

LETTER TO SHAREHOLDERS



CHINA EVERBRIGHT WATER LIMITED

(Company Registration No.: 34074)

(Incorporated in Bermuda)

Board of Directors

Mr Wang Tianyi (*Non-Executive Director and Chairman*)
Mr An Xuesong (*Executive Director and Chief Executive Officer*)
Mr Cai Shuguang (*Executive Director*)
Ms Xu Nailing (*Executive Director*)
Mr Zhai Haitao (*Independent Director*)
Mr Lim Yu Neng Paul (*Independent Director*)
Ms Cheng Fong Yee (*Independent Director*)
Ms Hao Gang (*Independent Director*)

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

6 April 2018

To: The Shareholders of China Everbright Water Limited (the “**Company**”)

Dear Sir/Madam

1. INTRODUCTION

1.1 We refer to:

- 1.1.1 the notice of the annual general meeting of the Company dated 6 April 2018 (the “**Notice**”), accompanying the annual report for the financial year ended 31 December 2017, convening the annual general meeting of the Company to be held on 25 April 2018 (the “**2018 AGM**”);
- 1.1.2 Ordinary Resolution No. 9 relating to the proposed renewal of the Share Buy-back Mandate (as defined below), as proposed in the Notice; and
- 1.1.3 Ordinary Resolution No. 10 relating to the proposed adoption of the IPT Mandate (as defined below), as proposed in the Notice.

1.2 Letter to Shareholders. The purpose of this letter including Appendices 1 and 2 to this letter to shareholders (collectively, the “**Letter**”), is to provide shareholders of the Company (the “**Shareholders**”) with information relating to Ordinary Resolution Nos. 9 and 10, proposed in the Notice.

1.3 SGX-ST. The Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) takes no responsibility for the accuracy of any statements made, opinions expressed or reports contained in this Letter.

1.4 Advice to Shareholders. Shareholders who are in any doubt as to the course of action they should take should consult their broker, bank manager, solicitor, accountant or other professional advisers immediately.

2. THE PROPOSED ADOPTION OF THE IPT MANDATE

2.1 The IPT Mandate. Ordinary Resolution No. 10 proposed in the Notice is to propose the adoption of a general mandate (the “**IPT Mandate**”) to enable the Company, its subsidiaries and associated companies that are entities at risk (as that term is used in Chapter 9 of the Listing Manual of the SGX-ST (the “**Listing Manual**”)) to enter into certain interested person transactions with the interested persons as set out in the IPT Mandate. Particulars of the IPT Mandate are set out in Appendix 1 to this Letter.

The IPT Mandate is expressed to take effect until the conclusion of the next annual general meeting of the Company which is scheduled to be held in 2019.

2.2 Rationale. It is envisaged that in the ordinary course of their businesses, transactions between companies in the EAR Group (as defined below) and the Company’s interested persons are likely to occur from time to time. Such transactions are necessary for the day-to-day operations of the EAR Group and would include, but are not limited to, the provision of goods, facilities and services in the ordinary course of business of the EAR Group to the Company’s interested persons or the obtaining of goods, facilities and services from them.

In particular, China Everbright Group Ltd., the Company’s indirect controlling shareholder, is a major financial holding group in China, with business presence in various industries and sectors. Its business areas include, amongst others, banking, securities, insurance, funds, trusts, futures, leasing, investment, environmental protection, hospitalism and pharmaceutical. The EAR Group may leverage on China Everbright Group Ltd.’s and its associates’ wide spectrum of businesses and rich resources to support its future development. Some of China Everbright Group Ltd.’s major subsidiaries include:

- (a) China Everbright International Limited, a one-stop integrated environmental solution provider listed on The Hong Kong Stock Exchange (“**HKSE**”);
- (b) China Everbright Limited, an investment holding company principally engaged in fund management and investment business and listed on HKSE;
- (c) China Everbright Bank Co., Ltd., a commercial bank listed on the Shanghai Stock Exchange (“**SSE**”) and HKSE;
- (d) Everbright Securities Company Limited, a securities brokerage company listed on SSE and HKSE; and
- (e) Sun Life Everbright Life Co., Ltd., an insurance company which has branches in various provinces and municipalities in China.

In view of the time-sensitive nature of commercial transactions, the adoption of the IPT Mandate pursuant to Chapter 9 of the Listing Manual will enable:

- (A) the Company;
- (B) subsidiaries of the Company (excluding subsidiaries listed on the SGX-ST or an approved exchange); and
- (C) associated companies of the Company (other than an associated company that is listed on the SGX-ST or an approved exchange) over which the Company and its subsidiaries (the “**Group**”), or the Group and interested person(s) of the Company has or have control,

(together, the “**EAR Group**”), or any of them, in the ordinary course of their businesses, to enter into the categories of transactions (“**Mandated IPTs**”) set out in paragraph 6.1 of Appendix 1 to this Letter with the Company’s interested persons set out in paragraph 5.1 of Appendix 1 to this Letter, provided such Mandated IPTs are made on normal commercial terms.

- 2.3 Benefit to Shareholders.** The IPT Mandate (and its subsequent renewal thereafter on an annual basis) will enhance the ability of companies in the EAR Group to pursue business opportunities which are time-sensitive in nature, and will eliminate the need for the Company to announce, or to announce and convene separate general meetings on each occasion to seek Shareholders' prior approval for the entry by the relevant company in the EAR Group into such transactions. This will substantially reduce the expenses associated with the convening of general meetings on an ad hoc basis, improve administrative efficacy considerably, and allow manpower resources and time to be channelled towards attaining other corporate objectives.
- 2.4 Terms of the IPT Mandate.** The IPT Mandate, including the review procedures for determining transaction prices and other general information relating to Chapter 9 of the Listing Manual, is set out in Appendix 1 to this Letter.
- 2.5 Independent Financial Adviser.** KPMG Corporate Finance Pte Ltd has been appointed as the independent financial adviser in relation to the proposed adoption of the IPT Mandate.

KPMG Corporate Finance Pte Ltd is of the opinion that the current methods and procedures for determining the transaction prices of the Mandated IPTs as set out in the section entitled "Review Procedures for Mandated IPTs" of Appendix 1 to this Letter, if applied strictly, would be sufficient to ensure that the Mandated IPTs would be carried out on normal commercial terms and would not be prejudicial to the interests of the Company and its minority Shareholders.

The letter from KPMG Corporate Finance Pte Ltd to the independent directors of the Company dated 6 April 2018 is reproduced and attached in Appendix 2 to this Letter (the "**IFA Opinion**").

KPMG Corporate Finance Pte Ltd has given and has not withdrawn its written consent to the issue of this Letter with the inclusion of its name, the IFA Opinion and all references thereto, in the form and context in which they appear in this Letter.

3. THE PROPOSED RENEWAL OF THE SHARE BUY-BACK MANDATE

- 3.1 Background.** At the Annual General Meeting of the Company held on 25 April 2017 (the "**2017 AGM**"), Shareholders had approved the renewal of the mandate to enable the Company to purchase or otherwise acquire its shares in the issued share capital of the Company (the "**Shares**") (the "**Share Buy-back Mandate**"). The authority and limitations of the Share Buy-back Mandate were set out in the letter to Shareholders dated 6 April 2017 and the ordinary resolution in the notice of the 2017 AGM. The Share Buy-back Mandate approved at the 2017 AGM was expressed to continue in force until the next annual general meeting of the Company and, as such, will be expiring on 25 April 2018, being the date of the 2018 AGM. Accordingly, Shareholders' approval is being sought for the renewal of the Share Buy-back Mandate at the 2018 AGM.
- 3.2 Market Purchases.** As at 22 March 2018, the latest practicable date prior to the printing of this Letter (the "**Latest Practicable Date**"), the Company had not purchased or acquired any Shares by way of Market Purchases in the preceding 12 months pursuant to the Share Buy-Back Mandate approved by Shareholders at the 2017 AGM.
- 3.3 Rationale.** The Share Buy-back Mandate will give the Company the flexibility to undertake purchases or acquisitions of its Shares at any time, subject to market conditions, during the period that the Share Buy-back Mandate is in force. Share purchases or acquisitions allow the Company greater flexibility over its share capital structure with a view to improving, *inter alia*, its return on equity.

It should be noted that the purchase or acquisition of Shares pursuant to the Share Buy-back Mandate will only be undertaken if it can benefit the Company and Shareholders. No purchase or acquisition of Shares will be made in the circumstances which would have or may have a material adverse effect on the financial position of the Group, and/or affect the listing status of the Company on the SGX-ST. In addition, any purchase or acquisition of its Shares has to be made in accordance with, and in the manner prescribed by the Companies Act 1981 of Bermuda (as amended) (the “**Bermuda Companies Act**”), the bye-laws of the Company (the “**Bye-laws**”), the Listing Manual and such other laws and regulations as may, for the time being, be applicable.

3.4 Authority and Limitations. The authority and limitations on the purchase or acquisition of Shares by the Company under the Share Buy-back Mandate are summarised below.

3.4.1 Maximum number of Shares

The total number of Shares which may be purchased or acquired by the Company pursuant to the Share Buy-back Mandate is limited to that number of Shares representing not more than 10 per cent. of the total number of issued Shares (excluding any Shares held by the Company as treasury shares and any Shares held by subsidiaries of the Company in the circumstances referred to in Sections 21(4), 21(4B), 21(6A) and 21(6C) of the Companies Act, Chapter 50 of Singapore (“**Singapore Companies Act**”) (“**subsidiary holdings**”)) as at the date of the 2018 AGM. Under the Listing Manual, treasury shares and subsidiary holdings are to be disregarded for purposes of computing the 10 per cent. limit.

As at the Latest Practicable Date, no Shares were held as treasury shares and there are no subsidiary holdings. Purely for illustrative purposes, on the basis that the total number of issued Shares is 2,625,641,871 as at the Latest Practicable Date and assuming that between the Latest Practicable Date and the date of the 2018 AGM (i) no new Shares are issued, (ii) no Shares are held as treasury shares, and (iii) no Shares are subsidiary holdings, then not more than 262,564,187 Shares (representing 10 per cent. of the total number of issued Shares as at that date) may be purchased or acquired by the Company pursuant to the Share Buy-back Mandate.

3.4.2 Duration of authority

Purchases or acquisitions of Shares may be made, at any time and from time to time, on and from the date of the 2018 AGM, at which the Share Buy-back Mandate is approved, up to:

- (i) the date (being a date after the 2018 AGM) on which the next annual general meeting of the Company is held or required by law to be held;
- (ii) the date (being a date after the 2018 AGM) on which the authority conferred by the Share Buy-back Mandate is revoked or varied by the Company in a general meeting; or
- (iii) the date (being a date after the 2018 AGM) on which the purchases or acquisitions of Shares pursuant to the Share Buy-back Mandate are carried out to the full extent mandated,

whichever is the earliest.

3.4.3 Manner of purchase or acquisition of Shares

Purchases or acquisitions of Shares may be made by way of:

- (i) purchase or acquisition of Shares by the Company effected on the SGX-ST, through one or more duly licensed stockbrokers appointed by the Company for the purpose (“**Market Purchases**”); and/or
- (ii) purchase or acquisition of Shares by the Company made under an equal access scheme or schemes for the purchase or acquisition of Shares from Shareholders (“**Off-Market Purchases**”).

The directors of the Company (the “**Directors**”) may impose such terms and conditions which are not inconsistent with the Share Buy-back Mandate, the Listing Manual, the Bermuda Companies Act and the Bye-laws, as they consider fit in the interests of the Company in connection with or in relation to any equal access scheme or schemes. As required under the Listing Manual, an Off-Market Purchase must, however, also satisfy all the following conditions prescribed by the Singapore Companies Act:

- (a) offers for the purchase or acquisition of Shares shall be made to every person who holds Shares to purchase or acquire the same percentage of their Shares;
- (b) all of those persons shall be given a reasonable opportunity to accept the offers made; and
- (c) the terms of all the offers shall be the same, except that there shall be disregarded:
 - (1) differences in consideration attributable to the fact that offers may relate to Shares with different accrued dividend entitlements;
 - (2) (if applicable) differences in consideration attributable to the fact that the offers relate to Shares with different amounts remaining unpaid; and
 - (3) differences in the offers introduced solely to ensure that each person is left with a whole number of Shares.

Additionally, the Listing Manual provides that, in making an Off-Market Purchase, the Company must issue an offer document to all Shareholders which must contain, *inter alia*, the following information:

- (A) the terms and conditions of the offer;
- (B) the period and procedures for acceptances;
- (C) the reasons for the proposed Share purchases;
- (D) the consequences, if any, of Share purchases by the Company that will arise under the Singapore Code on Take-overs and Mergers (the “**Take-over Code**”) or other applicable takeover rules;
- (E) whether the Share purchases, if made, would have any effect on the listing of the Shares on the SGX-ST;
- (F) details of any Share purchases made by the Company in the previous 12 months (whether Market Purchases or Off-Market Purchases), giving the total number of Shares purchased, the purchase price per Share or the highest and lowest prices paid for the purchases, where relevant, and the total consideration paid for the purchases; and
- (G) whether the Shares purchased by the Company will be cancelled or kept as treasury shares.

3.4.4 Purchase Price

The purchase price (excluding brokerage, commission, applicable goods and services tax and other related expenses) to be paid for a Share will be determined by the Directors. However, the maximum purchase price to be paid for the Shares as determined by the Directors (the “**Maximum Price**”) must not exceed:

- (i) in the case of a Market Purchase, five per cent. above the Average Closing Price; and
- (ii) in the case of an Off-Market Purchase, five per cent. above the Average Closing Price,

in either case, excluding related expenses of the purchase or acquisition. For the above purposes:

“**Average Closing Price**” means the average of the closing market prices of the Shares over the last five Market Days (as defined below) on which the Shares were transacted on the SGX-ST, before the date of the Market Purchase by the Company, or as the case may be, the date of the making of the offer pursuant to the Off-Market Purchase, and deemed to be adjusted in accordance with the listing rules of the SGX-ST for any corporate action which occurs after the relevant five-day period; and

“**date of the making of the offer**” means the date on which the Company makes an offer for an Off-Market Purchase, stating therein the purchase price (which shall not be more than the Maximum Price for an Off-Market Purchase calculated on the foregoing basis) for each Share and the relevant terms of the equal access scheme for effecting the Off-Market Purchase.

3.4.5 Solvency Test

Under the Bermuda Companies Act, no purchase by a company of its own shares may be effected if, on the date on which the purchase is to be effected, there are reasonable grounds for believing that the company is, or after the purchase would be, unable to pay its liabilities as they become due.

3.5 Status of Purchased or Acquired Shares. Under Bermuda law, the Shares purchased or acquired by the Company shall be treated as cancelled immediately upon purchase or acquisition, unless such Shares are held by the Company as treasury shares. Upon cancellation of the Shares, the total issued capital of the Company will be diminished by the nominal value of the Shares purchased or acquired by the Company. The Shares purchased or acquired by the Company shall not be taken as reducing the amount of the Company’s authorised share capital.

3.6 Treasury Shares. The Bye-laws currently do not allow for the holding of treasury shares.

3.7 Source of Funds. In purchasing or acquiring Shares pursuant to the Share Buy-back Mandate, the Company may only apply funds legally available for such purchase or acquisition in accordance with the Bye-laws and applicable laws. Under the Bermuda Companies Act, any payment made by the Company in consideration of the purchase or acquisition of its Shares may be made out of the capital paid up thereon or out of the funds of the Company which would otherwise be available for dividend or distribution or out of the proceeds of a fresh issue of Shares made for the purposes of the repurchase. The premium, if any, payable on repurchase of Shares, is to be provided for out of funds of the Company which would otherwise be available for dividend or distribution or out of the share premium account of the Company (the “**Share Premium Account**”) before the Shares are repurchased. The Company intends to use internal sources of funds, external borrowings, or a combination of internal resources and external borrowings, to finance purchases or acquisitions of its Shares. The Directors do not propose to exercise the Share Buy-back Mandate to such extent that it would materially affect the working capital requirements, financial flexibility or investment ability of the Group.

3.8 Financial Effects. The financial effects on the Group arising from purchases or acquisitions of Shares which may be made pursuant to the Share Buy-back Mandate will depend on, *inter alia*, the manner in which the purchase or acquisition is funded, the aggregate number of Shares purchased or acquired and the consideration paid at the relevant time. The financial effects on the Group based on the audited consolidated financial statements of the Group for the financial year ended 31 December 2017 (“**FY2017 Results**”) are based on the assumptions set out below.

3.8.1 Manner in which the Purchase or Acquisition is Funded

Under the Bermuda Companies Act, any payment made by the Company in consideration of the purchase or acquisition of its Shares may be made out of the capital paid up thereon or out of the funds of the Company which would otherwise be available for dividend or distribution or out of the proceeds of a fresh issue of Shares made for the purposes of the repurchase. The premium, if any, payable on repurchase of Shares, is to be provided for out of funds of the Company which would otherwise be available for dividend or distribution or out of the Share Premium Account before the Shares are repurchased.

Where any payment made by the Company in consideration of the purchase or acquisition of Shares is made out of the capital paid up thereon or out of the proceeds of a fresh issue of Shares made for the purposes of the repurchase, the amount available for declaration and payment of cash dividends by the Company will not be reduced.

Where any payment made by the Company in consideration of the purchase or acquisition of Shares is made out funds of the Company which would otherwise be available for dividend or distribution, such consideration (excluding brokerage, commission, applicable goods and services tax and other related expenses) will correspondingly reduce the amount available for declaration and payment of cash dividends by the Company.

3.8.2 Maximum Price Paid for Shares Acquired or Purchased

Based on 2,625,641,871 issued Shares as at the Latest Practicable Date, the purchase by the Company of 10 per cent. of such Shares will result in the purchase or acquisition of 262,564,187 Shares.

Assuming that the Company purchases or acquires the 262,564,187 Shares at the Maximum Price on the Latest Practicable Date, the maximum amount of funds required is approximately:

- (i) in the case of Market Purchases, S\$119,204,141 based on S\$0.454 for each Share (being the price equivalent to five per cent. above the Average Closing Price of the Shares traded on the SGX-ST over the last five days on which the SGX-ST is open for trading in securities (“**Market Days**”) preceding the Latest Practicable Date); and
- (ii) in the case of Off-Market Purchases, S\$119,204,141 based on S\$0.454 for each Share (being the price equivalent to five per cent. above the Average Closing Price of the Shares traded on the SGX-ST over the last five Market Days preceding the Latest Practicable Date).

3.8.3 For illustrative purposes only, on the basis of the assumptions set out above as well as the following:

- (i) the Share Buy-back Mandate had been effective on 1 January 2017;
- (ii) the purchase of Shares took place at the beginning of the financial year on 1 January 2017;
- (iii) there was no issuance of Shares after the Latest Practicable Date; and
- (iv) the Share purchases were funded by internal resources and/or external borrowings,

the financial effects on the FY2017 Results would have been as follows:

Purchases made equally out of profits (5%) and capital (5%) and all cancelled⁽¹⁾

	GROUP		COMPANY	
	Before Share Buy-back HK\$'000	After Share Buy-back HK\$'000 ⁽²⁾	Before Share Buy-back HK\$'000	After Share Buy-back HK\$'000 ⁽²⁾
As at 31 December 2017				
Shareholders' Funds ⁽³⁾	7,857,183	7,126,855	9,972,447	9,242,119
Net Asset Value	8,541,805	7,811,477	9,972,447	9,242,119
Total Assets	18,047,919	18,026,647	13,562,070	13,540,798
Total Liabilities	9,506,114	10,215,170	3,589,623	4,298,679
Total Borrowings ⁽⁴⁾	6,631,752	7,340,808	3,434,092	4,143,148
Profit Attributable to Shareholders ⁽⁵⁾	513,356	492,084	55,469	34,197
Number of Shares ('000)				
Issued and Paid-up Share Capital	2,625,642	2,363,078	2,625,642	2,363,078
Weighted Average Number of Issued and Paid-up Shares	2,618,228	2,355,664	2,618,228	2,355,664
Financial Ratios				
Net Asset Value per Share (HK\$)	2.99	3.02	3.80	3.91
Earnings per Share (HK\$)	0.196	0.209	n.m. ⁽⁶⁾	n.m. ⁽⁶⁾
Gearing Ratio ⁽⁷⁾	53	57	26	32

Notes:

- (1) The disclosed financial effects remain the same irrespective of whether the purchase of Shares is made by way of Market Purchases or Off-Market Purchases.
- (2) Assumes that the Company purchases the maximum limit of 262,564,187 Shares at the Maximum Price of S\$0.454 per Share (being the price equivalent to five per cent. above the Average Closing Price of the Shares traded on the SGX-ST over the last five Market Days preceding the Latest Practicable Date).
- (3) "Shareholders' Funds" means the aggregate amounts of Share Capital, Share Premium, foreign currency translation reserve, statutory reserve, contributed surplus reserve, other reserves and retained earnings.
- (4) "Total Borrowings" means short term and long term borrowings.
- (5) "Profit Attributable to Shareholders" after Share Buy-back has been adjusted by the notional interest expense incurred at the interest rate of three per cent. per annum less taxation.
- (6) "n.m." means not meaningful.
- (7) "Gearing Ratio" represents the ratio of total liabilities to total assets.

SHAREHOLDERS SHOULD NOTE THAT THE FOREGOING FINANCIAL EFFECTS ARE BASED ON THE FY2017 RESULTS AND THE ABOVE ASSUMPTIONS AND ARE FOR ILLUSTRATION ONLY. THE FY2017 RESULTS MAY NOT BE REPRESENTATIVE OF FUTURE PERFORMANCE.

It should be noted that although the Share Buy-back Mandate would authorise the Company to purchase or acquire up to 10 per cent. of the total number of issued Shares, the Company may not necessarily purchase or acquire or be able to purchase or acquire the entire 10 per cent. In addition, the Shares purchased or acquired by the Company shall be treated as cancelled immediately upon purchase or acquisition. The Company will take into account both financial and non-financial factors (for example, stock market conditions and the performance of the Shares) in assessing the relative impact of a Share purchase before execution.

- 3.9 Taxation.** Shareholders who are in doubt as to their respective tax positions or any tax implications, or who may be subject to tax in a jurisdiction outside Singapore, should consult their own professional advisers.
- 3.10 Listing Status of the Shares.** The Listing Manual requires a listed company to ensure that at least 10 per cent. of the total number of its issued shares (excluding treasury shares, subsidiary holdings, preference shares and convertible equity securities) in a class that is listed is held by public shareholders at all times.

As at the Latest Practicable Date, approximately 25.06 per cent. of the total number of Shares are held by public shareholders. Accordingly, the Company is of the view that there is a sufficient number of the Shares in issue held by public shareholders which would permit the Company to undertake purchases or acquisitions of its Shares through Market Purchases and/or Off-Market Purchases up to the full 10 per cent. limit pursuant to the Share Buy-back Mandate without affecting the listing status of the Shares on the SGX-ST. The Company will consider investor interests when maintaining a liquid market in its securities and will ensure that there is a sufficient float for an orderly market in its securities when purchasing its Shares.

- 3.11 Listing Rules.** The Listing Manual restricts a listed company from purchasing shares by way of market purchases at a price per share which is more than five per cent. above the “average closing price”, being the average of the closing market prices of the shares over the last five Market Days on which transactions in the shares were recorded, before the day on which the purchases were made, and deemed to be adjusted for any corporate action that occurs after the relevant five-day period. The Maximum Price for a Share in relation to Market Purchases referred to in paragraph 3.4.4(i) above complies with this requirement. Although the Listing Manual does not prescribe a maximum price in relation to purchases of shares by way of off-market purchases, the Company has set a cap of five per cent. above the Average Closing Price as the maximum price for a Share to be purchased or acquired by way of an Off-Market Purchase.

The Company will not undertake any purchase or acquisition of Shares pursuant to the Share Buy-back Mandate at any time after any matter or development of a price sensitive nature has occurred or has been the subject of consideration and/or a decision of the board of directors of the Company until such price sensitive information has been publicly announced. In particular, the Company will not purchase or acquire any Shares during the two weeks immediately preceding, and up to the time of the announcement of, the Company’s results for each of the first three quarters of its financial year and during the one month preceding, and up to the time of announcement of, the Company’s results for the full financial year.

3.12 Reporting Requirements. The Listing Manual specifies that a listed company shall report all purchases or acquisitions of its shares to the SGX-ST not later than 9.00 a.m. (i) in the case of a Market Purchase, on the Market Day following the day of purchase or acquisition of any of its shares and (ii) in the case of an Off-Market Purchase, on the second Market Day after the close of acceptances of the offer. Such announcement (which must be in the form prescribed by the Listing Manual) must include details of the date of the purchase, the total number of shares purchased, the number of shares cancelled, the number of shares held as treasury shares, the purchase price per share or the highest and lowest prices paid for such shares, as applicable, the total consideration (including stamp duties and clearing charges) paid or payable for the shares, the number of shares purchased as at the date of announcement (on a cumulative basis), the number of shares excluding treasury shares and subsidiary holdings, the number of treasury shares held after the purchase and the number of subsidiary holdings after the purchase.

3.13 Take-over Implications. Appendix 2 of the Take-over Code contains the Share Buy-back Guidance Note. The take-over implications arising from any purchase or acquisition by the Company of its Shares are set out below.

3.13.1 Obligation to make a Take-over Offer

If, as a result of any purchase or acquisition by the Company of its Shares, the proportionate interest in the voting capital of the Company of a Shareholder and persons acting in concert with him increases, such increase will be treated as an acquisition for the purposes of Rule 14 of the Take-over Code. Consequently, a Shareholder or a group of Shareholders acting in concert with a Director could obtain or consolidate effective control of the Company and become obliged to make an offer under Rule 14 of the Take-over Code.

3.13.2 Persons Acting in Concert

Under the Take-over Code, persons acting in concert comprise individuals or companies who, pursuant to an agreement or understanding (whether formal or informal), co-operate, through the acquisition by any of them of shares in a company to obtain or consolidate effective control of that company.

In addition, under the Take-over Code, certain persons are presumed to be acting in concert with each other, unless the contrary is established. For example, the following individuals and companies will be presumed to be acting in concert with each other:

- (i) the following companies:
 - (a) a company;
 - (b) the parent company of (a);
 - (c) the subsidiaries of (a);
 - (d) the fellow subsidiaries of (a);
 - (e) the associated companies of any of (a), (b), (c) or (d);
 - (f) companies whose associated companies include any of (a), (b), (c), (d) or (e); and
 - (g) any person who has provided financial assistance (other than a bank in the ordinary course of business) to any of the foregoing companies for the purchase of voting rights; and
- (ii) a company with any of its directors (together with their close relatives, related trusts as well as companies controlled by any of the directors, their close relatives and related trusts).

The circumstances under which Shareholders, including Directors and persons acting in concert with them respectively, will incur an obligation to make a take-over offer under Rule 14 of the Take-over Code after a purchase or acquisition of Shares by the Company are set out in Appendix 2 to the Take-over Code.

3.13.3 Effect of Rule 14 and Appendix 2

In general terms, the effect of Rule 14 and Appendix 2 of the Take-over Code is that, unless exempted, Directors and persons acting in concert with them will incur an obligation to make a take-over offer under Rule 14 if, as a result of the Company purchasing or acquiring Shares, the voting rights of such Directors and their concert parties would increase to 30 per cent. or more, or in the event that such Directors and their concert parties hold between (and including) 30 per cent. and 50 per cent. of the Company's voting rights, if the voting rights of such Directors and their concert parties would increase by more than one per cent. in any period of six months. In calculating the percentages of voting rights of such Directors and their concert parties, treasury shares shall be excluded.

Under Appendix 2 of the Take-over Code, a Shareholder not acting in concert with the Directors will not be required to make a take-over offer under Rule 14 if, as a result of the Company purchasing or acquiring its Shares, the voting rights of such Shareholder would increase to 30 per cent. or more, or, if such Shareholder holds between (and including) 30 per cent. and 50 per cent. of the Company's voting rights, the voting rights of such Shareholder would increase by more than one per cent. in any period of six months. Such Shareholder need not abstain from voting in respect of the resolution authorising the Share Buy-back Mandate.

Based on the interests of the Substantial Shareholders as recorded in the Register of Substantial Shareholders as at the Latest Practicable Date as set out in paragraph 4.3 below, none of the Substantial Shareholders would become obliged to make a take-over offer for the Company under Rule 14 of the Take-over Code as a result of the purchase by the Company of the maximum limit of 10 per cent. of its issued Shares as at the Latest Practicable Date.

For the purposes of this Letter:

"Substantial Shareholders" means in relation to the Company, a person who has an interest in one or more voting shares included in one of the classes of Shares in the Company and the total votes attached to such Share(s) is not less than five per cent. of the total votes attached to all the voting shares included in that class.

SHAREHOLDERS WHO ARE IN DOUBT AS TO THEIR OBLIGATIONS, IF ANY, TO MAKE A MANDATORY TAKE-OVER OFFER UNDER THE TAKE-OVER CODE AS A RESULT OF ANY PURCHASE OR ACQUISITION OF SHARES BY THE COMPANY SHOULD CONSULT THE SIC AND/OR THEIR PROFESSIONAL ADVISERS AT THE EARLIEST OPPORTUNITY.

4. FURTHER INFORMATION

- 4.1 **Interests of Directors and Controlling Shareholders.** None of the Directors or, to the best of the Company's knowledge, the controlling Shareholders of the Company, has any interest, direct or indirect, in the Share Buy-back Mandate (other than through their respective shareholdings in the Company).

4.2 Shareholding Interests of Directors. The interests of Directors in the Company as recorded in the Register of Directors' Shareholdings as at the Latest Practicable Date are set out below:

Directors	Direct Interest		Deemed Interest	
	No. of Shares	%	No. of Shares	%
Mr Wang Tianyi	–	–	–	–
Mr An Xuesong	–	–	–	–
Mr Cai Shuguang	–	–	–	–
Ms Xu Nailing	–	–	–	–
Mr Zhai Haitao	–	–	–	–
Mr Lim Yu Neng Paul ⁽¹⁾	–	–	1,608,909	0.06
Ms Cheng Fong Yee	622,266	0.02	–	–
Ms Hao Gang	–	–	–	–

Note:

- (1) Mr Lim Yu Neng Paul is deemed to be interested in 100,509 Shares held in the name of Citibank Nominees Singapore Pte. Ltd and 1,508,400 Shares held in the name of DBS Nominees (Pte) Ltd.

4.3 Shareholding Interests of Substantial Shareholders. The interests of Substantial Shareholders in the Shares as recorded in the Register of Substantial Shareholders as at the Latest Practicable Date are set out below:

Substantial Shareholders	Direct Interest		Deemed Interest	
	No. of Shares	%	No. of Shares	%
China Everbright Water Holdings Limited	1,965,344,904	74.85	–	–
China Everbright Environmental Protection Holdings Limited ⁽¹⁾	–	–	1,965,344,904	74.85
China Everbright International Limited ⁽²⁾	–	–	1,965,344,904	74.85
Guildford Limited ⁽³⁾	–	–	1,965,344,904	74.85
Datten Investments Limited ⁽⁴⁾	–	–	1,965,344,904	74.85
China Everbright Holdings Company Limited ⁽⁵⁾	–	–	1,965,344,904	74.85
China Everbright Group Ltd. ⁽⁶⁾	–	–	1,965,344,904	74.85
Central Huijin Investment Limited ⁽⁷⁾	–	–	1,965,344,904	74.85

Notes:

- (1) China Everbright Environmental Protection Holdings Limited, which is the holding company of China Everbright Water Holdings Limited, is deemed to have an interest in the Shares held by China Everbright Water Holdings Limited.
- (2) China Everbright International Limited is the holding company of China Everbright Environmental Protection Holdings Limited and is deemed to have an interest in the Shares in which China Everbright Environmental Protection Holdings Limited has an interest.
- (3) Guildford Limited holds more than 20 per cent. but not more than 50 per cent. of the total issued shares of China Everbright International Limited and is deemed to have an interest in the Shares in which China Everbright International Limited has an interest.
- (4) Datten Investments Limited is the holding company of Guildford Limited and is deemed to have an interest in the Shares in which Guildford Limited has an interest.

- (5) China Everbright Holdings Company Limited is the holding company of Datten Investments Limited and is deemed to have an interest in the Shares in which Datten Investments Limited has an interest.
- (6) China Everbright Group Ltd. is the holding company of China Everbright Holdings Company Limited and is deemed to have an interest in the Shares in which China Everbright Holdings Company Limited has an interest.
- (7) Central Huijin Investment Limited holds 55.67 per cent. of the shares in China Everbright Group Ltd. and is deemed to have an interest in the Shares in which China Everbright Group Ltd. has an interest.

5. DIRECTORS' RECOMMENDATION

5.1 Proposed Adoption of the IPT Mandate. Mr Lim Yu Neng Paul and Ms Cheng Fong Yee, who are members of the Audit Committee and independent directors of the Company, and Ms Hao Gang, who is an independent director of the Company, (collectively, the “**Independent Directors**”) are considered independent for the purposes of the proposed adoption of the IPT Mandate. Having reviewed, *inter alia*, the rationale for the terms of the IPT Mandate as well as the benefits that may be obtained therefrom, the review procedures of the Company, and taking into consideration the IFA Opinion, the Independent Directors confirm that the methods or procedures for determining the transaction prices under the IPT Mandate are sufficient to ensure that the transactions will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders. Accordingly, the Independent Directors recommend that Shareholders vote in favour of the respective resolution in respect of the proposed adoption of the IPT Mandate at the 2018 AGM.

5.2 Proposed Renewal of the Share Buy-back Mandate. The Directors having considered, *inter alia*, the terms and the rationale of the Share Buy-back Mandate, are of the opinion that the Share Buy-back Mandate is in the interests of the Company and the Shareholders. Accordingly, the Directors recommend that Shareholders vote in favour of the respective resolution in respect of the Share Buy-back Mandate at the 2018 AGM.

5.3 Abstention of Certain Directors. Mr Zhai Haitao, who is a member of the Audit Committee and an independent director of the Company, has abstained from deliberating and making any recommendation in respect of the proposed adoption of the IPT Mandate as he is an independent director of China Everbright International Limited (“**CEIL**”), which is a controlling shareholder of the Company.

In addition, Mr Wang Tianyi is an executive director and chief executive officer of CEIL, and each of Mr An Xuesong, Mr Cai Shuguang and Ms Xu Nailing is a senior executive of CEIL. Accordingly, each of Mr Wang Tianyi, Mr An Xuesong, Mr Cai Shuguang and Ms Xu Nailing has abstained from deliberating and making any recommendation in respect of the proposed adoption of the IPT Mandate.

5.4 Abstention of Interested Persons. China Everbright Water Holdings Limited will abstain from voting, and has undertaken to ensure that its associates will abstain from voting, on Ordinary Resolution No. 10, being the Ordinary Resolution relating to the proposed adoption of the IPT Mandate to be proposed at the 2018 AGM.

5.5 No Regard for Specific Objectives. Shareholders, in deciding whether to vote in favour of the proposed adoption of the IPT Mandate, should read carefully the terms, rationale and financial effects of the IPT Mandate, and consider carefully the IFA Opinion. In giving the above recommendations, the Independent Directors have not had regard to any general or specific investment objectives, financial situations, tax positions or particular needs or constraints of any individual Shareholder. As different Shareholders have different investment profiles and objectives, the Independent Directors recommend that any individual Shareholder who may require specific advice in relation to the proposed adoption of the IPT Mandate should consult his/her stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser.

6. ANNUAL GENERAL MEETING

The 2018 AGM will be held at The Pan Pacific Singapore, Pacific 2, Level 1, 7 Raffles Boulevard, Marina Square, Singapore 039595 on Wednesday, on 25 April 2018 at 9.30 a.m. (Singapore time) for the purpose of considering and, if thought fit, passing with or without any modifications, the resolutions as set out in the Notice.

7. ACTION TO BE TAKEN BY SHAREHOLDERS AND DEPOSITORS

Under the Bermuda Companies Act, Depositors shall not be regarded as Shareholders entitled to attend the 2018 AGM and vote at general meetings convened by the Company.

A Depositor which is a corporation and wishes to attend and vote at the 2018 AGM may do so as the proxy of The Central Depository (Pte) Limited (“**CDP**”) if its name is shown in the records of CDP 72 hours prior to the time of the 2018 AGM and by completing, signing and returning the enclosed depositor proxy form in respect of the 2018 AGM (the “**Depositor Proxy Form**”), in accordance with the instructions printed thereon as soon as possible and, in any event, so as to reach the office of the Company’s Singapore Share Transfer Agent, Boardroom Corporate & Advisory Services Pte. Ltd. at 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623, not less than 48 hours before the time fixed for the 2018 AGM.

Pursuant to Bye-law 77(1)(b) of the Bye-laws and Section 81SJ(4) of the Securities and Futures Act, Chapter 289 of Singapore (“**SFA**”), unless CDP specifies otherwise in a written notice to the Company, CDP shall be deemed to have appointed the Depositors who are individuals and whose names are shown in the records of CDP 72 hours prior to the time of the relevant general meeting supplied by CDP to the Company, as CDP’s proxies to vote on behalf of CDP at a general meeting of the Company. As such, a Depositor who is an individual and whose name is listed in the Depository Register 72 hours before the time of the 2018 AGM may attend and vote at the 2018 AGM without having to complete or return any form of proxy.

A Depositor who is an individual and is unable to attend the 2018 AGM but wishes to appoint nominee(s) to attend the meeting and vote on his behalf, must complete, sign and return the enclosed Depositor Proxy Form in accordance with the instructions printed thereon as soon as possible and, in any event, so as to reach the office of the Company’s Singapore Share Transfer Agent, Boardroom Corporate & Advisory Services Pte. Ltd. at 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623, not less than 48 hours before the time fixed for the 2018 AGM. The completion and return of the Depositor Proxy Form by an individual Depositor will not prevent him from attending and voting in person at the 2018 AGM as a proxy of CDP if he subsequently wishes to do so, in place of his proxy.

A Shareholder (other than a Depositor) who is unable to attend the 2018 AGM and wishes to appoint a proxy to attend and vote on his behalf, must complete, sign and return the enclosed member proxy form in respect of the 2018 AGM (the “**Member Proxy Form**”), in accordance with the instructions printed thereon as soon as possible and, in any event, so as to reach the office of the Company’s Singapore Share Transfer Agent, Boardroom Corporate & Advisory Services Pte. Ltd. at 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623, not less than 48 hours before the time fixed for the 2018 AGM. The completion and return of the Member Proxy Form by a Shareholder will not prevent him from attending and voting at the 2018 AGM in person if he so wishes, in place of his proxy. **Please note that this paragraph is only applicable to Shareholders who do not hold Shares through an account with CDP (i.e. who hold Shares in scrip).**

For the purposes of this paragraph, the terms “**Depositor**” and “**Depository Register**” shall have the meanings ascribed to them respectively in Section 81SF of the SFA.

8. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this Letter and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, this Letter constitutes full and true disclosure of all material facts about the IPT Mandate and the Share Buy-back Mandate, and the Group, and the Directors are not aware of any facts the omission of which would make any statement in this Letter misleading.

Where information in this Letter has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in this Letter in its proper form and context.

9. DOCUMENTS FOR INSPECTION

Copies of the Memorandum of Association and Bye-laws are available for inspection at the office of the Company at 9 Battery Road, MYP Centre, #20-02, Singapore 049910, during normal business hours from the date of this Letter up to the date of the 2018 AGM.

Yours faithfully

For and on behalf of
the Board of Directors of
China Everbright Water Limited

An Xuesong
Executive Director and Chief Executive Officer

6 April 2018

APPENDIX 1

THE IPT MANDATE

1. Chapter 9 of the Listing Manual

- 1.1 Chapter 9 of the listing manual (the “**Listing Manual**”) of the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) governs transactions by a listed company, as well as transactions by its subsidiaries and associated companies that are considered to be at risk, with the listed company’s interested persons. When this Chapter applies to a transaction and the value of that transaction alone or on aggregation with other transactions conducted with the interested person during the financial year reaches, or exceeds, certain materiality thresholds, the listed company is required to make an immediate announcement, or to make an immediate announcement and seek its shareholders’ approval for that transaction.
- 1.2 Except for certain transactions which, by reason of the nature of such transactions, are not considered to put the listed company at risk to its interested person and hence are excluded from the ambit of Chapter 9, immediate announcement and shareholders’ approval would be required in respect of transactions with interested persons if certain financial thresholds (which are based on the value of the transaction as compared with the listed company’s latest audited consolidated net tangible assets (“**NTA**”)) are reached or exceeded. In particular, shareholders’ approval is required for an interested person transaction of a value equal to, or which exceeds:
- (a) 5 per cent. of the listed company’s latest audited consolidated NTA; or
 - (b) 5 per cent. of the listed company’s latest audited consolidated NTA, when aggregated with other transactions entered into with the same interested person (as such term is construed under Chapter 9 of the Listing Manual) during the same financial year.
- 1.3 Based on the latest audited consolidated financial statements of China Everbright Water Limited (“**CEWL**”) and its subsidiaries (the “**CEWL Group**”) for the financial year ended 31 December 2017, the consolidated NTA of the CEWL Group was HK\$7,266,931,000. In relation to CEWL, for the purposes of Chapter 9, in the current financial year and until such time that the consolidated audited financial statements of the CEWL Group for the year ending 31 December 2018 are published, 5 per cent. of the latest audited consolidated NTA of the CEWL Group would be HK\$363,346,550.
- 1.4 Chapter 9 of the Listing Manual permits a listed company, however, to seek a mandate from its shareholders for recurrent transactions of a revenue or trading nature or those necessary for its day-to-day operations such as the purchase and sale of supplies and materials (but not in respect of the purchase or sale of assets, undertakings or businesses) that may be carried out with the listed company’s interested persons.
- 1.5 Under the Listing Manual:
- (a) an “**entity at risk**” means:
 - (i) the listed company;
 - (ii) a subsidiary of the listed company that is not listed on the SGX-ST or an approved exchange; or
 - (iii) an associated company of the listed company that is not listed on the SGX-ST or an approved exchange, provided that the listed company and/or its subsidiaries (the “**listed group**”), or the listed group and its interested person(s), has control over the associated company;

- (b) an “**interested person**” means a director, chief executive officer or controlling shareholder of the listed company or an associate of such director, chief executive officer or controlling shareholder;
- (c) an “**associate**” in relation to an interested person who is a director, chief executive officer or controlling shareholder includes an immediate family member (that is, the spouse, child, adopted child, step-child, sibling or parent) of such director, chief executive officer or controlling shareholder, the trustees of any trust of which the director/his immediate family, the chief executive officer/his immediate family or controlling shareholder/his immediate family is a beneficiary or, in the case of a discretionary trust, is a discretionary object, and any company in which the director/his immediate family, the chief executive officer/his immediate family or controlling shareholder/his immediate family has or have an aggregate interest (directly or indirectly) of 30 per cent. or more, and, where a controlling shareholder is a corporation, its subsidiary or holding company or fellow subsidiary or a company in which it and/or they have (directly or indirectly) an interest of 30 per cent. or more;
- (d) an “**approved exchange**” means a stock exchange that has rules which safeguard the interests of shareholders against interested person transactions according to similar principles to Chapter 9; and
- (e) an “**interested person transaction**” means a transaction between an entity at risk and an interested person.

2 Rationale for the IPT Mandate

2.1 It is envisaged that in the ordinary course of their businesses, transactions between companies in the EAR Group (as defined below) and CEWL’s interested persons are likely to occur from time to time. Such transactions are necessary for the day-to-day operations of the EAR Group and would include, but are not limited to, the provision of goods, facilities and services in the ordinary course of business of the EAR Group to CEWL’s interested persons or the obtaining of goods, facilities and services from them.

2.2 In particular, China Everbright Group Ltd., CEWL’s indirect controlling shareholder, is a major financial holding group in China, with business presence in various industries and sectors. Its business areas include, amongst others, banking, securities, insurance, funds, trusts, futures, leasing, investment, environmental protection, hospitalism and pharmaceutical. The EAR Group (as defined below) may leverage on Everbright Group’s (as defined below) wide spectrum of businesses and rich resources to support its future development. Some of China Everbright Group Ltd.’s major subsidiaries include:

- (a) China Everbright International Limited, a one-stop integrated environmental solution provider listed on the Hong Kong Stock Exchange (“**HKSE**”);
- (b) China Everbright Limited, an investment holding company principally engaged in fund management and investment business and listed on HKSE;
- (c) China Everbright Bank Co., Ltd., a commercial bank listed on the Shanghai Stock Exchange (“**SSE**”) and HKSE;
- (d) Everbright Securities Company Limited, a securities brokerage company listed on SSE and HKSE; and
- (e) Sun Life Everbright Life Co., Ltd., an insurance company which has branches in various provinces and municipalities in China.

2.3 In view of the time-sensitive nature of commercial transactions, the adoption of the general mandate (the “**IPT Mandate**”) pursuant to Chapter 9 of the Listing Manual will enable:

- (a) CEWL;
- (b) subsidiaries of CEWL (excluding subsidiaries listed on the SGX-ST or an approved exchange); and
- (c) associated companies of CEWL (other than an associated company that is listed on the SGX-ST or an approved exchange) over which the CEWL Group, or the CEWL Group and interested person(s) of CEWL has or have control,

(together, the “**EAR Group**”), or any of them, in the ordinary course of their businesses, to enter into the categories of transactions (“**Mandated IPTs**”) set out in paragraph 6.1 below with CEWL’s interested persons (the “**Mandated Interested Persons**”) set out in paragraph 5.1 below, provided such Mandated IPTs are made on normal commercial terms.

3. Scope of the IPT Mandate

3.1 The EAR Group engages in a wide range of activities (as described in paragraph 6.1 below) for which the adoption of the IPT Mandate is being sought.

3.2 The IPT Mandate does not cover any transaction by a company in the EAR Group with a Mandated Interested Person that is below S\$100,000 in value as the threshold and aggregation requirements of Chapter 9 of the Listing Manual would not apply to such transactions.

3.3 Transactions with interested persons (including the Mandated Interested Persons) that do not fall within the ambit of the IPT Mandate will be subject to the relevant provisions of Chapter 9 of the Listing Manual and/or other applicable provisions of the Listing Manual.

4. Benefit to Shareholders

4.1 The IPT Mandate (and its subsequent renewal thereafter on an annual basis) will enhance the ability of companies in the EAR Group to pursue business opportunities which are time-sensitive in nature, and will eliminate the need for CEWL to announce, or to announce and convene separate general meetings on each occasion to seek Shareholders’ prior approval for the entry by the relevant company in the EAR Group into such transactions. This will substantially reduce the expenses associated with the convening of general meetings on an ad hoc basis, improve administrative efficacy considerably, and allow manpower resources and time to be channelled towards attaining other corporate objectives.

5. Mandated Interested Persons

5.1 The IPT Mandate applies to the Mandated IPTs (as described in paragraph 6.1 below) which are carried out with China Everbright Group Ltd. and its associates (the “**Everbright Group**”).

5.2 Transactions with Mandated Interested Persons which do not fall within the ambit of the IPT Mandate shall be subject to the relevant provisions of Chapter 9 of the Listing Manual.

6. Categories of Mandated IPTs

6.1 The Mandated IPTs with the Mandated Interested Persons (as described in paragraph 5.1 above) which are covered by the IPT Mandate and the benefits to be derived therefrom are set out below:

6.1.1 General Transactions

This category relates to general transactions (“**General Transactions**”) in connection with the provision to, or the obtaining from, Mandated Interested Persons of products and services in the normal course of business of the EAR Group or which are necessary for the day-to-day operations of the EAR Group comprising the following:

(i) Environmental Activities

The products and services under this sub-category are:

- (a) the provision of waste water treatment and reusable water services;
- (b) the provision of waste leachate treatment services;
- (c) the receipt of sludge treatment and disposal (including sludge incineration and sanitary landfill) services;
- (d) the receipt of hazardous waste treatment services;
- (e) the receipt of environmental energy products (including steam and electricity); and
- (f) the collaboration in engineering, procurement and construction services to build infrastructure facilities in connection with the environmental protection projects.

(ii) Insurance Activities

The products and services under this sub-category are:

- (a) the purchase of insurance and the obtaining of insurance-related services.

(iii) General Activities

The products, facilities and services under this sub-category are:

- (a) the leasing and rental (as lessor and lessee) of properties for residential, industrial and commercial purposes; and
- (b) the provision or the obtaining of property management services in connection with the activity mentioned in paragraph 6.1.1(iii)(a) above.

The EAR Group will benefit from having access to competitive quotes from the different companies in the different industries within the Everbright Group in addition to obtaining quotes from, or transacting with, non-Mandated Interested Persons.

The headings in this paragraph 6.1.1 are inserted for branding purposes only and shall be ignored in construing the types of General Transactions which are covered by the IPT Mandate.

6.1.2 Treasury Transactions

Treasury transactions (“**Treasury Transactions**”) comprise (a) the placement of funds or deposits with any Mandated Interested Person, (b) the borrowing of funds from any Mandated Interested Person, (c) the entry into with any Mandated Interested Person of forex, swap and option transactions for hedging purposes, (d) the issue of debt securities (including but not limited to corporate bonds and/or asset backed securities) to any Mandated Interested Person, (e) the receipt of underwriting and advisory services from any Mandated Interested Person in relation to issuance and/or quotation of securities (including but not limited to convertible bonds, hybrid bonds, corporate bonds, asset backed securities, ordinary shares, preference shares, rights and/or other securities) issued by the EAR Group and (f) the receipt of fund management services from any Mandated Interested Person.

Considering Everbright Group’s rich experience and resources in the financial services and asset management industries, the EAR Group can benefit from competitive rates and quotes in an expedient manner on the Treasury Transactions.

6.1.3 Management and Support Services

The EAR Group may, from time to time, receive management and support services from, or provide management and support to, its Mandated Interested Persons in the areas of finance, treasury, management information systems, and human resources management and development (“**Management Support Services**”). By having access to and providing such management support, the EAR Group will derive operational and financial leverage in its dealings with third parties as well as benefits from the global network of its Mandated Interested Persons.

7. Review Procedures for Mandated IPTs

7.1 The EAR Group has established the following procedures to ensure that Mandated IPTs are undertaken on an arm’s length basis and on normal commercial terms:

7.1.1 General Transactions

Review Procedures

In general, there are procedures established by the EAR Group to ensure that General Transactions with Mandated Interested Persons are undertaken on an arm’s length basis and on normal commercial terms consistent with the EAR Group’s usual business practices and policies, which are generally no more favourable to the Mandated Interested Persons than those extended to unrelated third parties.

In particular, the following review procedures have been put in place.

(a) *Provision of services or the sale of products*

The review procedures are:

- (i) all contracts entered into or transactions with Mandated Interested Persons are to be carried out at the prevailing market rates or prices of the service or product providers, on terms which are no more favourable to the Mandated Interested Person than the usual commercial terms extended to unrelated third parties (including, where applicable, preferential rates/prices/discounts accorded to corporate customers or for bulk purchases) or otherwise in accordance with applicable industry norms; and
- (ii) where the prevailing market rates or prices are not available due to the nature of service to be provided or the product to be sold, the EAR Group’s pricing for such services to be provided or products to be sold to Mandated Interested Persons is determined in accordance with the EAR Group’s usual business practices and pricing policies, consistent with the usual margin to be obtained by the EAR Group for the same or substantially similar type of contract or transaction with unrelated third parties. In determining the transaction price payable by Mandated Interested Persons for such services or products, factors such as, but not limited to, quantity, volume consumption, customer requirements, specifications, duration of contract and strategic purposes of the transaction will be taken into account.

(b) *Obtaining of services or the purchasing of products*

The review procedures are:

- (i) all contracts entered into or transactions with Mandated Interested Persons are to be carried out by obtaining quotations (wherever possible or available) from at least two other unrelated third party suppliers for similar quantities and/or quality of services or products, prior to the entry into of the contract or transaction with the Mandated Interested Person, as a basis for comparison

to determine whether the price and terms offered by the Mandated Interested Person are fair and reasonable and comparable to those offered by other unrelated third parties for the same or substantially similar type of services or products. In determining whether the price and terms offered by the Mandated Interested Person are fair and reasonable, factors such as, but not limited to, delivery schedules, specification compliance, track record, experience and expertise, and where applicable, preferential rates, rebates or discounts accorded for bulk purchases, will also be taken into account; and

- (ii) in the event that such competitive quotations cannot be obtained (for instance, if there are no unrelated third party vendors of similar products or services, or if the product is a proprietary item), the senior management staff of the relevant company in the EAR Group (with no interest, direct or indirect in the transaction), will determine whether the price and terms offered by the Mandated Interested Person are fair and reasonable.

7.1.2 Treasury Transactions

Placements

In relation to the placement or deposit with any Mandated Interested Person by the EAR Group of its funds, CEWL will require that quotations shall be obtained from such Mandated Interested Person and at least two banks for rates of deposits with such bankers of an equivalent amount, and for the equivalent period, of the funds to be placed by the EAR Group. The EAR Group will only place or deposit its funds with such Mandated Interested Person, provided that the terms quoted are no less favourable than the terms quoted by such banks for equivalent amounts. In addition, the Audit Committee will also evaluate the credit risks of the Mandated Interested Person to ensure that risks of default have been considered when determining whether or not to allow for the placement or deposit.

Borrowings

In relation to the borrowing of funds from any Mandated Interested Person by the EAR Group, CEWL will require that quotations shall be obtained from such Mandated Interested Person and at least two banks for rates for loans from such banks of an equivalent amount, and for the equivalent period, of the funds to be borrowed. The EAR Group will only borrow funds from such Mandated Interested Person, provided that the terms quoted are no less favourable than those quoted by such banks.

Debt Securities

In relation to the issue to Mandated Interested Persons of debt securities (including but not limited to corporate bonds and/or asset backed securities), the EAR Group will only issue such debt securities to Mandated Interested Persons provided that the price(s) at which the EAR Group issues such debt securities will not be lower than the price(s) at which such debt securities are issued to third parties. The EAR Group will also comply with all applicable laws and regulations in connection with the issue of such debt securities to Mandated Interested Persons.

Underwriting and Advisory Services

In relation to underwriting and advisory services provided by any Mandated Interested Persons, CEWL will require that quotations shall be obtained from such Mandated Interested Person and at least two other counterparties. The EAR Group will only agree to allow Mandated Interested Persons to underwrite and/or advise on the issuance and/or quotation of the securities (including but not limited to convertible bonds, hybrid bonds, corporate bonds, asset backed securities, ordinary shares, preference shares, rights and/or other securities) issued by the EAR Group, provided that the price(s) or fee(s) at which the Mandated Interested Persons underwrite and/or advise such securities will not be higher than the price(s) or fee(s) at which such securities are underwritten or advised by third parties.

Forex, Swaps, Options

In relation to forex, swap and option transactions with any Mandated Interested Person by the EAR Group, CEWL will require that rate quotations shall be obtained from such Mandated Interested Person and at least two banks. The EAR Group will only enter into such forex, swap or option transactions with such Mandated Interested Person provided that such terms quoted are no less favourable than the terms quoted by such banks.

Fund Management Services

In relation to fund management services provided by any Mandated Interested Persons, CEWL will require that quotations shall be obtained from such Mandated Interested Person and at least two other counterparties. The EAR Group will only agree to allow Mandated Interested Persons to provide fund management services to the EAR Group, provided that the price(s) or fee(s) at which the Mandated Interested Persons provides such fund management services will not be higher than the price(s) or fee(s) at which such services are provided for by third parties.

7.1.3 Management Support Services

In relation to receiving Management Support Services, CEWL shall endeavour to obtain a quotation from such Mandated Interested Person and at least two other potential service providers. The EAR Group shall then only be entitled to transact with the Mandated Interested Person on terms that are no less favourable than those quoted by such unrelated service providers.

In relation to the provision of Management Support Services to Mandated Interested Persons, the commercial terms for such transactions shall be at the prevailing market rates or prices that would be levied by other unrelated service providers for providing similar services or otherwise in accordance with applicable industry norms

In the event that such competitive quotations or external benchmarks cannot be obtained (for instance, if there are no unrelated third party vendors which provide such services, or if the service is highly customised and cannot be provided by an external vendor), the EAR Group shall ensure that the commercial terms relating to any Management Support Services provided by or to any Mandated Interested Person shall be on an arm's length and normal commercial basis, having regard to other factors such as the actual time and costs incurred by the Mandated Interested Person or EAR Group entity for providing the specific service, and a reasonable margin which a third-party service provider would typically earn for providing services of a similar nature.

7.2 Threshold Limits

In addition to the review procedures, the following threshold limits will be applied to supplement the internal systems of the EAR Group to ensure that Mandated IPTs are undertaken with the Mandated Interested Persons on an arm's length basis and on normal commercial terms:

- (a) individual transactions equal to or exceeding S\$100,000 but less than S\$1 million in value will be reviewed and approved by the chief financial officer of the Company (the "**CFO**");
- (b) individual transactions equal to or exceeding S\$1 million but less than S\$5 million in value will be reviewed and approved by the chief executive officer of the Company (the "**CEO**");
- (c) individual transactions equal to or exceeding S\$5 million but less than S\$20 million in value will be reviewed and approved by majority of the audit committee of CEWL (the "**Audit Committee**"); and
- (d) individual transactions equal to or exceeding S\$20 million in value shall be reviewed and approved by the board of Directors.

If any person specified above has an interest in a transaction falling within a category of transactions to be reviewed and approved by him, he will abstain from any decision making in respect of that transaction, and such transaction will be reviewed and approved by other persons who are authorised to review and approve that category of transactions, if any, who do not have any interest in that transaction.

If all persons who are authorised to review and approve a certain category of transactions abstain from voting, the transaction must be approved by the persons who are authorised to review and approve the next category of transactions that is higher in terms of value.

All Mandated IPTs entered into pursuant to the IPT Mandate shall be tabled to the Audit Committee for their review on a quarterly basis.

Individual transactions of a value less than S\$100,000 do not require review and approval and will not be taken into account in the aggregation referred to in sub-paragraphs (a) to (d) above.

- 7.3** CEWL will maintain a register of transactions carried out with Mandated Interested Persons pursuant to the IPT Mandate (recording the basis, including the quotations obtained to support such basis, on which they were entered into), and CEWL's internal audit plan will incorporate a review of all transactions entered into in the relevant financial year pursuant to the IPT Mandate.
- 7.4** The Audit Committee of CEWL shall review these internal audit reports on Mandated IPTs to ascertain that the established review procedures to monitor Mandated IPTs have been complied with.
- 7.5** If during these periodic reviews by the Audit Committee, the Audit Committee is of the view that the review procedures as stated above have become inappropriate or insufficient in view of changes to the nature of, or the manner in which, the business activities of the EAR Group are conducted, CEWL will revert to Shareholders for a fresh mandate based on new guidelines and review procedures to ensure that Mandated IPTs will be on an arm's length basis and on normal commercial terms.

8. Validity Period of the IPT Mandate

- 8.1** The IPT Mandate, if approved and adopted, will take effect from the passing of the ordinary resolution relating thereto, and will (unless revoked or varied by CEWL in a general meeting) continue in force until the next annual general meeting of CEWL following thereafter. Approval from Shareholders will be sought for the renewal of the IPT Mandate at each subsequent annual general meeting of CEWL, subject to satisfactory review by the Audit Committee of its continued application to the transactions with Mandated Interested Persons.

9. Disclosure in Annual Report

- 9.1** The Company will announce the aggregate value of transactions conducted with Mandated Interested Persons pursuant to the IPT Mandate for the quarterly financial periods which the Company is required to report on pursuant to the Listing Manual and within the time required for the announcement of such report.
- 9.2** Disclosure will be made in CEWL's annual report ("**Annual Report**") of the aggregate value of transactions conducted with Mandated Interested Persons pursuant to the IPT Mandate during the financial year, and in the Annual Reports for subsequent financial years that the IPT Mandate continues in force, in accordance with the requirements of Chapter 9 of the Listing Manual.

APPENDIX 2

OPINION OF THE INDEPENDENT FINANCIAL ADVISER

The Independent Directors
China Everbright Water Limited
9 Battery Road
#20-02 MYP Centre
Singapore 049910

6 April 2018

Dear Sirs

Proposed Shareholder's Mandate for Interested Person Transactions

For the purposes of this letter, capitalised terms not otherwise defined herein shall have the same meaning as given in other sections of this Letter dated 6 April 2018.

1. INTRODUCTION

China Everbright Water Limited ("**CEWL**" or the "**Company**") is proposing to adopt a shareholders' mandate (the "**IPT Mandate**") to enable them to enter into certain categories of transactions with the specified classes of interested persons ("**Mandated Interested Persons**"), details of which are set out in the Letter dated 6 April 2018. This letter has been prepared pursuant to rule 920(1)(b)(v) of the Listing Manual of the SGX-ST (the "**Listing Manual**").

To comply with requirements of rule 920(1)(b)(v) of the Listing Manual, KPMG Corporate Finance Pte Ltd ("**KPMG Corporate Finance**") has been appointed as the Independent Financial Adviser ("**IFA**") to provide an opinion on whether the Proposed IPT Mandate, and the corresponding review procedures (including procedures for determining transaction prices), if taken as a whole and if applied strictly, would be sufficient to ensure that the transactions would be carried out on normal commercial terms and would not be prejudicial to the interests of the Company and its minority Shareholders.

2. TERMS OF REFERENCE

The objective of this letter is to provide an independent opinion, as required under rule 920(1)(b)(v) of the Listing Manual, on whether the methods and procedures set out in the IPT Mandate for determining the transacting prices of the interested person transactions are sufficient to ensure that the transactions will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders.

The views of KPMG Corporate Finance as set forth in this IFA letter are based upon prevailing market and economic conditions, and our analysis of the information provided in the Letter, as well as information provided to us by the Company, as at the Latest Practicable Date. Accordingly, this opinion does not take into account any events or conditions occurring after this date. We assume no responsibility to update, revise or re-affirm our opinion, factors or assumptions in light of any subsequent developments after the Latest Practicable Date that may affect our opinion or factors or assumptions contained herein.

It is not within our terms of reference to, and we do not (by this letter or otherwise), evaluate or comment on the merits and/or associated risks, whether commercial, financial or otherwise of any interested person transactions entered into or about to be entered into, and as such, we do not express an opinion thereon. All such evaluations or comments are and remain the sole responsibility of the directors of the Company (the “**Directors**”), although we may draw upon their views or make such comments in respect thereof (to the extent deemed necessary or appropriate by us) in arriving at our opinion.

We have not been involved in the deliberations leading up to the decision by the Directors to obtain the IPT Mandate, or the methods or procedures to be adopted by the Company to ensure that the interested person transactions will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders.

In the course of our evaluation of the methods and review procedures adopted for the interested person transactions in connection with the IPT Mandate, we have relied on information provided to us by the management of the Company (the “**Management**”), as well as information contained in the Letter. We have not independently verified such information furnished by the Management or any representation or assurance made by them, whether written or verbal, and accordingly cannot and do not warrant or accept responsibility for the accuracy or completeness of such information, representation or assurance. Nevertheless, the Management have confirmed to us that, to the best of their knowledge and belief, the information provided to us (whether written or verbal) as well as the information contained in the Letter constitutes a full and true disclosure, in all material respects, of all material facts relating to the IPT Mandate and there is no material information the omission of which would make any of the information contained herein or in the Letter inaccurate, incomplete or misleading in any material respect. Additionally, we have relied upon the assurance of the Directors (including those who may have delegated detailed supervision of the Letter) that they have taken all reasonable care to ensure that the facts stated or opinions expressed in the Letter are fair and accurate in all material respects and that no material facts have been omitted which might cause the Letter to be misleading in any material respect.

We have also made reasonable enquiries and used our judgement in assessing such information and have found no reason to doubt the reliability of such information. We have further assumed that all statements of fact, belief, opinion and intention made by the Directors in the Letter have been reasonably made after due and careful enquiry. We have not conducted a comprehensive review of the business, operations or financial condition of CEWL or the transactions described in the Letter.

We do not warrant the implementation of the methods or procedures for determining the transaction prices in relation to the interested person transactions, as covered by the IPT Mandate.

Our opinion is provided pursuant to rule 920(1)(b)(v) of the Listing Manual, and we note that the recommendations made by the Independent Directors shall remain the responsibility of the Independent Directors. Our opinion should not be relied on as a recommendation to any Shareholder as to how they should vote on the IPT Mandate or any matter related thereto. In rendering our opinion, we have not had regard to the specific investment objectives, financial situation, tax position and/or unique needs and constraints of any Shareholder. As different Shareholders might have different investment objectives, we would advise the Independent Directors to recommend that any individual Shareholder who may require specific advice in relation to the IPT Mandate to consult his stockbroker, bank manager, solicitor, accountant or other professional advisers.

Our terms of reference in relation to the IPT Mandate do not require us to conduct and we have not conducted any review of the business, operations or financial condition of the Company, including but not limited to, the historical or current interested person transactions carried out by the Company. Accordingly, we do not express any opinion on whether such interested person transactions were or are in compliance with the review procedures set out under the IPT Mandate. The implementation of such review procedures is the responsibility of the Directors.

We are not required nor authorised to obtain, and we have not obtained, any quotations or transaction prices from third parties for products or services similar to those which are to be covered by the IPT Mandate, and are therefore not able to, and did not, compare the interested person transactions with similar transactions with third parties. In particular, the IPT Mandate contemplates the interested person transactions that may be entered into on behalf of the Company only in the future and we have not been requested to opine on any specific transactions proposed that may form the basis of comparison with quotations or transaction prices offered by third parties.

The Company has been advised by its own professional advisers in the preparation of the Letter (other than this letter). We have no role or involvement and have not provided any advice, financial or otherwise, in the preparation, review and verification of the Letter (other than this letter). Accordingly, we take no responsibility for and express no views, whether expressed or implied, on the contents of the Letter (other than this letter).

Our opinion in relation to the IPT Mandate should be considered in the context of the entirety of the Letter.

3. IPT MANDATE

(a) Interested Person Transactions

Salient information on the Interested Person Transactions including:

- (i) The Rationale for the IPT Mandate;
- (ii) Scope of the IPT Mandate;
- (iii) Benefits to Shareholders;
- (iv) Mandated Interested Persons;
- (v) Categories of Mandated IPTs; and
- (vi) Review Procedures for Mandated IPTs

are set out in sections 2 to 7 of Appendix 1 of the Letter.

(b) Validity Period of the IPT Mandate

If approved by Shareholders at the annual general meeting of the Company to be held on 25 April 2018 (“**2018 AGM**”), the IPT Mandate will take effect from the date of the passing of the resolution for the adoption of the IPT Mandate to be proposed at the 2018 AGM, and shall apply in respect of interested person transactions entered or to be entered into from the date of the 2018 AGM until the next annual general meeting of the Company or the date on which the next annual general meeting of the Company is required to be held, whichever is the earlier, unless revoked or varied by the Company in a general meeting.

(c) Disclosure in Annual Report

In accordance with the requirements of Chapter 9 of the Listing Manual, disclosure is required to be made in the Company’s annual report (“**Annual Report**”) of the aggregate value of all interested person transactions conducted with Mandated Interested Persons pursuant to the IPT Mandate during the current financial year, and in the Annual Reports for subsequent financial years that the IPT Mandate continues in force. The Company will also announce the aggregate value of all interested person transactions conducted with Mandated Interested Persons pursuant to the IPT Mandate for the financial periods that it is required to report on, pursuant to Rule 705 of the Listing Manual within the time required for the announcement of such report.

(d) Other Transactions with Mandated Interested Persons

The Independent Directors should note that any transaction with Mandated Interested Persons which does not fall within the ambit of the IPT Mandate as set out in the section entitled “Categories of Mandated IPTs” of Appendix 1 of the Letter shall be subject to the relevant provisions of Chapter 9 of the Listing Manual and/or other applicable provisions of the Listing Manual.

Such transactions will, unless specifically excluded from the ambit of Chapter 9 of the Listing Manual, require an immediate announcement where:

- (i) the transaction is of a value equal to, or more than, 3% of the Group’s latest audited consolidated net tangible assets; or
- (ii) the aggregate value of all transactions entered into with the same Mandated Interested Person during the same financial year amounts to 3% or more of the Group’s latest audited consolidated net tangible assets.

Shareholders’ approval (in addition to an immediate announcement) is required where:

- (i) the transaction is of a value equal to, or more than, 5% of the Group’s latest audited consolidated net tangible assets; or
- (ii) the transaction, when aggregated with other transactions entered into with the same Mandated Interested Persons during the same financial year, is of a value equal to, or more than, 5% of the Group’s latest audited consolidated net tangible assets.

4. CONCLUSION

In arriving at our opinion on whether the methods and procedures for determining transaction prices of interested person transactions as set out in the section entitled “Review Procedures for Mandated IPTs” of Appendix 1 of the Letter, when taken as a whole and if applied strictly, would be sufficient to ensure that the interested person transactions would be carried out on normal commercial terms and would not be prejudicial to the interests of the Company and its minority Shareholders, we have considered the following:

- (i) The Rationale for the IPT Mandate;
- (ii) Scope of the IPT Mandate;
- (iii) Benefits to Shareholders;
- (iv) Mandated Interested Persons;
- (v) Categories of Mandated IPTs; and
- (vi) Review Procedures for Mandated IPTs.

Based on the analysis undertaken and subject to the qualifications and assumptions made herein, KPMG Corporate Finance is of the opinion that the current methods and procedures for determining the transaction prices of the Mandated IPTs as set out in the section entitled “Review Procedures for Mandated IPTs” of Appendix 1 of the Letter, if applied strictly, would be sufficient to ensure that the Mandated IPTs would be carried out on normal commercial terms and would not be prejudicial to the interests of the Company and its minority Shareholders.

This opinion is governed by, and construed in accordance with, the laws of Singapore, and is strictly limited to the matters stated herein and does not apply by implication to any other matter.

Yours faithfully

Vishal Sharma
Executive Director

Jason Yong
Director