

# **CHINA EVERBRIGHT WATER LIMITED**

**Company Registration Number 34074**

**(Incorporated in Bermuda)**

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## **REMUNERATION COMMITTEE TERMS OF REFERENCE**

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## 1. INTRODUCTION

- 1.1. The Code of Corporate Governance 2018 (the “**Code**”) and the listing manual (“**Singapore Listing Manual**”) of the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) require companies listed on the SGX-ST to establish a remuneration committee (the “**RC**”) which reports to the board of directors (the “**Board**”, each individual director is herein referred to as the “**Director**”) of China Everbright Water Limited (the “**Company**”), with written terms of reference which clearly set out the authority and duties of the RC.
- 1.2. The Corporate Governance Code at Appendix 14 of the Rules Governing the Listing of Securities (the “**HK Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**HKEx**”) (the “**HK CGC**”) recommends companies listed on the HKEx to set up a RC which reports to the Board.
- 1.3. The primary role of the RC is to ensure appropriate formality, transparency and accountability to shareholders and to make recommendations to the Board on remuneration matters of the Directors and key management personnel (including senior management) in the Company and its subsidiaries (the “**Group**”). The procedure for setting policy on executive Directors' remuneration and all Directors' remuneration package should be formal and transparent. Remuneration levels should be sufficient to attract and retain directors to run the Company without paying more than necessary.
- 1.4. The RC was established by the Board in accordance with the terms of reference approved by the Board.

## 2. DUTIES AND RESPONSIBILITIES

There should be a formal, transparent and objective procedure for fixing the remuneration packages of individual Directors and for implementing and administering any employee share option scheme the Company establishes from time to time.

To ensure that the level and structure of remuneration to be aligned with the long-term interest and risk policies of the Company and should be appropriate to attract, retain and motivate (a) the Directors to provide good stewardship of the Company and (b) the key management personnel (as defined in the Code) to successfully manage the Company.

To achieve this objective, the functions, the duty of the RC shall be:

- 2.1. To consult the chairman of the Board (“**Chairman**”) and/or chief executive officer (“**CEO**”) about their remuneration proposals for other executive Directors and seek independent professional advice if necessary.
- 2.2. To review and submit its recommendation to the Board for endorsement by the entire Board, on the policy and general framework of remuneration for the Board and key management personnel (including senior management), and on the establishment of a formal and transparent procedure for developing remuneration policy.

2.3. To review and recommend to the Board (or to determine with delegated responsibility) the remuneration packages and terms of employments for each Director and key management personnel (including senior management), including but not limited to directors' fees, salaries, allowances, bonuses, options, share-based incentives and awards, benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and terms of employment (where applicable) for each of the Directors and key management personnel including but not limited to senior executive, divisional directors, those reporting directly to the managing director, Chairman, CEO and employees related to the executive Directors and controlling shareholders (as defined under the HK Listing Rules) of the Group. The RC's recommendation should be submitted for endorsement by the entire Board.

If the recommendations on the remuneration packages of individual Directors and key management personnel (including senior management) were made to the Board, where the Board resolves to approve any remuneration or compensation arrangements with which the RC disagrees, the Board should disclose the reason for its resolution in its next corporate governance report.

2.4. To review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives.

2.5. To make recommendations to the Board on the remuneration of non-executive Directors. The remuneration of non-executive Directors should be appropriate to the level of contribution, taking into account factors such as effort and time spent, and responsibilities of the Directors. Non-executive Directors shall not be over-compensated to the extent that their independence may be compromised.

2.6. As part of its review, the RC shall take into consideration:

(a) To consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group and shall include a performance-related element coupled with appropriate and meaningful measures of assessing individual Directors' and key management personnel's performance.

(b) To ensure a significant and appropriate proportion of executive Directors' and key management personnel's remuneration should be structured so as to link rewards to corporate and individual performance. Such performance-related remuneration should be aligned with the interests of shareholders and promote the long-term success of the Company taking into account of the risk policies of the Company, be symmetric with risk outcomes and be sensitive to the time horizon of risks.

2.7. To review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with the contractual terms and is otherwise fair and not excessive.

- 2.8. To review and approve compensation arrangement relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate.
- 2.9. To ensure that no Director or any of his associates is involved in deciding his own remuneration.
- 2.10. To review and recommend to the Board in consultation with the Chairman for endorsement by the entire Board, share option schemes, share award plans or any long-term incentive schemes which may be set up from time to time, in particular to review whether Directors and key management personnel should be eligible for such schemes and also to evaluate the costs and benefits of such schemes and to do all acts necessary in connection therewith.
- 2.11. The use of share schemes (including share option schemes and share-based incentives and awards) shall be weighted against other kinds of long-term incentive schemes. The cost and benefits of long-term incentives schemes should be carefully evaluated.
- 2.12. In normal circumstances, offers of shares or grants of options or other forms of deferred remuneration should vest over a period of time.
- 2.13. The use of vesting schedules, whereby only a portion of the benefits can be exercised each year, is strongly encouraged.
- 2.14. Executive Directors and key management personnel should be encouraged to hold their shares beyond the vesting period, subject to the need to finance any costs of acquisition of shares and associated tax liability.
- 2.15. To seek expert advice inside and/or outside the Company on remuneration of all Directors, if necessary. The RC should ensure that existing relationship, if any, between the Company and its appointed remuneration consultants will not affect the independence and objectivity of the remuneration consultants.
- 2.16. To review the Company's obligations arising in the event of termination of the executive Directors' and key management personnel's contracts of service, to ensure that such contracts of service contain fair and reasonable termination clauses which are not overly generous. The RC should aim to be fair and avoid rewarding poor performance.
- 2.17. To consider the use of contractual provisions to allow the Company to reclaim incentive components of remuneration from executive Directors and key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Company.
- 2.18. To conduct annual assessment of its performance against its Terms of Reference and report summarizing its findings to the Board.

2.19. To implement and administer share option scheme that might be adopted by the Company from time to time.

At any time by resolutions of the RC (and without any other formality save for the prior approval of the SGX-ST and HKEx) amend or alter the share option scheme in any way to the extent necessary to cause the scheme to comply with any statutory provision or the provisions or the regulations of any regulatory or other relevant authority or body (including the SGX-ST and HKEx).

2.20. To advise shareholders of the Company on how to vote in respect of any service contracts of Directors that requires shareholders' approval in accordance with the HK Listing Rules.

2.21. To carry out its duties in the manner that it deems expedient, subject always to any regulations or restrictions that may be imposed on the RC by the Board from time to time.

2.22. To ensure that all aspects of remuneration including but not limited to Directors' fees, salaries, allowances, bonuses, options, share based incentives and awards, and benefits-in-kind are covered.

### **3. APPOINTMENT**

3.1. The RC shall be appointed by the Board from amongst its members. The RC shall comprise at least three (3) members, the majority of whom, including the chairman of the RC (the "**RC Chairman**"), should be independent non-executive Directors. All of the members of the RC should be non-executive Directors. At least one member of the RC should have broad business experience, knowledge in executive compensation and if there is a need, expert professional advice may be obtained internally or externally.

3.2. The RC Chairman shall be elected by members of the RC and shall be an independent non-executive Director. The members of the RC may determine the period for which the RC Chairman is to hold office, if at any meeting the RC Chairman is not present within ten (10) minutes after the time appointed for holding the meeting, the members of the RC present may choose one of the other independent members to be chairman of the meeting.

3.3. The Board shall consider whether a Director is independent in accordance with the provisions of the HK Listing Rules, the Singapore Listing Manual, and the Code. In the event of differences between the HK Listing Rules on one hand and the Singapore Listing Manual and Code on the other, the Board shall comply with the more onerous rule and/or requirement.

3.4. An independent member shall immediately notify the secretary of the Company (the "**Company Secretary**") of any change in circumstances that may result in him not being able to meet the criteria for independence. The Board may, after considering the change in circumstances, require the resignation of the member of the RC, in compliance with provisions of the RC's terms of reference, the HK Listing Rules and the Singapore Listing Manual.

- 3.5. The Board may, as a result of the resignation, reconstitute the RC before the next scheduled meeting.
- 3.6. If a member of the RC, for any reason, ceases to be a member of the RC, the Board shall within three (3) months of that event, appoint a new member of the RC having such qualifications so that the number of members of the RC does not fall below three (3).
- 3.7. A member who wishes to retire or resign from the RC shall notify the Board in writing, giving at least one month's notice.
- 3.8. The office of a member of the RC shall become vacant upon the member's resignation/retirement/removal or disqualification as a Director of the Company.
- 3.9. The appointment of the members of the RC may be revoked, or additional members may be appointed to the RC by separate resolutions passed by the Board and by the RC, subject to and/or taking into consideration the recommendations from the nominating committee of the Company.

## **4. ADMINISTRATION**

### **4.1. Meetings**

- (a) The meetings of the RC may be conducted by means of telephone conferencing or other methods of simultaneous communication by electronic or telegraphic means whereby all persons participating in the meeting can hear each other and participation in a meeting in this manner shall be deemed to constitute presence in person at such meeting provided that all decisions made are confirmed in writing by all members who participated in the said telecommunication discussion.
- (b) Meetings of the RC will be held as the RC deems appropriate. RC meetings shall be held at least once a year. Special meetings may be called, when necessary, by any member of the RC.
- (c) The RC shall have full discretion with regard to the calling of the meetings and the proceedings thereat and may invite any Director or management to their meetings.
- (d) The Company Secretary, failing whom his/her representative, shall attend all RC meetings and minute the proceedings thereof including providing an attendance record of individual members present at all meetings.
- (e) The minutes shall be confirmed by the chairman of the meeting and circulated to all members of the RC. The minutes are to be signed by the chairman of the meeting or by the chairman of the next succeeding meeting.

- (f) Full minutes of meetings of the RC shall be kept by the Company Secretary. Draft and final versions of minutes of meetings of the RC shall be sent to all members of the RC for their comment and records respectively, in both cases within seven (7) days after the meeting is held.
- (g) If the RC Chairman so decides, the minutes shall be circulated to other members of the Board. Any Director may, provided that there is no conflict of interest and with the agreement of the chairman, obtain copies of minutes of the RC meetings.

#### **4.2. Notice**

The notice of each meeting of the RC, confirming the venue, time and date and enclosing an agenda of items to be discussed, shall other than under exceptional circumstances, be forwarded to each member of the RC not fewer than three (3) working days prior to the date of the meeting. The members of the RC may, however, consent to shorter notice whereupon the requisite period shall be waived.

#### **4.3. Quorum**

The quorum shall be two (2) members, including at least one independent non-executive Director.

#### **4.4. Voting**

Each member present shall have one (1) vote. All resolutions passed in the meeting shall be by majority votes. If the votes for and against a resolution are equal, the chairman of the meeting shall have a casting vote.

Any member who has an interest in any matters being reviewed or considered by the RC shall abstain from voting on that matter.

#### **4.5. Written resolutions**

A resolution in writing signed by all the members of the RC shall be as valid and effectual as if it had been passed at a meeting of the RC duly convened and held. Any such resolution may consist of several documents in like form, each signed by one or more members. The expressions “in writing” and signed include approvals by facsimile, telex, cable or telegram.

#### **4.6. Reporting**

- (a) The Company must describe in its annual report its corporate governance practices with specific reference to the principles and the provisions of the Code. The Company must comply with the principles of the Code. Where the Company’s practices vary from any provisions of the Code, it must explicitly state, in its annual report, the provision from which it has varied, explain the reason for variation, and explain how the practices it had adopted are consistent with the intent of the relevant principle.

- (b) The RC shall report from time to time its findings and recommendations to the Board by way of submission of minutes of the RC meetings or by such other mode as the RC Chairman shall in his discretion deem fit. At the next meeting of the Board following a meeting/written resolution of the RC, the Company Secretary shall submit to the Board copies of the minutes/written resolution setting out the findings, recommendations and decisions of the RC.
- (c) The Board shall ensure that the following (and such other information as may be required by the HK CGC and the Code from time to time) are disclosed in the Company's annual report and in the corporate governance report:
- (i) The names of the members of the RC and key terms of references of the RC, explaining its role and authority delegated to it by the Board.
  - (ii) The number of RC meetings held during the year and the attendance thereof.
  - (iii) A clear disclosure of the Company's remuneration policy, level and mix of remuneration, and the procedure for setting remuneration.
  - (iv) The remuneration of Directors, the CEO and at least the top five (5) key management personnel (who are not also Directors and the CEO) of the Company.
  - (v) The names of the Directors and the CEO on a named basis and at least the top five (5) key management personnel (who are not also Directors or the CEO and earning remuneration which falls within bands of S\$250,000). Within each band, there shall be a breakdown (in percentage terms and dollars terms) of each Director, the CEO and key management personnel's remuneration earned through base/fixed salary, variable or performance-related income/bonuses, benefits in kind, share options granted and other long-term incentives.
  - (vi) For the top five (5) key management personnel (who are not also Directors or the CEO and earning remuneration which falls within bands of S\$250,000), the Company needs only show the applicable bands.
  - (vii) In addition, to disclose the total remuneration (in aggregate) paid to the top five (5) key management personnel (who are not Directors or the CEO).
  - (viii) The Company is encouraged, as recommended best practice, to fully disclose the remuneration of each individual Director, the CEO and top five (5) key management personnel.
  - (ix) Details of the remuneration of employees who are immediate family members (which include the spouse, child, adopted child, step-child, parent and sibling) of a Director or the CEO and whose remuneration exceeds S\$50,000 during the year. This will be done on a named basis with clear indication of the employee's relationship with the relevant Director or the CEO.



- (x) Such details of the Company's employee share option schemes as will enable the shareholders to assess the benefits and potential cost to the Company, including without limitation, the potential size of grants, the methodology for valuing the share options, the exercise price of options that were granted as well as outstanding, whether the exercise price was at the market price of the Company's shares or otherwise on the date of grant, the market price on the date of exercise, the vesting schedule, and the justifications for the terms adopted.
  - (xi) Information on the link between remuneration paid to the executive Directors, key management personnel and performance. The annual report shall set out description of performance conditions to which entitlement to short-term and long-term incentive schemes are subject, an explanation on why such performance conditions were chosen, and a statement of whether such performance conditions are met.
  - (xii) If applicable, names of remuneration consultants engaged and the relationship between the Company and the remuneration consultants.
  - (xiii) Description of performance conditions to which entitlement to short-term and long-term incentive schemes are subject, explanation of why such performance conditions were chosen and statement of whether such performance conditions are met.
  - (xiv) A summary of work during the year, including determining the policy for remuneration of executive Directors, assessing performance of executive Directors and approving the terms of executive Directors' service contracts, performed by the RC. Disclose which of the two models of RC described in 2.3 above was adopted.
  - (xv) In the event of non-compliance with the above, the RC shall discuss with the Board justification for non-compliance and where deemed necessary or appropriate include a statement of such non-compliance in the annual report or corporate governance report, disclosure of remuneration details or any non-compliance with the above.
- (d) The RC shall use reasonable efforts to procure that:
- (i) the Board recommend the remuneration of the non-executive Directors for approval at the Company's annual general meetings; and
  - (ii) the Board consider each year whether the circumstances are such that the shareholders of the Company should be invited to, at the annual general meeting, approve the remuneration policy set out in the annual report.

- (e) The RC should make available its terms of reference explaining its role and the authority delegated to it by the Board by including them on the HKEx's website and the Company's website.
- (f) The RC Chairman (or in his absence, another member of the RC) shall attend the Company's annual general meeting and be prepared to answer questions concerning matters falling within the scope of the RC, the Company's remuneration policy, level and mix of remuneration and procedure for setting remuneration.

## **5. POWERS OF THE BOARD**

The Board may, subject to compliance with the constitution of the Company, the HK Listing Rules, HK CGC, the Singapore Listing Manual and the Code, amend, supplement and revoke these terms of reference.

## **6. GENERAL**

- 6.1. The RC in carrying out its tasks under these Terms of Reference may obtain at the Company's expense such external or other independent professional advice as it considers necessary to carry out its duties. The RC should ensure that the independence and objectivity of its appointed remuneration consultants are not affected
- 6.2. The Board will ensure that the RC has access to internal and external professional advice in order for it to perform its duties. The RC should be provided with sufficient resources to perform its duties.
- 6.3. The Board should conduct regular evaluation of the performance of RC.
- 6.4. Any member of the RC may initiate amendments to its Terms of Reference when the need arises due to changes in the relevant rules or when there are changes in the Company's structure, organisation and/or operations which affect the matters set out in the Terms of Reference.
- 6.5. Amendments to the Terms of Reference shall be submitted to the RC for consideration and tabled at a Board meeting for approval.