



CITIC ENVIROTECH LTD
(Company Registration Number: 200306466G)

**PROVISION OF SERVICES BY THE COMPANY TO KARAZHANBASMUNAI JSC PURSUANT TO A
CONSTRUCTION AND COOPERATION AGREEMENT**

1. INTRODUCTION

The Board of Directors of CITIC Envirotech Ltd ("**Company**") (and together its subsidiaries, the "**Group**") wishes to announce that the Company had entered into a conditional construction and cooperation agreement ("**Construction and Cooperation Agreement**") with Karazhanbasmunai JSC ("**KBM**") for, *inter alia*, (i) the construction of the facility to be constructed, and subsequently operated and managed by the Company for the demineralisation of reservoir water in the field of Karazhanbas ("**Facility**"), (ii) the provision of technology, equipment and all intellectual property rights in connection thereto, (iii) the provision of reservoir water demineralisation services to the reservoir water in the field of Karazhanbas, and (iv) the long-term supply of desalinated water by the Company to KBM during the service concession period of 15 years up to 2035 as stated in the Construction and Cooperation Agreement ("**Service Concession Period**") ("**Proposed Transaction**") ("**Project**").

KBM was established in Kazakhstan and is a joint venture entity between CITIC Canada Energy Limited ("**CCEL**") and JSC KazMunaiGas Exploration Production. CCEL has a shareholding interest in 50% of the issued voting shares of KBM (which represents 47.31% of the total issued shares of KBM). CITIC Oil & Gas Holdings Limited, an indirect wholly-owned subsidiary of CITIC Resources Holdings Limited, and JSC KazMunaiGas Exploration Production, through CCEL, jointly own, manage and operate KBM. CITIC Resources Holdings Limited is in turn a subsidiary of CITIC Corporation Limited which is in turn a wholly-owned subsidiary of CITIC Limited. CITIC Limited is controlled by CITIC Group Corporation. CITIC Group Corporation is also a controlling shareholder (as defined in the Fourth Schedule to the Securities and Futures (Offers of Investments)(Securities and Securities-based Derivatives Contracts) Regulations 2018 ("**SFR**") and the Listing Manual of the Singapore Exchange Trading and Securities Limited ("**SGX-ST**") ("**Listing Manual**")) of the Company.

As at the date of this announcement, CITIC Group Corporation has an indirect interest in 1,370,889,284 Shares representing approximately 56.36% of the entire issued share capital of the Company (excluding treasury Shares).

2. SALIENT TERMS AND CONDITIONS

The terms and conditions of the Construction and Cooperation Agreement were negotiated and agreed upon by the parties on an arm's length basis. The principal terms of the Construction and Cooperation Agreement are set out below:

2.1 Obligations of the Company

The Company is required to, *inter alia*, (i) carry out the construction, operation and management of the Facility; (ii) obtain all relevant licences and permits required for construction of the Facility prior to commencement of the relevant work scope under the Construction and Cooperation

Agreement; (iii) upon commencement of operations of the Facility, supply desalinated water to the Facility for testing purposes to ensure that the quantity and quality of such desalinated water meets the requirements for the operation of the Facility; and (iv) ensure that the production rate of the Facility shall be no less than 17,000 cubic metres daily.

The effectiveness of the Construction and Cooperation Agreement and the Company's obligations under the Construction and Cooperation Agreement are conditional on the Company having obtained the necessary approval from the shareholders of the Company ("**Shareholders**") who are deemed independent for the purposes of the Proposed Transaction.

2.2 Supply of desalinated water by the Company

As part of the Construction and Cooperation Agreement, KBM has also agreed to procure desalinated water for the operation of the Facility from the Company which quantity shall be no less than 5,475,000 cubic metres annually and at such price which ensures that the Company derives an internal rate of return ("**IRR**") of at least 12% per annum on the Project over the duration of the Service Concession Period ("**Water Price**").

The Water Price will be calculated based on (i) the Investment Costs (as defined below); and (ii) the Operating Costs (as defined below).

2.3 Obligations of KBM

KBM is required to, *inter alia*, (i) develop the design and estimated documentation package in connection with the Facility and obtain the relevant approvals from the authorised bodies and in accordance with the laws of Kazakhstan at the cost and expense of the Company; and (ii) procure desalinated water from the Company, which quantity shall be no less than 5,475,000 cubic metres annually and at such price which ensures that the Company derives an IRR of at least 12% per annum on the Project over the duration of the Service Concession Period.

2.4 Investment costs under the Cooperation and Construction Agreement

The total amount of investment costs to be incurred by the Company in connection with the construction of the Facility under the Construction and Cooperation Agreement is estimated to be US\$65,000,000 (approximately S\$89,648,000, based on the exchange rate of US\$1 : S\$1.38) ("**Investment Costs**").

The Investment Costs were arrived after arm's length negotiations between the parties on a "willing buyer willing seller" basis after referencing similar engineering, procurement and construction projects for water demineralisation facilities undertaken by the Group which had been recently undertaken and completed for unrelated third parties on an arm's length basis and adjusting for local cost factors such as material and labour costs and prevailing economic conditions, design, scale, complexity, methods of construction and other relevant factors.

2.5 Operating costs under the Cooperation and Construction Agreement

The annual operating costs of the Facility upon completion will comprise, amongst others, staff costs, electricity, gas and water consumption, as well as maintenance and repair costs ("**Operating Costs**").

2.6 Duration and Termination

The Construction and Cooperation Agreement generally shall remain in force until all the obligations of the parties thereunder have been fulfilled.

3. **RATIONALE AND BENEFIT**

The directors believe that the entry into by the Company of the Construction and Cooperation Agreement would allow the Company to apply its know-how in (i) the engineering, procurement and construction of the Facility, (ii) the operation of the Facility upon completion of construction of the same, and (iii) the supply of desalinated water to KBM.

Through the Proposed Transaction, the Company would also be able to generate additional revenue for the Group and contribute positively to the Group's financial results. In addition, the successful completion of construction of the Facility and the commencement of operations of the Facility in Karazhanbas would mark the Group's entry into a new geographical market in Central Asia, which would provide the Group with further credentials to secure similar projects in Central Asia in the future. This would serve as a stepping stone to future opportunities for collaboration outside the PRC and allow the Group to expand its business presence beyond the countries in which it currently operates and to further strengthen its reputation outside of the PRC.

4. **INTERESTED PERSON TRANSACTIONS**

KBM is an associated company of CITIC Group which is also a controlling shareholder of the Company and as at the date of this announcement has an indirect interest in 1,370,889,284 Shares representing approximately 56.36% of the entire issued share capital of the Company (excluding treasury shares). Accordingly, KBM is an "interested person" for the purposes of Chapter 9 of the Listing Manual.

Based on the Group's audited consolidated financial statements for FY2018, the Group's latest audited consolidated net tangible assets ("**NTA**") as at 31 December 2018 is S\$1,118.7 million. Hence, 3.0% and 5.0% of the Group's latest audited consolidated NTA as at 31 December 2018 are S\$33.6 million and S\$55.9 million, respectively.

The amount at risk of the Proposed Transaction are the Investment Costs which are estimated at US\$65,000,000 (approximately S\$89,648,000) as well as the Operating Costs and the Water Price (both of which it is not practicable to give an estimate currently, though Shareholders can note that the Water Price to be received by the Company will factor into account both the Investment Costs and the Operating Costs).

The Investment Costs already amount to approximately 8.0% of the Group's latest audited consolidated NTA as at 31 December 2018, and accordingly exceeds the 5.0% threshold required for Shareholders' approval under Rule 906(1) of the Listing Manual. Consequently, the Proposed Transaction will be subject to the approval of Shareholders.

The Company currently does not have any general Shareholders' mandate for recurrent interested person transactions with KBM. There are no other interested person transactions (excluding transactions less than S\$100,000) which were entered into with KBM by the Group during the current financial year (i.e. FY2019) from 1 January 2019 up to the date of this announcement.

5. **INDEPENDENT FINANCIAL ADVISER**

Novus Corporate Finance Pte. Ltd. ("**IFA**") has been appointed as the independent financial adviser in accordance with Chapter 9 of the Listing Manual to advise the directors of the Company who are deemed independent for the purpose of the Proposed Transaction on whether the Proposed Transaction is on normal commercial terms and is not prejudicial to the interests of the Company and its minority Shareholders. The opinion of the IFA will be set out in the circular in relation to the Proposed Transaction to be despatched to Shareholders in due course ("**Circular**").

6. AUDIT COMMITTEE STATEMENT

The non-interested members of the Audit Committee, comprising Mr. Yeung Koon Sang (alias David Yeung), Mr. Lee Suan Hiang, Mr. Tay Beng Chuan and Mr. Bi Jingshuang, will obtain an opinion from the IFA before forming their view as to whether the Proposed Transaction is on normal commercial terms and is not prejudicial to the interests of the Company and its minority Shareholders, which will be set out in the Circular.

7. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS

Mr. Hao Weibao, the Executive Chairman and Group Chief Executive Officer of the Company, is the President and Vice Chairman of CITIC Environment Investment Group Co., Ltd.. Mr. Wang Song, an Executive Director of the Company, is the Assistant President of CITIC Environment Investment Group Co., Ltd.. Mr. Sun Lei, a non-Executive Director of the Company, is the Chief Financial Officer of CITIC Environment Investment Group Co., Ltd.. Dr. Chong Weng Chiew, an Executive Director of the Company, is nominated to the Board by the CITIC Group. They will abstain from making any recommendations in connection with the Proposed Transaction.

Save as disclosed herein, none of the Directors or controlling shareholders of the Company and their associates has any interest, direct or indirect, in the Proposed Transaction, other than through their respective shareholdings in the Company.

8. CIRCULAR

The Circular containing, *inter alia*, the notice of extraordinary general meeting to be convened and the details of the Proposed Transaction will be despatched to Shareholders in due course.

9. DOCUMENTS AVAILABLE FOR INSPECTION

The Construction and Cooperation Agreement is available for inspection during normal business hours at the Company's registered office from the date of this announcement up to and including the date falling three months after the date of the Circular.

By Order of the Board

Lotus Isabella Lim Mei Hua
Company Secretary
16 September 2019