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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)

**OVERSEAS REGULATORY ANNOUNCEMENT
RESPONSES TO QUERIES FROM
SINGAPORE EXCHANGE SECURITIES TRADING LIMITED
IN RELATION TO THE COMPANY'S FY2023 ANNUAL RESULTS**

This overseas regulatory announcement is issued pursuant to Rule 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Please refer to the attached announcement which has been published by China Everbright Water Limited (the “**Company**” or “**Everbright Water**”) on the website of the Singapore Exchange Securities Trading Limited on 20 March 2024.

By Order of the Board
China Everbright Water Limited
Kwan Yun Fui
Legal Counsel and Joint Company Secretary

Hong Kong, 20 March 2024

As at the date of this announcement, the board of directors of the Company comprises: (i) one non-executive director, namely Mr. Luan Zusheng (Chairman); (ii) two executive directors, namely Mr. Tao Junjie (Chief Executive Officer) and Mr. Wang Yuexing; and (iii) six independent non-executive directors, namely Mr. Zhai Haitao, Mr. Lim Yu Neng Paul, Ms. Cheng Fong Yee, Ms. Hao Gang, Mr. Ng Joo Hee Peter and Mr. Soh Kok Leong.

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IN RELATION TO THE COMPANY'S FY2023 ANNUAL RESULTS**

The board (the “**Board**”) of directors (the “**Directors**”) 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 queries from the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) relating to the Company’s annual results for the financial year ended 31 December 2023 (“**FY2023**”) published on 27 February 2024 (“**FY2023 Annual Results**”), which SGX-ST wishes that the Company addresses to the Shareholders. The queries from SGX-ST and the Company’s responses to such queries are set out below.

QUERIES FROM SGX-ST

Query 1

The Company had recorded a significant increase in current trade receivables from HK\$3.4 billion in the financial year ended 31 December 2022 (“FY2022”) to HK\$4.4 billion in the FY2023. Please explain the significant increase in trade receivables despite the Company’s revenue differing by only 0.3% across both financial years. Please also explain the significant increase in trade receivables that are due for more than 13 months from HK\$851.8 million in FY2022 to HK\$1.3 billion in FY2023 and the Board’s assessment of the recoverability of these trade receivables.

The Company’s Response:

The Group enters into service concession arrangements with local governments in the People’s Republic of China (“**China**” or “**PRC**”) to build and/or operate waste water treatment plants through Build–Operate–Transfer (“**BOT**”), Transfer-Operate-Transfer (“**TOT**”) and Build-Own-Operate (“**BOO**”) arrangements.

The Group applies International Financial Reporting Interpretations Committee (“**IFRIC**”) Interpretation 12 (“**IFRIC 12**”) in its recognition of revenue from service concession arrangements, which includes construction service revenue, operation income and finance income. Construction service revenue from service concession arrangements falling under the scope of IFRIC 12 is recognised as contract assets and/or intangible assets. During the operation phase of the projects, when the Group received the payment of waste water treatment service fees, it uses a portion of the invoiced waste water treatment service fees to pay down the balance of service concession financial receivables (including the contract asset classification), recognises a portion as finance income during the operation phase, and recognises the remainder as operation income. Simultaneously, the invoiced operation income will be transferred to trade receivables, which therefore reflect the amount due from customers for the services provided during the operation phase of TOT, BOO and BOT projects.

The following table sets out the breakdown of the revenue of the Group for the FY2023 and FY2022:

	FY2023 <i>HK\$'000</i>	FY2022 <i>HK\$'000</i>	Change %
Construction service revenue from service concession arrangements	2,066,019	2,403,740	-14.0%
Finance income from service concession arrangements	1,097,182	1,107,945	-1.0%
Operation income from service concession arrangements	3,104,693	2,950,629	5.2%
Construction contract revenue and technical service income	<u>436,790</u>	<u>265,653</u>	64.4%
	<u>6,704,684</u>	<u>6,727,967</u>	-0.3%

The remaining income excluding construction

service revenue and finance income from service concession arrangements	3,541,483	3,216,282	10.1%
Number of operating projects	141	129	9.3%

In the event of excluding construction service revenue and finance income from service concession arrangements (i.e. the income recognised for contract assets and/or intangible assets), the income of the Group from sales of goods or provision of services would be HK\$3.541 billion, representing a year-on-year increase of 10.1%. The increase in operating income for the year was in line with the increase of 9.3% in the number of operating projects of the Group.

	As at 31 December 2023 <i>HK\$'000</i>	As at 31 December 2022 <i>HK\$'000</i>	Change %
Trade receivables	5,060,763	3,808,432	32.9%
Less: impairment	<u>(626,215)</u>	<u>(446,835)</u>	40.1%
	<u>4,434,548</u>	<u>3,361,597</u>	31.9%
Impairment ratio	12.4%	11.7%	0.6%

The major customers of the Group are local PRC governments of areas in which its environmental water projects are located. In FY2023, China's economy was still recovering from the impacts of the COVID-19 pandemic in previous years. It took some time for the financial conditions of the various local PRC governments to improve, which caused delayed payments of waste water treatment service fees resulting in the significant increase in the balance of trade receivables and the balance of trade receivables aged more than 13 months. Nevertheless, delayed payments by local governments are a commonplace issue in the waste water treatment industry while cases of default by local governments (where the relevant local government confirms that the waste water treatment service fee will no longer be paid) are relatively rare.

Meanwhile, the Board and the management, based on past experience from the full recovery of several ageing receivables from the Liaoning Province after several years, are of the opinion that related receivables recovery risk is within a manageable range. The Group has been focusing on the collection of trade receivables and regularly analyses the situations of trade receivables, implements working plans and trade receivables recovery proposals and actively communicates with local governments regarding the settlement of waste water treatment service fees. The existing control measures are effective as a whole.

The Group regularly performs impairment assessment of its trade receivables on their recoverability in accordance with International Financial Reporting Standards 9. The assessment methodology takes into account the debtors' credit rating, past history of due repayments, past experience and other factors. In FY2023, the Group had an accumulated impairment allowance of HK\$626 million for trade receivables, representing an increase of 40.1% compared to that at the end of FY2022. The provision ratio of impairment in general was 12.4%. In FY2023 alone, the Group recorded an impairment loss on trade receivables in the amount of HK\$194 million. Taking all factors into consideration, the Board is of the opinion that the current provision for impairment of trade receivables is at a reasonable level.

Query 2

The Company had recorded a significant increase in other receivables and sundry deposits from HK\$126.5 million in FY2022 to HK\$636 million in FY2023, as well as an increase in prepayments from HK\$122 million in FY2022 to HK\$213 million in FY2023. Please explain the significant increase in other receivables and sundry deposits as well as prepayments. Please also provide a breakdown of the nature of the other receivables, the underlying transactions and terms of payments and whether these were incurred in the ordinary course of business.

The Company's Response:

	As at 31 December 2023 HK\$000	As at 31 December 2022 HK\$000
Non-current		
Other receivables	22,869	304,462
Current		
Other receivables and sundry deposits	<u>636,027</u>	<u>126,497</u>
	<u>658,896</u>	<u>430,959</u>

Total current and non-current other receivables and sundry deposits as at 31 December 2023 and 31 December 2022 were HK\$658,896,000 and HK\$430,959,000, respectively. Other receivables and sundry deposits were mainly: a) the government compensation receivables of approximately HK\$274,126,000 (31 December 2022: HK\$281,585,000), arising from the disposals of service concession arrangement-related intangible assets and contract assets in connection with relocation and expansion of waste water treatment plants of Everbright Water (Zibo) Limited in the financial year ended 31 December 2021; b) the government compensation receivables of approximately HK\$205,380,000 (31 December 2022: nil), arising from the 13 subprojects of a subsidiary, Everbright River Basin Remediation (Nanjing) Limited, in FY2023; c) the government compensation receivables of approximately HK\$26,751,000 (31 December 2022: HK\$26,508,000), arising from the compensation of sludge disposal cost as stipulated in the service concession agreement of a subsidiary, Everbright Water (Beijing) Limited; d) the security deposits of approximately HK\$21,756,000 (31 December 2022: HK\$22,348,000) paid for the Tongxiang West Area Drinking Water Sources Protection Public-Private Partnership Project; and e) the

consideration receivables of approximately HK\$4,514,000 (31 December 2022: HK\$6,394,000), due from third parties arising from the disposals of service concession rights held by the subsidiaries, Suqian City Cheng Bei Water Treatment Co., Ltd. and Suqian City Cheng Bei Wastewater Treatment Co., Ltd, years ago. The remaining amounts as at 31 December 2023 and 31 December 2022 were HK\$126,369,000 and HK\$94,124,000, respectively, which were mainly the security deposits, project construction disbursements receivables and sundry receivables related to projects.

Total current and non-current other receivables and sundry deposits as at 31 December 2023 recorded an increase of HK\$227,937,000 as compared to the end of previous year, mainly due to above-mentioned recognition of the government compensation receivables of approximately HK\$205,380,000, arising from the 13 subprojects in FY2023 by Everbright River Basin Remediation (Nanjing) Limited.

	As at 31 December 2023 HK\$000	As at 31 December 2022 HK\$000
Non-current		
Prepayments	28,214	–
Current		
Prepayments	<u>213,239</u>	<u>122,104</u>
	<u>241,453</u>	<u>122,104</u>

Total current and non-current prepayments as at 31 December 2023 and 31 December 2022 amounted to a total of HK\$241,453,000 and HK\$122,104,000, respectively. Prepayments were mainly prepayments of project construction works and equipment, prepayments of project's operating utility fees, prepaid other operating expenses and prepayment of consideration for extending the term of a service concession right. Total current and non-current prepayments as at 31 December 2023 recorded an increase of HK\$119,349,000 as compared to the end of previous year, mainly due to the partial payment of the consideration for extending the term of a service concession right of a project of approximately HK\$28,214,000, and an increase in the prepayments of project construction works and equipment.

Query 3

It is noted that the Company has a net cash outflow from operating activities of HK\$528.8 million and a net profit of HK\$1.6 billion for FY2023. Please explain why the Company is unable to generate net cash inflow from its operating activities, despite the Company's net profit position for the financial year.

The Company's Response:

The Company recorded net profits each year, while cash flows from operating activities are net outflows, mainly due to the increase in contract assets included in the cash flows from operating activities. The increase in contract assets represents the cash outflows in relation to the construction expenditure (i.e. capital expenditure) arising from the Company's investment and construction of concession projects with guaranteed revenue (i.e. projects with guaranteed minimum water volume). This portion of cash outflows is classified as cash flows from operating activities, rather than as cash flows from investing activities according to IFRIC 12. Therefore, following the increase in the Company's business scale as well as the increase in the investment and construction of the concession projects, cash flow from operating activities becomes negative.

By Order of the Board
China Everbright Water Limited
Kwan Yun Fui
Legal Counsel and Joint Company Secretary

Singapore and Hong Kong, 20 March 2024

As at the date of this announcement, the board of directors of the Company comprises: (i) one non-executive director, namely Mr. Luan Zusheng (Chairman); (ii) two executive directors, namely Mr. Tao Junjie (Chief Executive Officer) and Mr. Wang Yuexing; and (iii) six independent non-executive directors, namely Mr. Zhai Haitao, Mr. Lim Yu Neng Paul, Ms. Cheng Fong Yee, Ms. Hao Gang, Mr. Ng Joo Hee Peter and Mr. Soh Kok Leong.