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CHINA EVERBRIGHT WATER LIMITED
中國光大水務有限公司

(Incorporated in Bermuda with limited liability)
(Hong Kong Stock Code: 1857)
(Singapore Stock Code: U9E)

Responses to Questions on China Everbright Water Limited from Securities Investors Association (Singapore)

The Board of Directors (the "**Board**") of China Everbright Water Limited (the "**Company**", together with its subsidiaries, the "**Group**") wishes to update shareholders of the Company (the "**Shareholders**") that the Company has received questions from the Securities Investors Association (Singapore) (the "**SIAS**") relating to the Annual Report for the financial year ended 31 December 2019 ("**FY2019**"), which the SIAS wishes that the Company addresses to the Shareholders. The Company's responses to such questions are set out below:

QUESTION 1

Would the Board provide Shareholders with better clarity on the following operational/strategic matters? Specifically:

(i) Raw water protection: How different is a raw water protection project from the other projects of the Group such as water supply, river-basin ecological restoration projects? How big is the addressable market? Is this a potential growth area for the Group?

The Company's Response:

Raw water refers to the source of water supply. The quality of raw water shall meet the requirements of the quality for the water supply source. Protection of raw water mainly represents protection of the quality and safe provision of water supply. It is an integral part of water supply. River-basin ecological restoration projects principally provide treatment and restoration of river-basin for polluted water bodies such as rivers and lakes. In normal circumstances, polluted water bodies are not suitable for serving as the source of water supply.

Following the ongoing economic development and the continuous improvement of the living standards in China ("**China**" or "**Mainland China**" for the purpose of this announcement refers to the areas of the People's Republic of China excluding Hong Kong Special Administrative Region, Macao Special Administrative Region and Taiwan), the demand for quality of life has been increasing. Therefore, the quality standard and control of water supply have been tightened. The importance of water supply safety has become more prominent and the market for raw water protection is enormous. According to the "China Urban and Rural Construction Statistical Yearbook", the national urban water supply capacity of China reached 305 million m^3/day as at end of 2017. It is anticipated that the scale of raw water protection is much greater than that of urban water supply. The extent of market for raw water protection will depend on the necessity of enhancing the standard of water quality and local governments' financial capability to make payment.

As one of the new scopes for the Company's business development, raw water protection is also a potential area of growth in terms of its businesses and markets.

(ii) Market-oriented operation model: The Group has also implemented its first market-oriented operation model for the industrial park waste water treatment business. Would the Company's management (the "Management") help Shareholders understand the main characteristics of a "market-oriented operation model"?

The Company's Response:

The main characteristics of a market-oriented operation model for the industrial park waste water treatment business are as follows:

(1) the government authority (which is usually the management committee of the industrial park) grants an exclusive concession right for the industrial park waste water treatment service to the investor-cum-operator. Thereafter, the investor-cum-operator establishes a project company to construct a waste water treatment plant for the industrial park. Such waste water treatment plant mainly provides waste water treatment service to the waste water discharging industrial enterprises in the industrial park.

(2) under the market pricing mechanism, the project company negotiates the waste water treatment service fee based on the pollution load of waste water discharged by each of those enterprises and enters into a waste water treatment service agreement with each of them. The project company collects waste water treatment service fees directly from the waste water discharging industrial enterprises in accordance with the terms of the agreement.

(iii) ***Germany: The Group also recognised HK$14.7 million in revenue from Germany. Can the Management help Shareholders understand the progress made in the past 1.5 years by the joint venture in Germany and the opportunities in the next 18-24 months?***

The Company's Response:

The Group's German subsidiary E+B Umwelttechnik GmbH ("**E+B**") was jointly established by the Company and its German partner in Germany with shareholding of 80% and 20% respectively. Established in February 2018, E+B's principal business activities include technological research and development, engineering services, technology transfer, equipment sales and installation in the area of environmental water business and undertaking of engineering, procurement and construction projects for the environmental protection sector. As the environmental technology and market in the Western Europe are already highly saturated, E+B mainly focuses on the Asian market (in particular China) and the Eastern Europe market.

Since its establishment, E+B has provided technology consultancy services and assisted in acquisition of advanced equipment for various projects both inside and outside the Group, and recorded a steady improvement in its revenue and profit for 2018 and 2019. At present, E+B is still actively pursuing projects in various countries and expected to achieve steady performance in the next two years.

QUESTION 2

On 21 January 2019, the Company completed the issuance of its third tranche of RMB-denominated corporate bonds with a principal amount of RMB700 million. The third tranche of the corporate bond bears interest at a rate of 3.89% per annum.

(i) ***Can the Management help Shareholders understand the pros and cons of issuing RMB-denominated corporate bonds? As at 31 December 2019, the Group has HK$2.76 billion of corporate bonds and HK$6.32 billion in bank loans.***

The Company's Response:

The Company's issuance of RMB-denominated corporate bonds ("**Panda Bonds**") in Mainland China primarily has the following advantages:

(1) the Panda Bonds are bonds denominated in Renminbi ("**RMB**"). The proceeds are used in Mainland China, for example, project construction, partial repayment of bank borrowings due and replenishment of working capital. Since the investment projects of the Group are all located in Mainland China, the issuance of the Panda Bonds is not subject to the risk of foreign exchange loss;

(2) the financing costs of the Panda Bonds are more favorable than that of RMB bank loans in Mainland China with the same term. The issuance of the Panda Bonds can reduce the Group's financing costs and thus increase the Shareholders' returns; and

(3) the interest rate of the Panda Bonds is fixed and remains unchanged during the maturity period of bonds. This helps the Company lock in the capital cost for the medium-to-long term. Meanwhile, the maturity period of bonds is five years and the Company is entitled to exercise the option to adjust the interest rate prior to the end of the third year from the issuance date (thus the maturity period of the Company's Panda Bonds is also described as "3+2 years"). Hence, this structure is more beneficial to the capital cost management of the Company.

The issuance of the Panda Bonds primarily has the following disadvantage:

(1) The Panda Bonds are bonds denominated in RMB. Without taking into account the foreign exchange risk, the financing costs of the Panda Bonds are slightly higher than those of the overseas loans denominated in United States dollars or Hong Kong dollars.

For the first tranche of Panda Bonds ("First Tranche Panda Bonds") issued in July 2017, the Group has the option to adjust the interest rate prior to the end of the third year from the issuance date, i.e. 24 July 2020. The bondholders have an option to sell back the First Tranche Panda Bonds to the Company at the face value. This adjustment at the three-year mark is a feature in all the three tranches of Panda Bonds issued by the Company.

(ii) What is the pricing mechanism for the interest rate adjustment? How does the Management manage the uncertainty over the amount that would be sold back by the bondholders?

The Company's Response:

The maturity period of each of the three tranches of the Panda Bonds issued by the Company is 3+2 years. As the issuer, the Company may exercise the option to adjust the interest rate prior to the end of the third year from the issuance date, which greatly increases the flexibility of the terms of the bonds. Specifically, the issuer is entitled to adjust the interest rate of that tranche of the Panda Bonds for the following two years, prior to the end of the third year from the issuance date. If the issuer does not exercise the option to adjust the interest rate, the interest rate of that tranche of the Panda Bonds for the following two years will remain unchanged from the original interest rate. At the same time, after the issuer publishes the announcement regarding whether or not to make adjustment to the interest rate of that tranche of the Panda Bonds and (if making adjustment) the extent of adjustment, the bondholders have the right to choose to register within a specific period ("**Selling Back Registration Period**") to sell all or part of that tranche of the Panda Bonds back to the issuer at the face value or choose to continue holding that tranche of bonds. If the bondholders do not register within the Selling Back Registration Period, they will be deemed to continue holding that tranche of the Panda Bonds and accept the adjustment to the interest rate. Through such mechanism, if the issuer adjusts the interest rate of the Panda Bonds prior to the end of the third year, it is equivalent to obtaining bond financing with a term of two years at the new financing cost (i.e. the adjusted interest rate) from the bond market.

After years of interest rate liberalization reform, the prices of RMB-denominated funding with various terms in Mainland China have become relatively transparent. The financing costs of the Panda Bonds can simply be broken down into "risk-free rate factor + maturity period spread + credit risk premium + liquidity risk premium + other factors". Any changes in these factors may change the interest rate of the Panda Bonds.

The period of three years from the issuance date for the First Tranche Panda Bonds is going to expire soon. At such juncture, the Company will, according to the market conditions and the market capital costs in the bond market of Mainland China, determine whether to make adjustment to the interest rate of that tranche of the Panda Bonds and (if making adjustment) the extent of adjustment. During the Selling Back Registration Period, the market capital price for the issuer and financial instrument with the same credit rating will serve as the reference price for the adjustment of the interest rate by the Company. The Company will make a decision according to its own overall capital needs and the comparison of financing costs for various channels. The Company will make announcement on the decision accordingly pursuant to the requirements by the Shanghai Stock Exchange (and concurrently publish the announcement on the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") and The Stock Exchange of Hong Kong Limited (the "**SEHK**")). The bondholders of that tranche of the Panda Bonds can thus decide whether to continue holding the Panda Bonds or sell back to the Company. In general, the higher the increase of the interest rate is, the lower the rate of selling back by the bondholders is likely to be, i.e. a higher percentage of bondholders is likely to continue holding that tranche of Panda Bonds.

The Group has sufficient capital. Assuming that the bondholders sell back all the bonds of that tranche, the Group is still able to satisfy the payment in full.

On 15 January 2020, the Group announced that it had applied for the proposed issuance of medium term notes ("MTNs") in Mainland China with a registered principal amount of RMB3 billion. The first tranche of the MTN is RMB800 million.

(iii) Similarly, what are the advantages and disadvantages of issuing MTNs compared to other sources of funding?

The Company's Response:

MTNs are the debt financing instruments issued in the inter-bank bond market in Mainland China by non-financial enterprises. The other existing financing channels of the Group include domestic bank loans, overseas bank loans and Panda Bonds. Comparing with such financing channels, the major advantages of MTNs are as follows:

(1) The costs and term of MTNs are more advantageous compared to domestic bank loans.

The term of liquidity loans provided by the banks in Mainland China is generally one to three years. Currently, the benchmark interest rate of such loans with a term of one year or less is 4.35% per annum and the benchmark interest rate of loans with a term of one to three years is 4.75% per annum. The term of construction project financing provided by the banks in Mainland China is generally eight to ten years and the current benchmark interest rate of loans is 4.90% per annum.

The terms of MTNs are three to ten years (both inclusive). Based on the current capital market, the cost of MTNs of the issuers with better quality and creditability is substantially lower than the interest rates of the aforesaid local bank loans.

(2) Comparing with overseas bank loans, the RMB-denominated MTNs issued by the Company are not exposed to foreign exchange risk.

The Group's overseas bank loans are mainly denominated in Hong Kong dollars and United States dollars, the terms of which are generally one to five years. As the investment projects of the Group are located in Mainland China, the functional currency of the Group is RMB and the Group's revenues and costs are mainly recorded in RMB. The RMB-denominated MTNs issued by the Group are not exposed to foreign exchange risk.

(3) Comparing with Panda Bonds issued on stock exchanges, the approval procedures for the issuance of MTNs are simpler and its issuance efficiency is higher.

The issuance of Panda Bonds (regardless of whether it will be remitted overseas) in stock exchanges requires the approval from the China Securities Regulatory Commission, related stock exchanges, the State Administration of Foreign Exchange of China and the People's Bank of China. The registration and issuance of MTNs (when they are not remitted overseas) only requires the approval of the National Association of Financial Market Institutional Investors. As such, the approval procedures are simpler and efficiency in issuing MTNs is higher.

Comparing with other financing channels of the Group, the main disadvantages of MTNs are as follows:

(1) Comparing with domestic and overseas commercial bank loans, the interest rate for MTNs is fixed and the interest rate during the term will not be adjusted. If the market capital prices drop, the financing cost of the issuer may increase.

(2) The diversity of transaction mechanisms of the inter-bank market is less than stock exchanges, thus the liquidity of MTNs issued in inter-bank market is lower as compared to the Panda Bonds issued in stock exchanges. As such, the interest rate of MTNs includes higher liquidity premium.

(iv) ***Has the Board explored the issuance of "green bonds"?***

The Company's Response:

With regards to the second tranche of Panda Bonds issued by the Company in August 2018, a principal amount of RMB400 million is classified as Green Panda Bonds and the proceeds of which are used for the construction of designated "green projects" after deduction of issuance costs. Such "green projects" meet the requirements of the Directory of Green Bonds Supported Projects (2015 Version) composed and issued by the Green Finance Committee, China Society for Finance and Banking and are the green industry projects supported by the nation. Such "green projects" have been certified by an independent third-party institution.

The Company is aware that other markets have also launched different types of "green bond" plans. The Group will take into consideration of various factors, such as its own capital requirements, the financing cost of such financing channel, terms of financings and risk exposures. If there is any active exploration and development, the Company will publish announcements on SGX-ST and the SEHK.

For FY2019, the Group has total borrowings of HK$9.1 billion. Total interest expense on bank and other loans and corporate bonds amounted to HK$355 million. Total equity stands at HK$9.55 billion. Net debt-to-equity ratio is 99%, as shown in Note 40 (page 285 of the Annual Report for FY2019).

(v) ***What guidance has the Board given to the Management on the maximum leverage that could be used to support the growth of the business?***

The Company's Response:

In order to balance business growth and financial health, the current goal of the Company for its gearing ratio is to not exceed 65% (the gearing ratio of the Company was 57.9% as at the end of 2019).

Currently, the gearing level of peer companies ranges from 65% to 70%. Comparing with peer companies, the gearing level of the Company is still comparatively more reasonable and there is still room to increase its financial leverage.

(vi) What is the capital structure that is most optimal to support the Group's growth?

The Company's Response:

The Group closely monitors its gearing level and actively develops its businesses while ensuring the stability of its financial conditions. The Group also plans and monitors the proportion of long- and short-term loans, the proportion of loans denominated in RMB and foreign currencies, the replacement of short term loans with long term loans and the replacement of the higher interest rate loans with the lower interest rate loans, so as to control the financing cost of the Group and potential foreign exchange risk and liquidity risk. The current capital structure of the Group can better support its business growth. In the future, the Group will further take into full account of factors such as business growth and market capital and timely adjust its capital structure.

QUESTION 3

On 8 May 2019, the Company dual primary listed successfully on the main board of SEHK following its initial listing on the SGX-ST.

Under the global offering, the Company allotted and issued a total of 103,970,000 shares, representing 3.74% of the enlarged capital, at the offer price of HK$2.99 per share.

Out of the gross proceeds of HK$310.87 million, the Company received net proceeds amounting to approximately HK$248.61 million. The net proceeds were mainly used to fund projects in Mainland China.

(i) With more than a year of being dual listed, how has the Company benefitted from the dual listing?

The Company's Response:

Since the fundraising scale under this global offering is not large, the dual listing does not have any major and actual impact on the Group's business in the short run. However, in the long run, the Company has expanded into a new capital market through dual listing, attracted different investors and enlarged the shareholder base. Since dual listing, the average daily trading volume of the Company's shares has also increased.

In addition, Hong Kong investors are more familiar with the water market of China, and have a better understanding of the business scope and operation status of the Group, which will help improve the liquidity of the Company's shares.

Stock Connect, a unique collaboration between the Hong Kong, Shanghai and Shenzhen Stock Exchanges, was launched in November 2014 to permit international and Mainland China investors to trade securities in each other's markets through the trading and clearing facilities of their home exchanges. The Company hopes that its securities will be included in the list of eligible securities for trading through Stock Connect in the future, so as to attract investors from Mainland China.

The Company believes that in the medium-to-long term perspective, listing in Hong Kong can strengthen the equity financing capability of the Company and thus enhance the flexibility of financing by the Company in order to achieve the optimal capital structure.

By Order of the Board
China Everbright Water Limited
An Xuesong
Executive Director and Chief Executive Officer

Hong Kong and Singapore, 10 June 2020

As at the date of this announcement, the Board comprises: (i) a non-executive director, Mr. Wang Tianyi (Chairman); (ii) two executive directors, namely Mr. An Xuesong (Chief Executive Officer) and Mr. Luo Junling; and (iii) four independent non-executive directors, namely Mr. Zhai Haitao, Mr. Lim Yu Neng Paul, Ms. Cheng Fong Yee and Ms. Hao Gang.