain Receivables**”) of the Target, which are due and payable to the Target as at 31 March 2018 and are estimated to be approximately RMB200,000,000 (equivalent to approximately HK\$246,360,000) in amount. There is uncertainty as to whether the Uncertain Receivables can be recovered by the Target, and therefore, the CEWL Subsidiary and the Sellers intend for the benefit of the Uncertain Receivables to be retained by the Sellers, instead of the Target and the CEWL Subsidiary. Accordingly, the Uncertain Receivables (a) have not been recognised as assets of the Target in the Target’s Audited Consolidated Financial Statements, (b) have not been taken into account in the Valuation and (c) have not been factored into the determination of the Consideration.

3.3.2 Based on the Agreement, a contingent payment of up to RMB200,000,000 (equivalent to approximately HK\$246,360,000) may be payable by the CEWL Subsidiary to the Sellers in connection with the Uncertain Receivables (“**Contingent Payment**”). The Contingent Payment (if any) will be an amount equivalent to the amount of the Uncertain Receivables recovered by the Target during the period of five years from the Completion (the “**Uncertain Receivables Recovery Period**”), less the following:

- (i) any costs suffered by the Target in the process of recovering any part of the Uncertain Receivables, calculated based on a formula specified in the Agreement (the “**Recovery Costs**”);
- (ii) any value-added tax and surcharges, corporate income tax and withholding personal income tax (including any fines or late payment fees, if any) payable by the Target (the “**Tax Expenses**”); and
- (iii) any commissions or bonuses to be paid to the employees of the Target (“**Commission Expenses**”),

(collectively, the “**Deductions**”).

3.3.3 The arrangement relating to the payment of the Contingent Payment has been incorporated into the Agreement as the Uncertain Receivables have not been factored into the determination of the Consideration. In this respect:

- (i) based on the Agreement, it is the responsibility of the Sellers to recover the Uncertain Receivables;
- (ii) in the event that the Target incurs any Recovery Costs, Tax Expenses and/or Commission Expenses in relation to the Uncertain Receivables, as mentioned in paragraph 3.3.2, the Target shall be compensated for such Recovery Costs, Tax Expenses and/or Commission Expenses incurred, which shall be deducted from the amount of Uncertain Receivables

recovered by the Target during the Uncertain Receivables Recovery Period;
and

- (iii) following the Completion, the Uncertain Receivables will not be included in the Company's consolidated financial statements.

3.3.4 The amount of Uncertain Receivables is estimated to be approximately RMB200,000,000 (equivalent to approximately HK\$246,360,000) in amount. As the amount of the Contingent Payment is equivalent to the amount of Uncertain Receivables recovered by the Target during the Uncertain Receivables Recovery Period less the amount of Deductions, the Contingent Payment is expected to not exceed RMB200,000,000 (equivalent to approximately HK\$246,360,000).

3.3.5 The Contingent Payment is payable by the CEWL Subsidiary to the Sellers on a biannual basis, in March and October of each year during the Uncertain Receivables Recovery Period.

3.4 Profits and Losses during the Pre-Completion Period

3.4.1 Based on the Agreement, subject to Completion taking place:

- (i) the CEWL Subsidiary shall be entitled to the profits of the Target for the period commencing on 31 March 2018 and ending on the date of Completion (the "**Pre-Completion Period**"); and
- (ii) the Sellers shall be liable for any losses suffered by the Target for the Pre-Completion Period and shall be obliged to pay to the Target an amount which is equivalent to such losses.

3.5 Conditions Precedent

3.5.1 Based on the Agreement, Completion is conditional on the satisfaction or waiver by the CEWL Subsidiary of the following conditions:

- (i) the representations, warranties and guarantees given by the Sellers and the Target in the Agreement are true, accurate and complete as at the date of the Agreement and the date of Completion;
- (ii) as at 31 March 2018, based on the Target's Audited Consolidated Financial Statements, the net asset value of the Target is not lower than RMB22,190,000 and the Sellers warrant that such net asset value is, amongst other things, true and effective;
- (iii) there have been no changes to the real property, land, business qualifications of the Target and in the event that the audited net asset value of the Target on Completion is lower than RMB22,190,000, the Sellers shall make good the deficit amount;
- (iv) the Target and the Sellers have obtained all internal approvals (including but not limited to shareholders' and/or directors' approvals and waivers of pre-emption rights by other shareholders of the Target) and all approvals from the government of the PRC, required for the matters contemplated under the

Agreement and other related definitive agreements;

- (v) the specified key employees of the Target have each entered into a specified form of employment agreement with the Target for a term of two years from the date of the Agreement, prior to the Completion;
- (vi) there has been no material adverse change to the assets, operations and management of the Target during the period between the date of the Agreement and the date of Completion;
- (vii) the Sellers have procured that the Target completed all procedures relating to the deregistration of a certain subsidiary of the Target, prior to Completion;
- (viii) the Sellers have procured that the Target has completed the divestment of its entire equity interest in a certain associated company of the Target and received the sale consideration in relation thereto, prior to Completion;
- (ix) the Sellers have commenced and implemented the procedures relating to the liquidation and deregistration of certain branches of the Target prior to Completion;
- (x) the Sellers have confirmed that all bonuses and commissions payable by the Target to its employees for the period up to 31 March 2018 have been distributed to the employees of the Target and have completed a proposal relating to the distribution of the bonuses and commissions relating to the collection of the Uncertain Receivables, prior to Completion;
- (xi) the Sellers and the Target have satisfied and complied with all agreements, commitments, obligations required to be satisfied or complied with prior to Completion under the Agreement and there has been no material breach of this Agreement; and
- (xii) there have been no prohibitions, or related laws or regulations in effect which may prohibit or restrict any party from fulfilling the transactions contemplated under the Agreement,

(each, a “**Condition Precedent**”).

3.6 Long Stop Date. The Conditions Precedent shall be satisfied or waived on or before 30 June 2018 (the “**Long Stop Date**”).

3.7 Completion. Completion will take place within three days following the satisfaction or waiver of all the Conditions Precedent.

3.8 Receivables Recovery Guarantee and Performance Guarantee

3.8.1 Based on the Agreement, the Sellers have given the following guarantees to the CEWL Subsidiary:

- (i) the Target shall recover on or prior to 28 February 2021, all the receivables recognised in the Target’s Audited Consolidated Financial Statements as at

31 March 2018 (being approximately RMB17,612,000 (equivalent to approximately HK\$21,694,000) in amount) (the “**Guaranteed Receivables**”), provided that the Target shall recover an amount equivalent to 80 per cent. of such receivables within two years from the date of the Agreement (the recovery guarantee of all the Guaranteed Receivables, the “**Receivables Recovery Guarantee**”).

For the avoidance of doubt, the Guaranteed Receivables are separate and distinct from the Uncertain Receivables. As there is a high probability that the Guaranteed Receivables will be recovered by the Target within a reasonable period, the Guaranteed Receivables have been recognised in the Target’s Audited Consolidated Financial Statements and have been factored in the determination of the Consideration; and

- (ii) the Target shall enter into business contracts of an aggregate value of not less than RMB55,000,000 for each calendar year during the period from 2018 to 2020, such that the aggregate value of all business contracts entered into by the Target during such period shall be not less than RMB165,000,000 (the “**Performance Guarantee**”).

3.8.2 In respect of the Receivables Recovery Guarantee, to the extent that the Target is unable to recover any part of the Guaranteed Receivables pursuant to such Receivables Recovery Guarantee:

- (i) the deficit amount shall be set off against any Contingent Payment which has not yet been paid by the CEWL Subsidiary to the Sellers; and
- (ii) in the event that there is no amount payable to the Sellers against which such deficit amount can be set off, the CEWL Subsidiary is entitled to require the Sellers to return to the CEWL Subsidiary an amount equivalent to such deficit amount in cash.

3.8.3 In respect of the Performance Guarantee, to the extent that the Target is unable to enter into business contracts of the requisite aggregate value for (i) any of the calendar year 2018, 2019 or 2020 and/or (ii) the entire period from 2018 to 2020, the Sellers shall compensate the CEWL Subsidiary certain specified amounts calculated based on the relevant formula specified in the Agreement, depending on the amount of deficit.

3.9 Termination Events and Liquidated Damages

3.9.1 Under the Agreement, the CEWL Subsidiary or the Sellers are entitled to unilaterally terminate the Agreement by way of notice in writing, upon the occurrence of one or more of the following events:

- (i) the termination, revocation, invalidation of the Agreement, or the inability of the parties to perform the principal provisions of the Agreement such that there is a serious effect on the commercial purposes of the CEWL Subsidiary or the Sellers in entering into the Agreement, as a result of any objections raised by the government authorities or securities registration and dealing authorities as to the content and/or performance of the Agreement;

- (ii) any competent government authority expresses its disagreement to any part of the Agreement and such part of the Agreement has a significant effect on the Proposed Transaction;
- (iii) any changes to the laws and regulations which are relevant to the Agreement, such that the main content of the Agreement becomes illegal, or the introduction of any governmental policies or issuance of any governmental orders, such that any party to the Agreement is unable to fulfil the main obligations under the Agreement; and
- (iv) any material breach by the CEWL Subsidiary or the Sellers, such that Completion cannot take place or that there is a serious effect on the commercial purposes of the CEWL Subsidiary or the Sellers in entering into the Agreement.

3.9.2 Further, based on the Agreement, the CEWL Subsidiary and the Sellers are entitled to terminate the Agreement in writing by mutual agreement prior to the Completion.

3.9.3 Based on the Agreement, the CEWL Subsidiary is entitled to terminate the Agreement, upon the occurrence of one or more of the following events:

- (i) any Seller does not fulfil its obligations in relation to the transfer of the Sale Equity to the CEWL Subsidiary or does not do so in a timely manner for any reason whatsoever, given that the purpose of the Agreement is to enable the CEWL Subsidiary to acquire all the Sale Equity; and
- (ii) the Sellers do not disclose, in accordance with the requirements of the CEWL Subsidiary, to, or deliberately conceal from, the CEWL Subsidiary any laws, regulations or rules relevant to the Target which has a material adverse effect on the Target. Further, in such event, the CEWL Subsidiary is entitled to require the Sellers to pay to it liquidated damages of an amount equivalent to 10 per cent. of the Consideration (the "**Liquidated Damages**") and, in the event that the Liquidated Damages is insufficient to compensate the CEWL Subsidiary for its losses suffered, require the Sellers to pay to the CEWL Subsidiary such additional amounts as may be necessary to compensate the CEWL Subsidiary for such losses suffered.

3.9.4 Based on the Agreement, in the event that either the CEWL Subsidiary or the Sellers (a) are in breach of their representations, warranties or guarantees or (b) terminate the Agreement without reason (such party, the "**Defaulting Party**"), the other party (the "**Non-Defaulting Party**") is entitled to:

- (i) terminate the Agreement; and
- (ii) require the Defaulting Party to pay to the Non-Defaulting Party the Liquidated Damages and, in the event that the Liquidated Damages is insufficient to compensate the Non-Defaulting Party for its losses suffered, require the Defaulting Party to pay to the Non-Defaulting Party such additional amounts as may be necessary to compensate the Non-Defaulting Party for such losses suffered.

4. RATIONALE FOR THE PROPOSED TRANSACTION

4.1 Rationale for the Proposed Transaction

4.1.1 The Target Company has a number of important qualifications, including but not limited to multiple grade-A qualifications for the municipal sector, grade-A qualification for the construction sector and grade-A qualification for engineering consultation.

4.1.2 The Proposed Transaction will complement the Company's capabilities in the field of municipal engineering design, enhance the efficiency of the Company's engineering design works and reduce the relevant costs, and enable the Company to undertake design projects relating to environmental water services to create a new source of profit growth.

5. FINANCIAL INFORMATION

5.1 **Book Value.** Based on the Target's Audited Consolidated Financial Statements for the quarter ended 31 March 2018, the book value of the Sale Equity is approximately RMB22,353,000 (equivalent to approximately HK\$27,535,000).

5.2 **Net Tangible Asset ("NTA") Value.** Based on the Target's Audited Consolidated Financial Statements for the quarter ended 31 March 2018, the NTA value attributable to the Sale Equity as at 31 March 2018 is approximately RMB22,275,000 (equivalent to approximately HK\$27,439,000).

5.3 **Valuation.** The CEWL Subsidiary appointed the Independent Valuer to appraise the fair market value of the Sale Equity as at 31 March 2018. Pursuant to a report dated 8 June 2018 issued by the Independent Valuer and prepared on the basis of the income approach methodology (the "**Valuation Report**"), the fair market value of the Sale Equity as at 31 March 2018 is RMB82,001,000 (equivalent to approximately HK\$101,009,000).

5.4 **Net Profits.** Based on the Target's Audited Consolidated Financial Statements for the quarter ended 31 March 2018, the net profits attributable to the Sale Equity is approximately RMB379,000 (equivalent to approximately HK\$467,000).

5.5 **Source of Funds.** The acquisition of the Sale Equity by the CEWL Subsidiary will be funded through a combination of internal cash resources and external borrowings.

6. FINANCIAL EFFECTS

6.1 Bases and Assumptions

The financial effects have been prepared based on the audited consolidated financial statements of the Company and its subsidiaries (the "**CEWL Group**") for the financial year ended 31 December 2017 ("**FY2017**"), being the most recently completed financial year for which financial statements are publicly available as at the date of this Announcement. The financial effects are for illustrative purposes only and are neither indicative of the actual financial effects of the Proposed Transaction on the NTA per ordinary share in the capital of the Company (each, a "**Share**") and earnings per Share ("**EPS**"), nor do they represent the actual financial position and/or results of the CEWL Group immediately after the Proposed

Transaction. In addition, the financial effects have also been provided based on, *inter alia*, the following assumptions:

- (i) the CEWL Subsidiary acquires all the Sale Equity at the same time; and
- (ii) the financial information of the Target Group does not include the profit and/or loss of the subsidiary and associated company which the Target will deregister and divest respectively before the Completion, as mentioned in paragraphs 3.5.1(vii) and 3.5.1(viii), but include the initial capital investment of the Target in such subsidiary and associated company.

6.2 NTA

For illustrative purposes only and assuming the Proposed Transaction had been completed on 31 December 2017, being the end of the most recently completed financial year of the CEWL Group, the pro forma financial effects on the consolidated NTA of the CEWL Group for FY2017 are as follows:

	Before the Proposed Transaction	After the Proposed Transaction
NTA (HK\$ '000)	7,266,931	7,294,283
Number of issued Shares	2,625,641,871	2,625,641,871
NTA per Share (HK\$)	2.77	2.78

6.3 EPS

For illustrative purposes only and assuming the Proposed Transaction had been completed on 1 January 2017, being the beginning of the most recently completed financial year of the CEWL Group, the pro forma financial effects on the EPS of the CEWL Group for FY2017 are as follows:

	Before the Proposed Transaction	After the Proposed Transaction
Net profit attributable to shareholders of the Company (" Shareholders ") (HK\$ '000)	513,356	518,418
Weighted average number of issued Shares	2,618,227,554	2,618,227,554
EPS (HK\$)	0.196	0.198

6.4 Share Capital

The Proposed Transaction will not have any impact on the issued and paid-up share capital of the Company.

7. DISCLOSEABLE TRANSACTION

7.1 Chapter 10 of the Listing Manual

Chapter 10 of the Listing Manual governs the continuing listing obligations of listed companies in respect of acquisitions and disposals. The relative figures of the Proposed Transaction computed on the applicable bases as set out in Rule 1006 of the Listing Manual are as follows:

Rule 1006	Bases	Relative Figures (%)
(a)	Net asset value of the assets to be disposed of, compared with the CEWL Group's net asset value	Not applicable
(b)	Net profits/(losses) attributable to the Sale Equity, compared with the CEWL Group's net profits ⁽¹⁾	0.17
(c)	The aggregate value of the consideration payable for the Sale Equity ⁽²⁾ , compared with the Company's market capitalisation based on the total number of issued shares excluding treasury shares ⁽³⁾	5.56
(d)	The number of equity securities issued by the Company as consideration for the Proposed Transaction, compared with the number of equity securities previously in issue	Not applicable

Notes:

⁽¹⁾ Under Rule 1002(3)(b) of the Listing Manual, "net profits" is defined as profit or loss before income tax, minority interest and extraordinary items.

Based on the Target's Audited Consolidated Financial Statements for the quarter ended 31 March 2018, the net profits before income tax, minority interests and extraordinary items attributable to the Sale Equity is approximately RMB379,000 (equivalent to approximately HK\$467,000). Based on the unaudited consolidated financial statements of the CEWL Group for the first quarter ended 31 March 2018 ("1QFY2018"), the CEWL Group's net profits before income tax, minority interests and extraordinary items for 1QFY2018 is approximately HK\$280,247,000.

⁽²⁾ Based on the aggregate of (i) the Consideration, being RMB82,000,000 (equivalent to approximately HK\$101,007,600) in amount and (ii) the maximum amount of the Contingent Payment, being RMB200,000,000 (equivalent to approximately HK\$246,360,000) in amount.

⁽³⁾ The market capitalisation of the Company as at the date of this Announcement is approximately S\$1,065,748,000 (equivalent to approximately RMB5,069,017,000³) and was determined by multiplying 2,625,641,871 Shares as at the date of this Announcement by the volume-weighted average market price of approximately S\$0.4059 per Share as at 12 June 2018, being the last market day on which the Shares were traded on the SGX-ST prior to the date of the Agreement.

As the relative figure computed on the bases set out in Rule 1006(c) of the Listing Manual exceeds five per cent. but does not exceed 20 per cent., the Proposed Transaction constitutes a disclosable transaction as defined in Chapter 10 of the Listing Manual.

8. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS

None of the directors of the Company or controlling Shareholders has any interest, direct or indirect, in the Proposed Transaction, save in respect of his/its shareholding (if any) in the Company.

9. DIRECTORS' SERVICE CONTRACTS

No person is proposed to be appointed as a director of the Company in connection with the Proposed Transaction. Accordingly, no service contract is proposed to be entered into between the Company and any such person.

10. DOCUMENT FOR INSPECTION

Copies of the Agreement and the Valuation Report are available for inspection during normal business hours at the registered office of the Company at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and at the Singapore office of the Company at 9 Battery Road, MYP Centre, #20-02, Singapore 049910, for a period of three months commencing from the date of this Announcement.

By Order of the Board
CHINA EVERBRIGHT WATER LIMITED

An Xuesong
Executive Director and Chief Executive Officer

Date: 13 June 2018

³ Based on the exchange rate of S\$1 : RMB4.7563.