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Issuer: China Everbright Water Limited

Security: China Everbright Water Limited

Meeting details:

Date: 12 April 2019

Time: 9.30 a.m.

Venue: The Ritz-Carlton, Millenia Singapore, Chihuly Room, Level 3, 7 Raffles Avenue, Singapore 039799

Company Description

China Everbright Water Limited, an investment holding company, provides integrated environmental water services in the People's Republic of China. It offers waste water treatment services; and constructs and maintains pipeline network. The company is also involved in the research, development, construction, and operation of sponge city; water supply, reusable water, waste water source heat pump, and sludge treatment and disposal activities; river-basin ecological restoration activities; research and development of water technologies; and engineering and construction activities. In addition, it provides business development and management services; investment and investment management services; and consultancy services for water treatment technology. As of December 31, 2017, the company invested in and operated water treatment projects with a designed daily waste water treatment capacity of approximately 5.34 million cubic meter. The company is headquartered in Shenzhen, the People's Republic of China. China Everbright Water Limited is a subsidiary of China Everbright Water Holdings Limited.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=U9E)

1. As highlighted in the chairman's statement, the concept of ecological conservation became a national objective in the People's Republic of China ("PRC") with the establishment of the Ministry of Ecology and Environment in 2018.

On the industry outlook, it was mentioned that an effective implementation of the Water Pollution Prevention and Control Plan (also known as the "Clean Water Action Plan") would give more opportunities in industrial waste water treatment and the upgrading of existing traditional municipal waste water treatment plants.

In the CEO's statement & Business review, revenue and gross profit surged by a third to HK\$4.77 billion and HK\$1.62 billion respectively. Profit attributable to shareholders also increased by 32% to HK\$676 million. The earnings per share for FY2018 was HK\$0.256.

As at 31 December 2018, the gearing ratio stood at 55.8%.

In FY2018, the group also securing 15 new projects and a further 4 supplementary agreements from existing projects.

- (i) How has management adapted to the changes in the regulatory regime? Does the group have the bandwidth in its management and technical teams to seize the new opportunities?**

Please clearly state the group's growth initiatives and strategic priorities for 2019-2020.

- (ii) Would the company consider listing down all its plants (operational and under construction) and provide an overview that includes the capacity, utilisation, concession model (such as BT, BOT, TOT, BOO), etc?**

In the CEO's statement, it was also mentioned that 18 waste water treatment plants of the group received regulatory approval for tariff hike.

- (iii) What is the projected impact on the group's cash flow and earnings due to the hike? What are the criteria for tariff hikes and how frequently are the tariffs reviewed?**

2. The "Recoverability of trade receivables" is a key audit matter (KAM) highlighted by the Independent Auditor in their Report on the Audit of the Financial Statements (page 78). Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.

As noted in the KAM, as at 31 December 2018, the group had trade receivables amounting to HK\$721,281,000, net of expected credit losses ("ECL") allowance of HK\$49,888,000.

In Note 22 (page 174 – Trade and other receivables), the ageing analysis of the trade receivables that are not impaired is as follows:

Group
本集团

		As at 31 December 于十二月三十一日	
		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Current	即期	367,987	222,142
Past due:	已逾期:		
- 1 to 30 days	- 1至30日	21,844	40,250
- 31 to 90 days	- 31至90日	73,100	32,578
- 91 to 180 days	- 91至180日	133,978	13,685
- 181 to 365 days	- 181至365日	54,511	25,391
- more than 1 year but within 2 years	- 超过一年但两年内	38,851	74,860
- over 2 years	- 两年以上	31,010	4,871
Amounts past due	逾期款项	353,294	191,635
		721,281	413,777

(Source: Company annual report)

As at 31 December 2018, the outstanding amount of trade receivables past due but not impaired increased by 74% to HK\$721 million. In particular, the amount past due by over 2 years jumped from HK\$4.9 million to HK\$31.0 million and the amount past due by 91 to 180 days is approximately 10 times higher at HK\$134 million.

- (i) Can management help shareholders understand the reasons for the increase in the total trade receivables past due but not impaired and, in particular, the amounts that are overdue by more than 2 years?**
- (ii) What is the process by management to evaluate the collectability of these long outstanding receivables?**
- (iii) Can management help shareholders understand its efforts in collecting these long outstanding trade receivables? Given that most of the debtors are local government authorities in the PRC tied down to a long contract, how can management improve its working capital management to free up capital to support its future growth?**
- (iv) Has the audit committee (AC) evaluated if the group's credit risk has increased as the group scaled up its operations? Has the AC considered making further improvement to its credit risk framework?**

3. In the Corporate governance report, it was disclosed that Mr. Lim Yu Neng Paul and Ms. Cheng Fong Yee were first appointed to the board on 31 July 2007. Mr. Lim and Ms. Cheng have each served on the board for over 11 years.

In addition, in August 2018, the Monetary Authority of Singapore issued a revised Code of Corporate Governance (“2018 CG Code”). As a consequence of the revised 2018 CG Code, the Singapore Exchange has made amendments to its Listing Rules which came into effect on 1 January 2019, except for the rules on the 9-year tenure for independent directors and the requirement for independent directors to comprise one-third of the board which come into effect on 1 January 2022. Under the revised Listing Rules, the term of an independent director will be limited to nine years after which the long tenured directors will be subject to a two-tier vote by shareholders.

- (i) Has the company evaluated the impact of the 2018 CG Code and the amendments to the Listing Rules on the board?**
- (ii) Is the company considered a foreign issuer on the SGX and thus required to have at least two independent directors who are Singapore residents on a continuing basis?**
- (iii) With the appointment of independent directors Mr. Zhai Haitao and Ms. Hao Gang in 2015 and 2018 respectively, what are the company’s other near term plans to refresh the membership of the board to comply with the new 2018 Code in good time?**
- (iv) What is the search and nomination process for new directors, especially independent directors? Is the board leveraging on professional search firms to cast the net wider to possibly increase the quality and diversity of its candidate pool?**