

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*)
Mr Xu Nailing (*Executive Director*)
Mr Zhai Haitao (*Independent Director*)
Mr Lim Yu Neng Paul (*Independent Director*)
Ms Cheng Fong Yee (*Independent Director*)

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

6 April 2017

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 2017 (the “**Notice**”), accompanying the annual report for the financial year ended 31 December 2016, convening the annual general meeting of the Company to be held on 25 April 2017 (the “**2017 AGM**”);
- 1.1.2 Ordinary Resolution No. 5 relating to the proposed Change of Auditor (as defined below), as proposed in the Notice; and
- 1.1.3 Ordinary Resolution No. 9 relating to the proposed renewal of the Share Buy-back Mandate (as defined below), as proposed in the Notice.

1.2 **Letter to Shareholders.** The purpose of this Letter is to provide shareholders of the Company (“**Shareholders**”) with information relating to the proposals for the change of auditor from KPMG LLP (“**KPMG**”) to Ernst & Young LLP (“**EY**”) (the “**Change of Auditor**”) and the renewal of the mandate to enable the Company to purchase or otherwise acquire its shares in the issued share capital of the Company (“**Shares**”) (the “**Share Buy-back Mandate**”).

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 CHANGE OF AUDITOR

2.1 Background. Ordinary Resolution 5 proposed in the Notice is to appoint EY as the auditor of the Company (the “**Auditor**”) in place of the retiring Auditor, KPMG, and to authorise the Directors of the Company (the “**Directors**”) to fix their remuneration. Shareholders had appointed KPMG as Auditor at the annual general meeting dated 25 April 2016 (the “**2016 AGM**”). KPMG has served as Auditor for three years, since 15 May 2014.

2.2 Rationale. As part of ongoing good corporate governance initiatives, the Directors are of the view that it would be timely to effect a change of Auditor with effect from the financial year commencing 1 January 2017. KPMG, the retiring Auditor, will accordingly not be seeking re-appointment at the 2017 AGM.

EY was selected for the proposed appointment after the Audit Committee of the Company (the “**Audit Committee**”) (currently comprising Mr Lim Yu Neng Paul, Mr Zhai Haitao and Ms Cheng Fong Yee) deliberated on the background and credentials of EY and the audit engagement partner, Mr Alvin Phua, to be assigned to the audit, taking into consideration that Ernst & Young is the existing auditor for China Everbright International Limited, being the parent company of the Company which is listed on the Hong Kong Stock Exchange, and its subsidiaries (other than the Group) (together with the Group, the “**Everbright International Group**”). In recommending the appointment of EY, the Audit Committee also took into consideration various factors, such as the adequacy of the resources and experience of EY, the experience of Mr Alvin Phua (as set out in paragraph 2.3 below) and there being an adequate number of experienced professional staff to be assigned to the audit, having regard to the size and complexity of the Company and its subsidiaries (the “**Group**”). The Audit Committee also took into account the Audit Quality Indicators Framework as recommended by the Accounting and Corporate Regulatory Authority (“**ACRA**”) when considering EY for appointment.

After evaluation, the Audit Committee was satisfied with the experience and credentials of EY and Mr Alvin Phua and recommended that EY be selected for the proposed appointment, which would also enable the Everbright International Group to effectively streamline and rationalize its audit process within the group.

The Directors have taken into account the Audit Committee’s recommendation, including the factors considered in their evaluation, and are satisfied that EY will be able to meet the audit requirements of the Company.

The Directors wish to express their appreciation for the past services rendered by KPMG.

2.3 Information on EY. EY, as registered with ACRA, is one of the largest professional service firms in Singapore, and audits the most number of public listed companies among the Big Four audit firms in Singapore. EY has more than 128 years of experience providing audit, tax and professional services to the Singapore and global markets and employs more than 230,000 people globally. EY has relevant industry experience with audit clients providing environmental water treatment services.

The audit partner who will be in charge of the audit is Mr Alvin Phua, is a member of the Institute of Singapore Chartered Accountants and a Public Accountant registered with ACRA. Mr Alvin Phua holds a Bachelor of Accountancy degree from the Nanyang Technological University in Singapore and a Masters of Business Administration from Imperial College, London. He has more than 25 years of audit experience in providing audit and assurance services to a variety of clients, including public companies listed on the SGX-ST, and also passed the Practice Monitoring Programme by ACRA.

For more information about EY, please visit <http://www.ey.com/sg/en/home>.

2.4 Confirmations. As set out in paragraph 2.2 above, KPMG, the retiring Auditor, is not seeking re-appointment at the 2017 AGM. In accordance with the requirements of Rule 1203(5) of the listing manual of the SGX-ST (the “**Listing Manual**”):

2.4.1 the outgoing Auditor, KPMG, has confirmed that they are not aware of any professional reasons why the new Auditor, EY, should not accept appointment as Auditor;

- 2.4.2 the Company confirms that there were no disagreements with the outgoing Auditor, KPMG, on accounting treatments within the last 12 months;
- 2.4.3 the Company confirms that, other than as set out above, it is not aware of any circumstances connected with the proposed Change of Auditor that should be brought to the attention of Shareholders; and
- 2.4.4 the Company confirms that it is or will be in compliance with Rules 712, 715 and 716.

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

- 3.1 **Background.** Shareholders had approved the Share Buy-back Mandate at the 2016 AGM. The authority and limitations of the Share Buy-back Mandate were set out in the circular to Shareholders dated 8 April 2016 and the ordinary resolution in the notice of the 2016 AGM. The Share Buy-back Mandate approved at the 2016 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 2017, being the date of the forthcoming 2017 AGM. Accordingly, Shareholders' approval is being sought for the renewal of the Share Buy-back Mandate at the 2017 AGM.
- 3.2 **Market Purchases.** As at the 22 March 2017, the latest practicable date prior to the printing of this Letter (the "**Latest Practicable Date**"), the Company had purchased or acquired an aggregate of 490,000 Shares by way of Market Purchases in the preceding 12 months pursuant to the Share Buy-Back Mandate approved by Shareholders at the 2016 AGM. The highest and lowest price paid for the purchases was S\$0.505 and S\$0.490 per Share respectively. The total consideration paid for all the purchases was S\$244,668.
- 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 Company, or 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 treasury shares) as at the date of the 2017 AGM.

As at the Latest Practicable Date, no Shares were held as treasury shares. Purely for illustrative purposes, on the basis that the total number of issued Shares is 2,609,908,001 as at the Latest Practicable Date and assuming that between the Latest Practicable Date and the date of the 2017 AGM (i) no new Shares are issued and (ii) no Shares are held as treasury shares, then not more than 260,990,800 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 2017 AGM, at which the Share Buy-back Mandate is approved, up to:

- (i) the date (being a date after the 2017 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 2017 AGM) on which the authority conferred by the Share Buy-back Mandate is revoked or varied by the Company in general meeting; or
- (iii) the date (being a date after the 2017 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 acquisitions 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 acquisitions 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 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 By-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 Companies Act, Chapter 50 of Singapore (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 2016 ("**FY2016 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 2,609,908,001 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 260,990,800 Shares.

Assuming that the Company purchases or acquires the 260,990,800 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\$127,624,501 based on S\$0.489 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\$127,624,501 based on S\$0.489 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 2016;
- (ii) the purchase of Shares took place at the beginning of the financial year on 1 January 2016;
- (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 FY2016 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 2016				
Shareholders' Funds ⁽³⁾	6,798,187	6,083,451	9,337,014	8,622,278
Net Asset Value	7,191,702	6,476,966	9,337,014	8,622,278
Total Assets	14,081,232	14,067,218	11,318,253	11,304,239
Total Liabilities	6,889,530	7,590,252	1,981,239	2,681,961
Total Borrowings ⁽⁴⁾	4,887,498	5,588,220	1,960,584	2,661,306
Profit Attributable to Shareholders ⁽⁵⁾	349,343	335,329	16,288	2,274
Number of Shares ('000)				
Issued and Paid-up Share Capital	2,609,908	2,348,917	2,609,908	2,348,917
Weighted Average Number of Issued and Paid-up Shares	2,605,887	2,344,896	2,605,887	2,344,896
Financial Ratios				
Net Asset Value per Share (HK\$)	2.60	2.59	3.58	3.67
Earnings per Share (HK\$)	0.134	0.143	n.m ⁽⁶⁾	n.m ⁽⁶⁾
Gearing Ratio ⁽⁷⁾	49%	54%	18%	24%

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 260,990,800 Shares at the Maximum Price of S\$0.489 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 two 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 FY2016 RESULTS AND THE ABOVE ASSUMPTIONS AND ARE FOR ILLUSTRATION ONLY. THE FY2016 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, 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 25.19 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 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 the number of treasury shares held 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	–	–	–	–
Mr Xu Nailing	–	–	–	–
Mr Zhai Haitao	–	–	–	–
Mr Lim Yu Neng Paul ⁽¹⁾	–	–	1,608,909	0.06
Ms Cheng Fong Yee	622,266	0.02	–	–

Note:

- (1) Mr Lim Yu Neng Paul is deemed interested in 100,000 Shares held in the name of Citibank Nominees Singapore Pte. Ltd and 1,508,909 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	1,950,154,229	74.72	–	–
China Everbright Environmental Protection Holdings Limited ⁽¹⁾	–	–	1,950,154,229	74.72
China Everbright International Limited ⁽²⁾	–	–	1,950,154,229	74.72
Guildford Limited ⁽³⁾	–	–	1,950,154,229	74.72
Datten Investments Limited ⁽⁴⁾	–	–	1,950,154,229	74.72
China Everbright Holdings Company Limited ⁽⁵⁾	–	–	1,950,154,229	74.72
China Everbright Group Ltd. ⁽⁶⁾	–	–	1,950,154,229	74.72
Central Huijin Investment Ltd. ⁽⁷⁾	–	–	1,950,154,229	74.72

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 Ltd. 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 The Directors having considered, *inter alia*, the terms and the rationale of the Change of Auditor, are of the opinion that the Change of Auditor 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 Change of Auditor at the 2017 AGM to be held on 25 April 2017.

5.2 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 2017 AGM to be held on 25 April 2017.

6. ANNUAL GENERAL MEETING

The 2017 AGM will be held at The Ritz-Carlton, Millenia Singapore, Chihuly Room, Level 3, 7 Raffles Avenue, Singapore 039799 on 25 April 2017 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 2017 AGM and vote at general meetings convened by the Company.

A Depositor which is a corporation and wishes to attend and vote at the 2017 AGM may do so as the proxy of The Central Depository (Pte) Limited ("**CDP**") if its name is shown in the records of CDP as at a time not earlier than 48 hours prior to the time of the 2017 AGM and by completing, signing and returning the enclosed depositor proxy form in respect of the 2017 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 2017 AGM.

Pursuant to Bye-law 77(1)(b) of the Bye-laws, 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 as at a time not earlier than 48 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 as at 48 hours before the time of the 2017 AGM may attend and vote at the 2017 AGM without having to complete or return any form of proxy.

A Depositor who is an individual and is unable to attend the 2017 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 2017 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 2017 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 2017 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 2017 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 2017 AGM. The completion and return of the Member Proxy Form by a Shareholder will not prevent him from attending and voting at the 2017 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 Securities and Futures Act, Chapter 289 of Singapore.

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 Change of Auditor 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, Straits Trading Building, #20-02, Singapore 049910, during normal business hours from the date of this Letter up to the date of the 2017 AGM.

Yours faithfully

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

Mr Wang Tianyi
Non-Executive Director and Chairman

6 April 2017

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