

---

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

---

**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in **China Boqi Environmental (Holding) Co., Ltd.**, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

---



**China Boqi Environmental (Holding) Co., Ltd.**

**中國博奇環保(控股)有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2377)**

**EXCEEDING OF EXISTING 2018 ANNUAL CAPS AND REVISION OF  
EXISTING 2019 AND 2020 ANNUAL CAPS FOR  
CONTINUING CONNECTED TRANSACTIONS**

**Independent Financial Adviser to  
the Independent Board Committee and Independent Shareholders**



---

A letter from the Board is set out on pages 5 to 27 of this circular.

A letter from the Independent Board Committee is set out on pages 28 to 29 of this circular.

A letter from Gram Capital containing its advice to the Independent Board Committee and the Independent Shareholders in relation to the Yangxi Agreements is set out on pages 30 to 49 of this circular.

A notice convening the EGM to be held at the first conference room of the Company at 11/F, R&F Center, 63 East 3rd Ring Middle Road, Chaoyang District, Beijing, the PRC on 21 June 2019 at 10:30 a.m. is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 10:30 a.m. on 19 June 2019. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

31 May 2019

---

## CONTENTS

---

	<i>Page</i>
<b>Definitions</b> .....	1
<b>Letter from the Board</b> .....	5
<b>Letter from the Independent Board Committee</b> .....	28
<b>Letter from Gram Capital</b> .....	30
<b>Appendix I — General Information</b> .....	I-1
<b>Notice of EGM</b> .....	EGM-1

---

## DEFINITIONS

---

*In this circular, the following expressions have the following meanings unless the context requires otherwise:*

“associate(s)”, “connected person”, “controlling shareholder”, “subsidiary” and “substantial shareholder”	each shall have the meaning as ascribed to it under the Listing Rules
“Actual 2018 Transaction Amounts”	the service fees for O&M services of RMB267.74 million and the ancillary charge of RMB89.72 million under the Yangxi Agreements with Guangdong Huaxia Electric and Yangxi Electric for the year ended 31 December 2018;
“Beijing Boqi”	Beijing Boqi Electric Power SCI-TECH Co., Ltd., a wholly-owned subsidiary of the Company
“Board”	the board of Directors
“Company”	China Boqi Environmental (Holding) Co., Ltd., a company incorporated in Cayman Islands with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting to be convened and held at the first conference room of the Company at 11/F, R&F Center, 63 East 3rd Ring Middle Road, Chaoyang District, Beijing, the PRC on 21 June 2019 at 10:30 a.m. for the Independent Shareholders to (i) consider and ratify the Actual 2018 Transaction Amounts of the Yangxi Agreements; and (ii) consider and approve the New 2019 and 2020 Annual Caps of the Yangxi Agreements
“Existing 2018 Annual Caps”	the existing annual caps of RMB245 million for the O&M services and RMB85.05 million for the ancillary charges, for the year ended 31 December 2018 under the Yangxi Agreements with Guangdong Huaxia Electric and Yangxi Electric;

---

## DEFINITIONS

---

“Existing 2019 and 2020 Annual Caps”	the existing annual cap of RMB245 million for the O&M services and RMB85.05 million for the ancillary charges, for the year ended 31 December 2016 under the Yangxi Agreements with Guangdong Huaxia Electric and Yangxi Electric;
“Guangdong Huaxia Electric”	Guangdong Huaxia Electric Development Co., Ltd (廣東華夏電力發展有限公司), a limited liability company established in the PRC on 11 November 2003, a company owned and controlled by the brother of Mr. Zhu
“Gram Capital” or “Independent Financial Adviser”	Gram Capital Limited, a Licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser to the Independent Board Committee and the Independent shareholders in respect of the transactions under the Yangxi Agreements
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors, which has been formed by the Board to advise the Independent Shareholders in respect of the transactions under the Yangxi Agreements
“Independent Shareholders”	Shareholder(s), other than Mr. Zhu and his associates, and any Shareholder who has a material interest in the transactions under the Yangxi Agreements
“kWh”	kilowatt hours
“Latest Practicable Date”	27 May 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular

---

## DEFINITIONS

---

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange as amended from time to time
“Mr. Zhu”	朱偉航 (ZHU Weihang), our non-executive Director and substantial shareholder
“New 2019 and 2020 Annual Caps”	the annual caps for the Yangxi Agreements for the years ended 31 December 2019 and 2020 as set out in the section headed “New 2019 and 2020 Annual Caps” in this circular
“PRC”	the People’s Republic of China (for the purpose of this circular, excluding Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan)
“Prospectus”	the prospectus of the Company dated 28 February 2018
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the United States
“Service Fees”	the service fees in accordance with the Yangxi Agreements, being the on-grid electricity generation multiplied by a rate agreed between the parties, and part of the “ultra-low emission” subsidies granted by the PRC government
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share(s)”	ordinary share(s) of US\$0.00001 each in the issued share capital of the Company
“Shareholder(s)”	holders of the Share(s)
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Upgrade Units”	the “ultra-low emission” upgrade units to the #1-#2 facilities

---

## DEFINITIONS

---

“Yangxi Agreements”	the Yangxi management service agreement entered into by Beijing Boqi and Guangdong Huaxia Electric and Yangxi Electric on 31 December 2016, the Yangxi service pricing agreement and the Yangxi supplemental management service agreement entered into by Beijing Boqi and Guangdong Huaxia Electric and Yangxi Electric on 1 January 2017 and the supplemental agreements entered into by Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric on 8 March 2018 and 20 July 2018
“Yangxi Electric”	Yangxi Haibin Electric Power Development Co., Ltd (陽西海濱電力發展有限公司), a limited liability company established in the PRC on 5 February 2004, a wholly-owned subsidiary of Guangdong Huaxia Electric
“Yangxi Facilities”	#1–#4 desulfurization and denitrification facilities owed by Yangxi Electric; and
“%”	percentage

\* *For identification purpose only*

---

LETTER FROM THE BOARD

---



**China Boqi Environmental (Holding) Co., Ltd.**

**中國博奇環保(控股)有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2377)**

*Executive Directors:*

Mr. Cheng Liquan Richard (程里全) *Chairman*

Mr. Zeng Zhijun (曾之俊)

*Non-executive Director:*

Mr. Tony Tuo Zheng (鄭拓)

Mr. Zhu Weihang (朱偉航)

Mr. Chen Xue (陳學)

*Independent Non-executive Directors:*

Mr. Liu Genyu (劉根鈺)

Dr. Xie Guozhong (謝國忠)

Mr. Lu Zhifang (陸志芳)

*Registered office:*

PO Box 309,

Ugland House,

Grand Cayman KY1-1104,

Cayman Islands

*Principal place of business*

*in Hong Kong:*

40/F., Sunlight Tower

248 Queen's Road East

Wanchai,

Hong Kong

31 May 2019

*To the Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS**

**1. INTRODUCTION**

Reference is made to the announcement of the Company dated 12 March 2019, in respect of, among other things, the Company's exceeding the annual caps for the continuing connected transactions under the Yangxi Agreements for the year ended 31 December 2018, and the New 2019 and 2020 Annual Caps.

The purpose of this circular is to provide you with, among other things, (i) further details of the transactions under the Yangxi Agreements and the Upgrade Project Cooperation Agreement for the year ended 31 December 2018; (ii) details of the New 2019 and 2020 Annual Caps; (iii) the

---

## LETTER FROM THE BOARD

---

letter of recommendation from the Independent Board Committee; (iv) the letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders in respect of the transactions under the Yangxi Agreements and the Upgrade Project Cooperation Agreement; and (v) a notice convening the EGM.

As Mr. Zhu is deemed to have a material interest in the transactions under the Yangxi Agreements and the Upgrade Project Cooperation Agreement with Guangdong Huaxia Electric and Yangxi Electric, Mr. Zhu and his associate(s) who in aggregate held 152,573,529 Shares, representing 15.13% of the total issued Shares, as at the Latest Practicable Date, shall abstain from voting on the relevant resolution.

### 2. BACKGROUND

Reference is made to the section headed “Connected Transactions” in the Prospectus containing details regarding, among other things, continuing connected transactions under the Yangxi Agreements and the Upgrade Project Cooperation Agreement with Guangdong Huaxia Electric and Yangxi Electric.

On 31 December 2016, Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric entered into a management service agreement (“**Yangxi Management Service Agreement**”) in relation to the provision of operation, daily maintenance and repair services in respect of the #1-#4 desulfurization and denitrification facilities owned by Yangxi Electric (the “**Yangxi Facilities**”) prior to the completion of the acquisition of the Yangxi Facilities under the cooperation framework agreement dated 20 May 2016 entered into between the parties (the “**Cooperation Framework Agreement**”).

On the same day, Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric entered into an “ultra-low emission” upgrade project cooperation agreement (“**Upgrade Project Cooperation Agreement**”), under which Beijing Boqi agreed to construct “ultra-low emission” units to #1-2 desulfurization and denitrification facilities of the Yangxi Facilities for Yangxi Electric. However, no similar arrangement was entered into in relation to #3-4 desulfurization and denitrification facilities, as the “ultra-low emission” upgrade works for #3-4 Facilities have already been constructed and completed by Yangxi Electric at the time the parties entered into the Upgrade Project Cooperation Agreement #1-2 desulfurization and denitrification facilities.

On 1 January 2017, Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric further entered into a supplemental agreement solely to determine the pricing terms (i.e. the Fixed Rate) of the Yangxi Management Service Agreement (the “**Yangxi Service Pricing Agreement**”).



---

## LETTER FROM THE BOARD

---

Due to an unexpected delay in the release of the mortgage on the Yangxi Facilities, the completion of the proposed acquisitions of the Yangxi Facilities under the Cooperation Framework Agreement was delayed, and it was agreed between Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric not to proceed with the proposed acquisitions of the Yangxi Facilities. Accordingly, on 28 August 2017, Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric entered into a supplemental agreement (“**Yangxi Supplemental Agreement**”) under which, the proposed acquisitions of the Yangxi Facilities under the Cooperation Framework Agreement, were terminated.

On the same day, Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric entered into a supplemental agreement (the “**Yangxi Supplemental Management Service Agreement**”) to supersede and extend the term of the services under the Yangxi Management Services Agreement from 1 January 2017 to 30 September 2017 to a term from 1 January 2017 to 31 December 2025. Other provisions in relation to the services and ancillary services to be provided by Beijing Boqi under the Yangxi Management Services Agreement remain unchanged for the extended term.

On 8 March 2018, Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric entered into a supplemental agreement (the “**March 2018 Supplemental Agreement**”) to determine the unit price in relation to the additional on-grid power generation based on the further quota for power generation acquired by Yangxi Electric.

On 20 July 2018, Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric entered into a supplemental agreement (the “**July 2018 Supplemental Agreement**”, together with the March 2018 Supplemental Agreement as the “**2018 Supplemental Agreements**”) to determine the price adjustment to the relevant fixed rates (inclusive of value-added tax) for the provision of O&M services, due to a tax relief enjoyed by Guangdong Huaxia Yangxi power plant, which is now shared with Beijing Boqi. For the avoidance of doubt, the relevant fixed rates (exclusive of value-added tax) remain unchanged.

Further in the July 2018 Supplemental Agreement, the parties confirmed Beijing Boqi’s entitlements of the “ultra-low emission” subsidies in relation to all #1-4 Facilities, also subject to the above mentioned price adjustment arising from the tax relief to Guangdong Huaxia Yangxi power plant.

### *Latest status of the proposed acquisition of Yangxi Facilities as at the Latest Practicable Date*

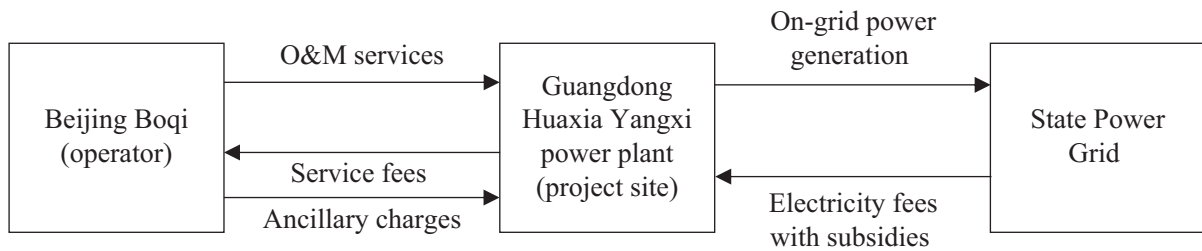
As the 1-4# units of Guangdong Huaxia Yangxi power plant (including the desulfurization and denitrification systems) are mortgaged to banks for financing. The acquisition is not expected to proceed, until the repayment of such mortgage. The mortgage in relation to 1-2# unit is due in May 2022, whereas the 3-4# unit is due in June 2028.

---

## LETTER FROM THE BOARD

---

The chart below sets forth the flow chart of the current arrangement among Beijing Boqi, Guangdong Huaxia Yangxi power plant and the State Power Grid:



**Major terms of the Yangxi Agreements are set out below:**

- Parties:
- (1) Beijing Boqi (operator)
  - (2) Guangdong Huaxia Electric and Yangxi Electric (site owner)
- Subject: the provision of operation, daily maintenance and repair services in respect of the Yangxi Facilities prior to the completion of the acquisition of the Yangxi Facilities
- Scope of service: Beijing Boqi is mainly responsible for the O&M operation in relation to the desulfurization and denitrification systems of the 1-4# units of Yangxi Electric. Specifically, it acts as an operator of the desulfurization and denitrification systems of the 1-4# units of Yangxi Electric to provide major services such as the operation, maintenance, examination and repair and technical improvement; the disposal of waste; the replacement of catalysts; the management and maintenance of the ancillary equipment of the underground pipe network of the desulfurization and denitrification systems, the drainage system in the desulfurization and denitrification areas, the firefighting system of the desulfurization and denitrification systems and the framework of the desulfurization and denitrification systems; and the waterproof/closed recirculation cooling water/waste water and sludge treatment.
- Term: From 1 January 2017 to 31 December 2025

---

## LETTER FROM THE BOARD

---

Service fees for the provision of O&M services:	The service fees under the Yangxi Agreements are calculated based on the on-grid power generation multiply by the applicable fixed rates which were determined with reference to (i) the relevant subsidies with respect to desulfurization and denitrification; and (ii) the fees and expenses in respect of the O&M services of the desulfurization and denitrification facilities.
Ancillary charges:	Ancillary charges are paid by Beijing Boqi to Yangxi Electric, based on the actual operation costs incurred in the daily operation of the O&M services, such as water, electricity, vapor and pollution tax fees and other relevant operational charges.
Payment Obligations:	Yangxi Electric shall pay to Beijing Boqi the service fee within 15 days of Yangxi Electric receiving the electricity fee from the State Power Grid.  Beijing Boqi shall pay the ancillary charges to Yangxi Electric before 10th day of each month.

### **Major terms of the Upgrade Project Cooperation Agreement:**

Parties:	Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric
Scope of service:	The “ultra-low emission” upgrade works conducted by Beijing Boqi include, among others, the upgrade of the desulfurization system, detection and repair of the absorption tower of the #1-#2 facilities and the upgrade of model of the continuous emission monitoring system for the purpose of enabling Guangdong Huaxia Yangxi Power Plant to comply with the new “ultra-low emission” standards.
Completion and acceptance of the Upgrade Units:	The Upgrade Units were completed in 2017 which confirmed that the Upgrade Units complied with the relevant “ultra-low emission” standards and Yangxi Electric is entitled to received part of the relevant subsidy accordingly.
Construction costs:	Approximately RMB36,310,000.

---

## LETTER FROM THE BOARD

---

Compensation obligations: Beijing Boqi shall pay to Yangxi Electric certain compensations if (a) Beijing Boqi is solely responsible for any non-compliance of the #1-#2 facilities with the “ultra-low emission” standards; and/or (b) Beijing Boqi has solely caused any halt or load decrement of #1-#2 facilities.

### *Recovery of construction costs of the Upgrade Units*

As of Latest Practicable Date, Beijing Boqi has recovered all of the abovementioned construction costs of the Upgrade Units, by the “ultra-low emission” subsidy that it receives from Yangxi Electric under the Upgrade Project Cooperation Agreement.

Based on *the Notice on the Implementation of Support Policies for Ultra-low Emission Tariffs on Coal-fired Power Plant\** (關於實行燃煤電廠超低排放電價支持政策有關問題的通知), Yangxi Electric is entitled to receive the “ultra-low emission” subsidy upon the completion of environmental protection acceptance and upon compliance with the relevant “ultra-low emission” standards. In this regard, Yangxi Electric has received the subsidy from the power grid in respect of the Upgrade Units in 2018. Under the Upgrade Project Cooperation Agreement and the 2018 Supplemental Agreements, Yangxi Electric is contractually obligated to pay to Beijing Boqi part of the relevant “ultra-low emission” subsidy that it receives.

### **Pricing Basis of Service Fees**

#### *Provision of O&M services*

Such rate is determined based on the relevant subsidies with respect to desulfurization and denitrification which is at RMB 0.025 per kWh in accordance with the relevant regulations on *the Determination of Desulfurization Price of Coal-Fired Generating Units and Operation of Desulfurization Facilities\** (燃煤發電機組脫硫電價及脫硫設施運行管理辦法) and *the Notice on Further Diverting the Contradiction of Environmental Protection Electricity Prices (Development and Reform Price [2014] No. 1908\** (關於進一步疏導環保電價矛盾的通知(發改價格[2014]1908號), with a reduction taking into account of the fees and expenses incurred by Guangdong Huaxia Yangxi power plant, in respect of the O&M services of the desulfurization and denitrification facilities. Such fees and expenses are sums retained by Yangxi Electric from the government prescribed subsidy of RMB0.025 per kWh, which was negotiated between the parties on arm’s length.

---

## LETTER FROM THE BOARD

---

It is the opinion of the Board that the revenue from the operation and maintenance of environmental protection facilities of coal-fired power plants is greatly affected by the scope of service and technical parameters. As disclosed in the Prospectus (page 161), the pricing policy adopted for the O&M business model takes into account the following factors:

1. cost for our projects operation and facilities maintenance services;
2. on-grid tariff subsidy standards included in benchmark on-grid tariff, which is under the governmental guidance. Currently, the desulfurization tariff is RMB0.015 per kWh (value-added tax included), the denitrification tariff is RMB0.01 per kWh (value-added tax included), the dust removal tariff is RMB0.002 per kWh (value-added tax included) and the “ultra-low emission” reform tariff is RMB0.01 per kWh (value-added tax included);
3. average sulfur and nitrogen content and dust volume of flue gas emission of the power plant and the standards to be met, the power generation volume and the location;
4. reasonable returns, including profits gained through sale of reserve parts, spare parts and materials for flue gas treatment equipment procured from third-party suppliers; and
5. comparison with average market price for similar projects.

The Directors are of the opinion that the basis of determining the service fees under the Yangxi Agreement is no less favourable than the agreements entered into between the Company and customers that are independent third parties; and is in line with the market practice.

The desulfurization tariff was set at RMB0.015 per kWh (value-added tax included) on 29 May 2007 and hasn't changed since. The denitrification tariff was RMB0.008 per kWh (value-added tax included) on 29 November 2011, and was increased to RMB0.01 per kWh (value-added tax included) on 27 August 2013. Yangxi Electric is the party entitled to receiving the relevant subsidies, which pay the service fees to Beijing Boqi within 15 days of receiving such sum from the State Power Grid. In event that the government prescribed subsidies are adjusted, the service fees under the Yangxi Agreements shall be adjusted in accordance with a further arm's length negotiations with Yangxi Electric such that it is on normal commercial terms, no less favourable than those with independent third parties.

The Company's historical O&M project data shows that the contract price obtained through commercial negotiations with independent third parties accounts for 65% to 142% of the prevailing government subsidies. The variation arises out of the difference in the installed capacity of the coal-fired power plant, the type of devices installed, and the flue gas parameters of the

---

## LETTER FROM THE BOARD

---

environmental protection device (flue gas volume, SO<sub>2</sub> content of the flue gas inlet, NO<sub>x</sub> content of the inlet), limestone, spare parts, labor, which reflect the specific requirements of each O&M project. Given the rate for the provision of the O&M services under the Yangxi Agreements was finally set at a fixed rate that is within the abovementioned range after arm's length negotiations among Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric. Therefore, the Board considers the Yangxi Agreements to be on normal commercial terms.

### *“Ultra-low emission” upgrade works*

As the Company owns the “ultra-low emission” units constructed to #1-2 facilities, Beijing Boqi is entitled to part of the “ultra-low emission” subsidies granted by the PRC government. The relevant subsidies with respect to the “ultra-low emission” standards is at RMB0.01 per kWh in accordance with the Notice on Executing Policy Support of Electricity Price for Coal-fired Power Plants Ultra-low Emissions (Fa Gai Jia Ge No. [2015]2835)\* (《關於實行燃煤電廠超低排放電價支持政策有關問題的通知》(發改價格[2015]2835號)) issued by National Development and Reform Commission, Ministry of Environmental Protection and National Energy Administration of the PRC in December 2015, which relates to (i) desulfurization, (ii) denitrification and (iii) dust removal. Such rates were determined such that Beijing Boqi shall receive such subsidies in proportion to the construction costs of the “ultra-low emission” units to #1-2 facilities (fixed at approximately RMB36,310,000), and the additional costs incurred in 2017 (fixed) for the purpose of desulfurization and denitrification only.

As subsequently negotiated between the parties and confirmed in the July 2018 Supplemental Agreement, Beijing Boqi is entitled to part of the “ultra-low emission” subsidies in relation to all #1-4 Facilities. As the operation of the “ultra-low emission” upgrade units to all #1-4 Facilities is in addition to and thus inseparable from that of the Yangxi Facilities, Beijing Boqi is further responsible for the O&M of the “ultra-low emission” upgrade units to all #1-4 Facilities in respect of desulfurization and denitrification. Hence, even though Beijing Boqi did not undertake the construction of the “ultra-low emission” upgrade units to #3-4 Facilities, the parties have agreed in the 2018 Supplemental Agreement that Yangxi Electric will pay part of the “ultra-low emission” subsidies in relation to all #1-4 Facilities to Beijing Boqi.

### *Entitlements of the “ultra-low emission” subsidies in relation to #1-2 Facilities*

As the “ultra-low emission” standards relate to (i) desulfurization, (ii) denitrification and (iii) dust-removal and Beijing Boqi is only responsible for the O&M services of (i) and (ii), such entitlements were apportioned to Beijing Boqi based on the following formula:

$$(A + B)/(C + D)$$

---

## LETTER FROM THE BOARD

---

where,

A = construction costs in relation to (i) and (ii);

B = additional costs of O&M for the compliance of the “ultra-low emission” standards in 2017 (fixed) Beijing Boqi had incurred in relation to (i) and (ii);

C = construction costs in relation to (i), (ii) and (iii); and

D = the additional costs of O&M for the compliance of the “ultra-low emission” standards in 2017 (fixed) Beijing Boqi had incurred in relation to (i), (ii) and (iii).

The Directors are of the view that the consideration of the above factors in determining Beijing Boqi’s entitlement to the “ultra-low emission” subsidies is fair and reasonable, and is in line with the market practice.

### *Further entitlements of the “ultra-low emission” subsidies in relation to #3-4 Facilities*

As Beijing Boqi is responsible for the overall O&M operation in relation to desulfurization and denitrification, which includes the operation of the “ultra-low emission” units to #3-4 facilities and its operation includes the costs of the overall O&M operation, it is only fair and reasonable that Beijing Boqi receives part of the “ultra-low emission” subsidies in relation to #3-4 Facilities. Hence, the Directors negotiated with Guangdong Huaxia Electric and Yangxi Electric on the arrangement. As subsequently negotiated between the parties and confirmed in the July 2018 Supplemental Agreement, Beijing Boqi is entitled to further part of the “ultra-low emission” subsidies in relation to #3-4 Facilities, which was also based on the abovementioned formula used for #1-2 Facilities. For the avoidance of doubt, Beijing Boqi is thereafter entitled to receive part of the “ultra-low emission” subsidies in relation to #1-4 Facilities.

The Directors are of the opinion that the basis of determining the Beijing Boqi’s entitlements to the “ultra-low emission” subsidies under the July 2018 Supplemental Agreement is no less favourable than the agreements entered into between the Company and customers that are independent third parties; and is in line with the market practice.

---

## LETTER FROM THE BOARD

---

### **Pricing Basis of Ancillary Charges**

Yangxi Electric is the site owner of the Guangdong Huaxia Yangxi power plant, which has outsourced the operation in relation to the desulfurization and denitrification of Guangdong Huaxia Yangxi power plant. The basis of ancillary charges are the actual operation costs incurred during the provision of O&M services, such as the energy consumption of water, electricity, gas and steam required for the operation of the desulfurization and denitrification systems.

Such arrangement is in line with the O&M business model of the Company as well as the market practice. As such, the Directors are of the view that the payment the ancillary charges in line with the market practice.

### **Internal control measures in relation to the implementation of pricing term**

#### *Service Fees*

The Company has in place comprehensive project management procedures. Firstly, the Company will establish a project team, which comprises of professionals from the marketing department, O&M business center and technical actuarial department. Secondly, cost estimation will be performed by an inspector from Beijing Boqi who will enter the site of project. Finally, we will enter into commercial negotiation with site owners. During the contracting process, the Company will perform strict contract review and approval process internally with the terms of contract being confirmed by the legal department and financial department in addition to the review conducted by participating business department and the technical actuarial department, so as to guarantee the Company's interests.

The Concession Operation Center of the Company conducts weekly checks on any update on the policies on the government prescribed subsidies for any adjustment, in the public domain. In event that the government prescribed subsidies are adjusted, the service fees under the Yangxi Agreements shall be adjusted in accordance with a further arm's length negotiations with Yangxi Electric such that it is on normal commercial terms, no less favourable than those with independent third parties.

Each O&M project is unique due to the variation in technical parameters and scopes. The Company has 17 years of operation and management experience and has developed standardization systems, enabling it to determine service fees for each O&M project through strict calculation. As such, the Directors are of the view that the project is carried out according to market practice, and the service fees payable by Yangxi Electric will not be lower than those with independent third-party customers.



---

## LETTER FROM THE BOARD

---

The service fees under the Yangxi Agreement are settled monthly. On the 15th of each month, the settlement personnel of Yangxi Electric provides the relevant data with respect of the tariff and the settlement certificate of Guangdong Huaxia Yangxi power plant and State Power Grid. Beijing Boqi verifies the electricity data according to the on-grid power generation of Guangdong Huaxia Yangxi power plant with the State Power Grid, and settles according to the agreement under the Yangxi Agreement. After the settlement personnel of both parties have verified the settlement data, the monthly settlement statement will be signed by the project personnel with the department seal the internal approval process within Beijing Boqi.

### *Ancillary charges*

In order to ensure that the sum paid upon settlement is the actual charges occurred, Beijing Boqi has installed meters in the areas of its operation. Each month, Beijing Boqi settle costs by calculation of the actual data with Guangdong Huaxia Yangxi power plant.

Specifically, Beijing Boqi has technical personnel on the project site for the provision of O&M services in respect of the Yangxi Facilities, who will check the on-site meters tracking the energy consumption, such as water, electricity, gas and steam. Beijing Boqi and Yangxi Electric shall both confirm the relevant monthly statements prior to payment by Beijing Boqi, ensuring that the ancillary charges are the actual operation costs incurred.

As the relevant rate is fixed, the only variable in the calculation of the services fees is the on-grid power generation of the Guangdong Huaxia Yangxi power plant, which is managed by the State Grid Corporation of China based on the installed capacity of the power plant and regional electricity demand. It is respectfully submitted that the on-grid power generation is beyond the control of the Company, as well as Guangdong Huaxia Electric and Yangxi Electric. Whereas for the ancillary charges, it is based on the actual operation costs incurred in the daily operation of the O&M services.

Details of the Yangxi Agreements and the Upgrade Project Cooperation Agreement are set out in the Prospectus on page 222 to 231.

---

## LETTER FROM THE BOARD

---

### 3. HISTORICAL FIGURES AND ANNUAL CAPS

The following table sets forth the transaction amounts under the Yangxi Agreements and the Upgrade Project Cooperation Agreement with Guangdong Huaxia Electric and Yangxi Electric for the years ended 31 December 2017 and 2018:

	<b>Annual transaction amounts for the year ended 31 December</b>	
	<b>2017</b>	<b>2018</b>
	<i>(RMB million)</i>	<i>(RMB million)</i>
Service fees	199.57	261.74
Ancillary charges	84.94	89.72

The following table sets forth the annual caps under the Yangxi Agreements and the Upgrade Project Cooperation Agreement with Guangdong Huaxia Electric and Yangxi Electric, for the three years ended 31 December 2018, 2019 and 2020:

	<b>Existing annual caps of transaction amounts</b>	
	<i>(RMB million)</i>	
<b>Financial year ended 31 December</b>	<b>Services Fees</b>	<b>Ancillary charges</b>
2018	245	85.05
2019	245	85.05
2020	245	85.05

#### **Basis for calculating the existing annual caps**

In determining the existing annual caps in respect of the maximum transaction amounts to be received under the Yangxi Agreements and the Upgrade Project Cooperation Agreement with Guangdong Huaxia Electric and Yangxi Electric, our Directors have considered the figures of historical transactions between our Company and Guangdong Huaxia Electric and Yangxi Electric and with reference to the following factors:

- (a) the terms of other existing management service agreements in relation to the provision of services to power plants for the operation, maintenance and management of desulfurization and denitrification facilities entered into by our Group;

---

## LETTER FROM THE BOARD

---

- (b) potential costs increase and inflation;
- (c) the historical volume of electricity generated, the historical volume of electricity sold to power grid, electricity price and electricity subsidies granted to desulfurization and denitrification facilities received by Yangxi Electric;
- (d) the expected volume of electricity to be generated and sold to power grid, electricity price and electricity subsidies to be granted to the power plant in respect of its desulfurization and denitrification operations; and
- (e) the expected receipt of part of the “ultra-low emission” subsidies granted by the PRC government in respect of the “ultra-low emission” upgrade units to the Yangxi Facilities.

In determining the existing annual caps in respect of the maximum transaction amounts to be paid to Yangxi Electric as ancillary charges under the Yangxi Agreements and the Upgrade Project Cooperation Agreement with Guangdong Huaxia Electric and Yangxi Electric, our Directors have considered the figures of historical transactions between our Company and Guangdong Huaxia Electric and Yangxi Electric and with reference to the following factors:

- (a) the historical amounts paid as ancillary charges under similar management service agreements in relation to the provision of services to power plants for the operation, maintenance and management of desulfurization and denitrification facilities by Beijing Boqi;
- (b) the historical volume of water, electricity, vapor, gas and the amount of environmental protection penalty, operation appraisal fee and pollution tax fees and other relevant operational charges incurred in relation to the carrying out of operation, maintenance and management of desulfurization and denitrification facilities by Beijing Boqi under other similar management service agreements;
- (c) the expected volume of water, electricity, vapor, gas and the amount of environmental protection penalty, operation appraisal fee and pollution tax fees and other relevant operational charges to be incurred in relation to the carrying out of operation, maintenance and management of desulfurization and denitrification facilities under the Yangxi Agreements; and
- (d) the inflation in the PRC.

---

## LETTER FROM THE BOARD

---

### 4. EXCEEDING OF EXISTING 2018 ANNUAL CAPS

During the preparation of the annual financial statements of our Company for the year ended 31 December 2018, it came to the attention of the Board that the total transaction amounts of the Yangxi Agreements and the Upgrade Project Cooperation Agreement as follows:

	<b>Services Fees</b> <i>(RMB million)</i>	<b>Ancillary charges</b> <i>(RMB million)</i>
Actual 2018 Transaction Amounts	261.74	89.72
Existing 2018 Annual Caps	245	85.05
Exceeded amount	16.74	4.67
	(approximately 6.83% of the Existing 2018 Annual Caps)	(approximately 5.49% of the Existing 2018 Annual Caps)

### 5. REASONS FOR EXCEEDING THE EXISTING 2018 ANNUAL CAPS

In determining the existing annual caps under the Yangxi Agreements and the Upgrade Project Cooperation Agreement with Guangdong Huaxia Electric and Yangxi Electric, the Board had taken into account the above factors and have set the annual caps in a prudent way.

The following table sets out the operation statistics of Guangdong Huaxia Yangxi power plant, which is supported by the Yangxi Facilities for the years ended 31 December 2016, 2017 and 2018:

	<b>Year ended 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Electricity generated</b> <i>(million kWh)</i>	10,704	11,557	12,685
<b>On-grid power generated</b> <i>(million kWh)</i>	10,258	10,976	12,070
Of which: prescribed power generated	10,258	10,677	9,410
additional power generated	N/A	299	2,660
<b>Utilization hours</b> <i>(hours)</i>	4,248	4,586	5,034

Since the actual volume of on-grid power generation in 2018 was higher than the expected volume, the electricity price and electricity subsidies granted to the power plant in respect of its desulfurization and denitrification operations in 2018 correspondingly increased.

---

## LETTER FROM THE BOARD

---

### *The ancillary charges under the Yangxi Agreements*

As disclosed above, the ancillary charges under the Yangxi Agreements payable to Yangxi Electric, are the actual relevant operation fees, such as water, electricity, vapor, gas, environmental protection penalty and pollution tax fees and other relevant operational charges. Since the actual volume of on-grid power generation in 2018 was higher than the expected volume (illustrated above), the ancillary charges in 2018 correspondingly increased.

### **6. REMEDIAL ACTIONS**

Our Company will endeavor to carry out adequate supervision over the transaction amount under the Yangxi Agreements and the Upgrade Project Cooperation Agreement against the relevant annual caps in future, with a view to ensuring that necessary measures and appropriate actions for the compliance with the applicable requirements under the Listing Rules will be promptly taken. Such measures and actions include:

- (i) additional and continuous training on connected transactions shall be conducted for Directors, senior management and the accounting personnel of the Company on a regular basis;
- (ii) data relating to connected transactions of our Company (including quarterly transaction amounts and cumulative amounts) will be reviewed on a quarterly basis. If the transaction amount reaches 80% of the annual caps at any point of the year, the management would seek advice from the audit committee and the Board would consider the next steps, including the need to inform the Stock Exchange, to publish any announcement and to seek independent Shareholders' approval for an increase in annual caps, if applicable; and
- (iii) upon finalizing the annual audited accounts of our Group, if the audited financial figures would indicate the exceed of the annual caps, our Company would inform the Stock Exchange and make an immediate announcement.

---

## LETTER FROM THE BOARD

---

### 7. REVISION OF EXISTING 2019 AND 2020 ANNUAL CAPS

The Board expects that the Existing 2019 and 2020 Annual Caps of RMB245 million, for the year ended 31 December 2019 and 2020 will be exceeded. The Board proposes to approve the revision of the annual caps of the Yangxi Agreements and the Upgrade Project Cooperation Agreement with Guangdong Huaxia Electric and Yangxi Electric for the year ended 31 December 2019 and 2020 at the EGM as follows:

	For the year ended 31 December			
	2019		2020	
	<i>(RMB million)</i>		<i>(RMB million)</i>	
	Services Fees	Ancillary charges	Services Fees	Ancillary charges
Existing annual cap of transaction amount	245	85.05	245	85.05
New annual cap of transaction amounts	302.30	103.63	302.30	103.63

The above proposed New 2019 and 2020 Annual Caps has taken into account the following factors:

- (i) the actual transaction amounts in 2018 under the Yangxi Agreements and the Upgrade Project Cooperation Agreement with Guangdong Huaxia Electric and Yangxi Electric exceeded the Existing 2018 Annual Caps;
- (ii) an expected growth of 5% in the year ended 31 December 2019 based on the increasing trend observed in the operation statistics of Guangdong Huaxia Yangxi power plant disclosed above;
- (iii) a prudent view that the transaction amounts for the year ended 31 December 2020 shall be the same; and
- (iv) adding a 10% buffer to provide our Company with some flexibility to cater for any unexpected increase in the transaction amounts from the preceding year, such as a further increase in on-grid power generation by Guangdong Huaxia Yangxi Power Plant, or an increase in the relevant subsidies prescribed by the PRC government.

---

## LETTER FROM THE BOARD

---

The Directors are of the view that the consideration of the above factors in determining the New 2019 and 2020 Annual Caps is prudent, fair and reasonable.

### 8. REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

#### The provision of O&M services under the Yangxi Agreements

Since the issue of *the Action Plan of Energy Saving, Emission Reduction, Upgrading and Retrofitting of Coal-fired Power Plants (2014-2020)\** (《煤電節能減排升級與改造行動計劃(2014-2020年)》) by the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) which tightened the emission limits for newly built coal-fired power plants in September 2014 and *the Proposals for Comprehensively Implementing the Ultra-low Emissions and Energy Conservation Upgrade of Coal-fired Power Plants* (全面實施燃煤電廠超低排放和節能改造工作方案) in December 2015, which requires the comprehensive implementation of “ultra-low emission” and energy conservation upgrade on coal-fired generator sets by 2020, coal consumption and pollution emission standards have been significantly tightened. To comply with such stringent standards, and minimize operational risk while also minimizing the costs to be incurred, Yangxi Electric engaged Beijing Boqi, being a leading independent and recognized flue gas treatment integrated service provider to be the sole desulfurization and denitrification service provider for its power plant. Further, it is in the benefit of Yangxi Electric to retain only one desulfurization and denitrification service provider the Yangxi Facilities for the purpose of minimizing costs and eliminating the need to manage a number of different service providers with different points of contact and who may use different quality management systems.

Provision of O&M services is our usual course of business. Beijing Boqi has earned numerous highly-recognized awards in the flue gas treatment industry, and having been already familiarized with the operations and facilities of Yangxi Electric, including the Yangxi Facilities as a result of the potential acquisition under a cooperation framework agreement entered into on 20 May 2016 among Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric. By entering into Yangxi Agreements and the transactions thereunder, Beijing Boqi will leverage its relevant professional experience and strengths in the operation, maintenance and management of the desulfurization and denitrification facilities, export its management experience and gain reasonable income and returns. The execution of the Yangxi Agreements is in line with the Group’s overall strategy and business focus of engaging in the operation, management and maintenance of the desulfurization and nitrification facilities and will enhance our market presence in Guangdong province. The enhancement of the Group’s competitive edge in its core business is in the interests of the Group as a whole. For the year ended 31 December 2017 and 2018, the service fees recognized under the Yangxi Agreements were RMB199.57 million and RMB261.74 million, which represent 15.02% and 15.00% of the total revenues for the respective years.

---

## LETTER FROM THE BOARD

---

In light of the above, our Directors (including the independent non-executive Directors after considering the views of Gram Capital) are of the view that the transactions between our Company and Guangdong Huaxia Electric and Yangxi Electric under the Yangxi Agreements and the Upgrade Project Cooperation Agreement are in the interests of the Company and the shareholders as a whole. Such transactions are entered into on normal commercial terms and are fair and reasonable. As Mr. Zhu is deemed to have a material interest in the transactions under the Yangxi Agreements and the Upgrade Project Cooperation Agreement with Guangdong Huaxia Electric and Yangxi Electric, Mr. Zhu and his associate(s) has abstained from voting on the relevant Board resolution.

### ***Transactions under the Upgrade Project Cooperation Agreement:***

#### *Compliance with the relevant requirements*

According to *the Notice on Issuing the Plan for Nationwide Implementation of Ultra-low Emissions and Energy Saving Reform on Coal-fired Power Plant\** (關於印發〈全面實施燃煤電廠超低排放和節能改造工作方案〉的通知) (the “**Notice**”), the coal-fired power plants in 11 provinces in the PRC, including the Guangdong province where Guangdong Huaxia Yangxi Power Plant is situated, are required to complete the “ultra-low emission” upgrade works for the coal-fired power generating units before the end of 2017 to comply with the newly implemented “ultra-low emission” standards. Otherwise, the relevant power plant may be required by the government authority to cease operation of those power generating units. In addition, the PRC government shall give those coal-fired power plants, which satisfy the “ultra-low emissions” standards, electricity price subsidies and rewards to encourage the “ultra-low emissions” and energy saving reform in power plants. Upon the completion of the “ultra-low emission” upgrade works for the power generating units of Yangxi Electric, such power generating units are able to operate in a compliant manner in terms of dust, SO<sub>2</sub> and NO<sub>x</sub> emission volume.

#### *Receipt of the relevant “ultra-low emission” subsidy*

Upon completion of the construction, the Group owns the Upgrade Units. It is in the benefit of the Group that Beijing Boqi is accordingly entitled to receive certain portion of the “ultra-low emission” subsidy generated by the Upgrade Units, which is calculated based on the “ultra-low emission” electricity price subsidy multiplied by a rate which is determined with reference to the costs of constructing the “ultra-low emission” units and the costs of operating and managing such “ultra-low emission” units in addition to desulfurization and denitrification facilities.

#### *Recovery of construction costs*

The construction costs for the Upgrade Units was approximately RMB36,310,000. As of Latest Practicable Date, we have recovered all of the said construction costs of the Upgrade Units.



---

## LETTER FROM THE BOARD

---

Based on *the Notice on the Implementation of Support Policies for Ultra-low Emission Tariffs on Coal-fired Power Plant\** (關於實行燃煤電廠超低排放電價支持政策有關問題的通知), Yangxi Electric is entitled to receive the “ultra-low emission” subsidy at RMB0.01 per kWh upon the completion of the reform and upon compliance with the relevant “ultra-low emission” standards. In this regard, Yangxi Electric has received such subsidy from the State Power Grid in respect of the Upgrade Units in 2018.

### *Reliance by Yangxi Electric*

Notwithstanding that Beijing Boqi owns the Upgrade Units, the #1-#2 facilities continue to belong to Yangxi Electric as part of the Guangdong Huaxia Yangxi Power Plant as they were constructed by Yangxi Electric. Although the Upgrade Units are attached to the #1-#2 facilities, the Upgrade Units can be detached from the #1-#2 facilities at any time by Beijing Boqi at its discretion without impeding the technical operation of the #1-#2 facilities. The main equipment (such as circulation pump, absorber tower mixer and defogger) from the Upgrade Units can be sold to other power plants. However, should Beijing Boqi detach the Upgrade Units from #1-#2 facilities, Yangxi Electric will cease to be compliant with the relevant “ultra-low emission” standard requirements and may be forced to cease operation of the #1-#2 facilities. Therefore, the Directors are of the view that it is unlikely that Yangxi Electric will breach the Yangxi Agreements and the Upgrade Project Cooperation Agreement or terminate the transactions under the Yangxi Agreements and the Upgrade Project Cooperation Agreement. As such, Yangxi Electric is relying on the Upgrade Units of Beijing Boqi in order to meet the relevant national emission standards as required by the PRC government for the continuous operation of its power generating units. The Directors believe that such reliance from Yangxi Electric increased the bargaining power of Beijing Boqi to continue to be the sole desulfurization and denitrification service provider for Yangxi Electric upon completion of the term of the Yangxi Agreements.

In addition, Beijing Boqi has no obligation to transfer to Yangxi Electric the Upgrade Units upon completion of the term of the Yangxi Agreements. Should Yangxi Electric chooses to purchase the Upgrade Units, it will need to undergo negotiations with Beijing Boqi on a purchase price.

## **9. INFORMATION ABOUT THE PARTIES**

### *About our Company and Beijing Boqi*

The Company is a leading independent flue gas treatment integrated services provider in the Chinese market and is an integrated environmental protection company for independent flue gas treatment that is not controlled by any power group. The Company has taken a market leading position in the flue gas treatment industry and is gradually expanding into other environmental

---

## LETTER FROM THE BOARD

---

protection and energy-saving business areas. It is committed to developing into a world-class environmental industry group. The Company is principally engaged in air pollution control for coal-fired power plants, including desulfurization services, denitrification services, dust removal services and integrated flue gas treatment services. In addition, it also provides wastewater treatment services for power plants. The Company provides environmental protection services through various business models including environmental protection facility engineering, operation and maintenance and concession operations.

Beijing Boqi, a limited liability company established in the People's Republic of China, is an indirect wholly-owned subsidiary of the Company. Its principal business includes the construction and operation of desulfurization, denitrification and dust removal facilities at coal-fired power stations in China and abroad.

### *About Guangdong Huaxia Electric and Yangxi Electric*

Guangdong Huaxia Electric is a limited liability company established in the PRC, which mainly engaged in, among others, investment in electricity industry. It has invested in a number of power plants in the PRC, with Yangxi Electric as its current major operating subsidiary.

## 10. LISTING RULES IMPLICATIONS

Yangxi Electric is a wholly-owned subsidiary of Guangdong Huaxia Electric, which is owned and controlled by, through various intermediaries, Mr. Zhu Yihang (朱一航). Mr. Zhu Yihang is the brother and associate of Mr. Zhu, who is our non-executive Director and substantial shareholder. Mr. Zhu and his associate(s) who in aggregate held 152,573,529 Shares, representing 15.13% of the total issued Shares, as at the Latest Practicable Date. Guangdong Huaxia Electric and Yangxi Electric are deemed to be a connected person of our Company under chapter 14A of the Listing Rules.

Therefore the transactions under the Yangxi Agreements with Guangdong Huaxia Electric and Yangxi Electric constitute continuing connected transactions of our Company.

As the Actual 2018 Transaction Amounts exceeded the Existing 2018 Annual Caps, the highest applicable percentage ratio in respect of the Actual 2018 Transaction Amounts exceeded 5%, accordingly the transactions under the Yangxi Agreements with Guangdong Huaxia Electric and Yangxi Electric for the year ended 31 December 2018 are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under chapter 14A of the Listing Rules. Therefore, the transactions under the Yangxi Agreements for the year ended 31 December 2018 are subject to the ratification of the Independent Shareholders at the EGM.

---

## LETTER FROM THE BOARD

---

In addition, as the highest applicable percentage ratio in respect of the New 2019 and 2020 Annual Caps of the Yangxi Agreements is expected to exceed 5%, accordingly the transactions under the Yangxi Agreements with Guangdong Huaxia Electric and Yangxi Electric for the year ended 31 December 2019 and 2020 are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under chapter 14A of the Listing Rules.

Pursuant to Rule 14A.54 of the Listing Rules, before an annual cap is exceeded in respect of a given transaction, our Company is required to re-comply with the requirements under Chapter 14A of the Listing Rules.

### 11. EGM

A notice of the EGM to be held at the first conference room of the Company at 11/F, R&F Center, 63 East 3rd Ring Middle Road, Chaoyang District, Beijing, the PRC on 21 June 2019 at 10:30 a.m. is set out on pages EGM-1 to EGM-2 of this circular. At the EGM, ordinary resolutions will be proposed and, if thought fit, passed to ratify the Actual 2018 Transaction Amounts of the Yangxi Agreements, and to approve the New 2019 and 2020 Annual Caps.

In view of the connection between Mr. Zhu Yihang (朱一航) and Mr. Zhu, Mr. Zhu is required to abstain from voting on the resolutions approving the Yangxi Agreements and the New 2019 and 2020 Annual Caps at the EGM. As at the Latest Practicable Date, Mr Zhu and his associates controlled 152,573,529 Shares (representing approximately 15.13% of the issued share capital of the Company).

Mr Zhu, as non-executive Director, has material interests in the Yangxi Agreements and had abstained from voting the board meeting to approve these transactions.

To the best of the Directors' knowledge, belief and having made all reasonable enquiries, as at the Latest Practicable Date, save for disclosed above, no Director or Shareholder was or will be required to abstain from voting on the board or shareholders resolutions, as the case may be, for ratifying the Actual 2018 Transaction Amounts of the Yangxi Agreements, and approving the New 2019 and 2020 Annual Caps at the EGM.

A form of proxy for use at the EGM is attached. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 10:30 a.m. on Wednesday, 19 June 2019. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

---

## LETTER FROM THE BOARD

---

Pursuant to Rule 13.39(4) of the Listing Rules, the vote of the Independent Shareholders at the EGM will be taken by poll except where the chairman of the EGM, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. An announcement on the poll results will be published on the websites of the Company and of the Stock Exchange following the EGM.

### 12. RECOMMENDATION

An Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders in respect of (i) ratifying the transactions under the Yangxi Agreements for the year ended 31 December 2018; and (ii) approving the New 2019 and 2020 Annual Caps.

Gram Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders, inter alia, whether Independent Shareholders should vote in favour of the resolution in respect of (i) ratifying the transactions under the Yangxi Agreements for the year ended 31 December 2018; and (ii) approving the New 2019 and 2020 Annual Caps.

Your attention is therefore drawn to the letter from the Independent Board Committee set out on pages 28 to 29 of this circular and the letters from Gram Capital set out on pages 30 to 49 of this circular.

The Directors (including the independent non-executive Directors, having considered the views of Gram Capital) are of the view that the terms of the Yangxi Agreements are fair and reasonable and the transactions contemplated thereunder are in the ordinary and usual course of business of the Company, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Accordingly, the Directors (including the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of all the ordinary resolutions in respect of (i) ratifying the transactions under the Yangxi Agreements for the year ended 31 December 2018; and (ii) approving the New 2019 and 2020 Annual Caps respectively at the EGM.

---

## LETTER FROM THE BOARD

---

### 13. ADDITIONAL INFORMATION

Your attention is also drawn to the letter from the Independent Board Committee, the letter from Gram Capital as well as the general information of the Group as set out in appendix I to this circular.

Yours faithfully,

For and on behalf of the Board of Directors

**Mr. Zeng Zhijun**

曾之俊

*Executive Director*



**China Boqi Environmental (Holding) Co., Ltd.**

**中國博奇環保(控股)有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2377)**

31 May 2019

*To the Independent Shareholders*

Dear Sir or Madam,

## **CONTINUING CONNECTED TRANSACTIONS**

We have been appointed as members of the Independent Board Committee to consider and to advise the Independent Shareholders whether the terms of the Yangxi Agreements and the New 2019 and 2020 Annual Caps are fair and reasonable and whether the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole, taking into account the recommendations of Gram Capital, being the independent financial advisers appointed to advise us and the Independent Shareholders in the abovementioned context.

Your attention is drawn to the “Letter from the Board” and the “Letter from Gram Capital” in the circular of the Company dated 31 May 2019 (the “**Circular**”), which contain, among other things, information and the advice from Gram Capital in respect of (i) ratifying the transactions under the Yangxi Agreements for the year ended 31 December 2018; and (ii) approving the New 2019 and 2020 Annual Caps.

Having taking into account the reasons for and benefits of the Yangxi Agreements and the New 2019 and 2020 Annual Caps, the basis for determining the New 2019 and 2020 Annual Caps, the principal factors and reasons considered by Gram Capital in arriving at its opinion in respect of (i) ratifying the transactions under the Yangxi Agreements for the year ended 31 December 2018; and (ii) approving the New 2019 and 2020 Annual Caps as set out in the “Letter from Gram Capital” on pages 30 to 49 of this Circular, we consider that entering into the Yangxi Agreements is in the usual and ordinary course of business of the Company and that the terms of the Yangxi Agreements are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

---

## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

---

Accordingly, we recommend the Independent Shareholders to vote in favour of all the ordinary resolutions as set out in the notice of the EGM to be convened and held on Friday, 21 June 2019, thereby ratify the transactions under the Yangxi Agreements for the year ended 31 December 2018, and approve the New 2019 and 2020 Annual Caps.

Yours faithfully,  
For and on behalf of  
Independent Board Committee

**Mr. Liu Genyu (劉根鈺)**  
*Independent*  
*Non-executive Director*

**Dr. Xie Guozhong (謝國忠)**  
*Independent*  
*Non-executive Director*

**Mr. Lu Zhifang (陸志芳)**  
*Independent*  
*Non-executive Director*

---

## LETTER FROM GRAM CAPITAL

---

*Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Actual 2018 Transaction Amounts and the New 2019 and 2020 Annual Caps for the purpose of inclusion in this circular.*



Room 1209, 12/F.  
Nan Fung Tower  
88 Connaught Road Central/  
173 Des Voeux Road Central  
Hong Kong

31 May 2019

*To: The independent board committee and the independent shareholders  
of China Boqi Environmental (Holding) Co., Ltd.*

Dear Sirs,

### CONTINUING CONNECTED TRANSACTIONS

#### INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of revision of the Actual 2018 Transaction Amounts and the New 2019 and 2020 Annual Caps, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 31 May 2019 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

With reference to the announcement dated 12 March 2019, during the preparation of the annual financial statements of our Company for the year ended 31 December 2018, it came to the attention of the Board that the total transaction amounts of O&M services and ancillary charge under Yangxi Agreements were approximately RMB261.74 million and RMB89.72 million respectively, which exceeded the Existing 2018 Annual Caps for O&M services and Ancillary charge respectively. In addition, the Board expects that the Existing 2019 and 2020 Annual Caps will be exceeded. Accordingly, the Board proposes to approve the New 2019 and 2020 Annual Caps under the Yangxi Agreements at the EGM.



---

## LETTER FROM GRAM CAPITAL

---

With reference to the Board Letter, the transactions under the Yangxi Agreements for the year ended 31 December 2018 are subject to the ratification of the Independent Shareholders at the EGM and the New 2019 and 2020 Annual Caps of the Yangxi Agreements are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under chapter 14A of the Listing Rules.

The Independent Board Committee comprising Dr. Xie Guozhong, Mr. Liu Genyu and Mr. Lu Zhifang (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of ratification of Actual 2018 Transaction Amounts and revision of the New 2019 and 2020 Annual Caps are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the ratification of Actual 2018 Transaction Amounts and revision of the New 2019 and 2020 Annual Caps are in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to (a) ratify and approve the Actual 2018 Transaction Amounts; and (b) approve the New 2019 and 2020 Annual Caps at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

### **BASIS OF OUR OPINION**

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Yangxi Agreements. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

---

## LETTER FROM GRAM CAPITAL

---

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement therein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Guangdong Huaxia Electric, Yangxi Electric or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of entering into of the Yangxi Agreements, the ratification of Actual 2018 Transaction Amounts and the revision of New 2019 and 2020 Annual Caps. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

---

## LETTER FROM GRAM CAPITAL

---

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the ratification of Actual 2018 Transaction Amounts and the revision of New 2019 and 2020 Annual Caps, we have taken into consideration the following principal factors and reasons:

#### 1. Background of and reasons

##### *Business overview of the Group*

With reference to the Board Letter, the Company is a leading independent flue gas treatment integrated services provider in the Chinese market and is an integrated environmental protection company for independent flue gas treatment that is not controlled by any power group. The Company has taken a market leading position in the flue gas treatment industry and is gradually expanding into other environmental protection and energy-saving business areas. The Company is principally engaged in air pollution control for coal-fired power plants, including desulfurization services, denitrification services, dust removal services and integrated flue gas treatment services. In addition, it also provides wastewater treatment services for power plants. The Company provides environmental protection services through various business models including environmental protection facility engineering, operation and maintenance and concession operations.

##### *Information on Guangdong Huaxia Electric and Yangxi Electric*

With reference to the Board Letter, Guangdong Huaxia Electric is a limited liability company established in the PRC, which mainly engaged in, among others, investment in electricity industry. It has invested in a number of power plants in the PRC, with Yangxi Electric as its current major operating subsidiary.

##### *Reasons for the of Actual 2018 Transaction Amounts and the New 2019 and 2020 Annual Caps*

According to the Yangxi Agreements, among other things, (i) Yangxi Electric shall pay to Beijing Boqi the service fee for the services to be provided by Beijing Boqi; and (ii) Beijing Boqi shall pay to Yangxi Electric the ancillary charges, including relevant operation fees such as water, electricity, vapor, gas, environmental protection penalty and pollution tax fees and other relevant operational charges. Such services to be provided by Beijing Boqi to Yangxi Electric include the operation, daily maintenance and repair of Yangxi Facilities. Beijing Boqi is also responsible for the materials used in the services provided as well as treatment of waste created during the provision of such services.

---

## LETTER FROM GRAM CAPITAL

---

For our due diligence purpose, we obtained Yangxi Agreements and understood the background of Yangxi Project. Details of the Yangxi Project are as follows:

### *Yangxi Project*

On 31 December 2016, Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric entered into a management service agreement (“**Yangxi Management Service Agreement**”) in relation to the provision of operation, daily maintenance and repair services in respect of the #1-#4 desulfurization and denitrification facilities owned by Yangxi Electric (the “**Yangxi Facilities**”) prior to the completion of the acquisition of the Yangxi Facilities under the cooperation framework agreement dated 20 May 2016 entered into between the said parties (the “**Cooperation Framework Agreement**”).

On the same day, Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric entered into an ultra-low emission upgrade project cooperation agreement (“**Upgrade Project Cooperation Agreement**”), under which Beijing Boqi agreed to construct “ultra-low emission” units to #1-2 desulfurization and denitrification facilities of the Yangxi Facilities for Yangxi Electric. However, no similar arrangement was entered into in relation to #3-4 desulfurization and denitrification facilities as the “ultra-low emission upgrade units have already been constructed and completed by Yangxi Electric at the time the parties entered into the Upgrade Project Cooperation Agreement.

On 1 January 2017, Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric further entered into a supplemental agreement solely to determine the pricing terms (i.e. the D&D Fixed Rate) of the Yangxi Management Service Agreement (the “**Yangxi Service Pricing Agreement**”).

Due to an unexpected delay in the release of the mortgage on the Yangxi Facilities, the completion of the proposed acquisitions of the Yangxi Facilities under the Cooperation Framework Agreement was delayed, and it was agreed between Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric not to proceed with the proposed acquisitions of the Yangxi Facilities. Accordingly, on 28 August 2017, Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric entered into a supplemental agreement (“**Yangxi Supplemental Agreement**”) under which, the proposed acquisitions of the Yangxi Facilities under the Cooperation Framework Agreement, were terminated.

---

## LETTER FROM GRAM CAPITAL

---

On the same day, Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric entered into a supplemental agreement (the “**Yangxi Supplemental Management Service Agreement**”) to supersede and extend the term of the services under the Yangxi Management Services Agreement from 1 January 2017 to 30 September 2017 to a term from 1 January 2017 to 31 December 2025. Other provisions in relation to the services and ancillary services to be provided by Beijing Boqi under the Yangxi Management Services Agreement remain unchanged for the extended term.

On 8 March 2018, Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric entered into a supplemental agreement (the “**March 2018 Supplemental Agreement**”) to determine the unit price in relation to the additional on-grid power generation based on the further quota for power generation acquired by Yangxi Electric.

On 20 July 2018, Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric entered into a supplemental agreement (the “**July 2018 Supplemental Agreement**”), to determine the price adjustment to the relevant fixed rates (inclusive of value-added tax) for the provision of O&M services, due to a tax relief enjoyed by Guangdong Huaxia Yangxi power plant, which is now shared with Beijing Boqi. For the avoidance of doubt, the relevant fixed rates (exclusive of value-added tax) remain unchanged.

Further to the July 2018 Supplemental Agreement, the parties confirmed Beijing Boqi’s entitlements of the UE Fees (as defined below) in relation to all #1-4 Facilities, is also subject to the same price adjustment arising from the tax relief to Guangdong Huaxia Yangxi power plant.

With reference to the Board Letter, provision of O&M services is the Group’s usual course of business. By entering into Yangxi Agreements and the transactions thereunder, Beijing Boqi will leverage its relevant professional experience and strengths in the operation, maintenance and management of the desulfurization and denitrification facilities, export its management experience and gain reasonable income and returns. The execution of the Yangxi Agreements is in line with the Group’s overall strategy and business focus of engaging in the operation, management and maintenance of the desulfurization and nitrification facilities and will enhance the Group’s market presence in Guangdong province. The enhancement of the Group’s competitive edge in its core business is in the interests of the Group as a whole.

---

## LETTER FROM GRAM CAPITAL

---

For the year ended 31 December 2017 and 2018, service fees recognized under the Yangxi Agreements were RMB199.57 million and RMB261.74 million, which represent approximately 15.02% and 15.00% of the Group's total revenues for the same periods.

The provision of O&M services will provide a source of income to the Group and are of a revenue nature for the Group. For the purpose of provision of O&M services, it is also necessary for the Group to pay ancillary charges, such as water, electricity, vapor, gas, environmental protection penalty (if any) and pollution tax fees and other relevant operational charges.

With reference to the Board Letter, Yangxi Electric is the site owner of the Guangdong Huaxia Yangxi power plant, which has outsourced the O&M of the desulfurization and denitrification systems (the Yangxi Facilities). The ancillary charges are the actual operation costs incurred during the provision of O&M services, such as the energy consumption of water, electricity, gas and steam required for the operation of the desulfurization and denitrification systems. Beijing Boqi, as the party in charge of the provision of O&M services of the Yangxi Facilities, is responsible for such costs. Having considered that the aforesaid costs were incurred as a result of the provision of services by the Group to Yangxi Electric, we consider that it is not unusual for the payment of such costs by the Group.

As confirmed by the Directors, as the provision of O&M services and payment of ancillary charges are conducted in the ordinary and usual course of business of the Group and on a frequent and regular basis, it would be costly and impractical to make regular disclosure of each of the relevant transactions and obtain the prior approval from the Independent Shareholders as required by the Listing Rules, if necessary.

In view of the above factors, we consider that the ratification of Actual 2018 Transaction Amounts and the revision of New 2019 and 2020 Annual Caps are in the interests of the Company and the Shareholders as a whole.

### **2. The 2019 and 2020 Annual Caps Revision**

With reference to the announcement dated 12 March 2019, the Board expects that the Existing 2019 and 2020 Annual Caps of RMB245 million for the year ended 31 December 2019 and 2020 will be exceeded. Therefore, the Company proposed to revise the Existing 2019 and 2020 Annual Caps.

As confirmed by the Directors, other than the revision of the Existing 2019 and 2020 Annual Caps under the Yangxi Agreements, the terms therein remain unchanged.

---

## LETTER FROM GRAM CAPITAL

---

### *Pricing policies*

With reference to the Board Letter, the service fee under the Yangxi Project included (i) service fees in respect of the O&M services of the desulfurization and denitrification facilities (the “**D&D Fees**”); and (ii) part of the “ultra-low emission” subsidies granted by the PRC government (the “**UE Fees**”).

(i) D&D Fees

D&D Fees are calculated based on the on-grid power generation multiply by fixed rates (the “**D&D Fixed Rate(s)**”) which is determined with reference to (i) the relevant subsidies with respect to desulfurization and denitrification; and (ii) the fees and expenses in respect of the O&M services of the desulfurization and denitrification facilities.

The D&D Fixed Rate is determined based on the relevant subsidies with respect to desulfurization and denitrification which is at RMB0.025 per kWh in accordance with the relevant regulations on the Determination of Desulfurization Price of Coal-Fired Generating Units and Operation of Desulfurization Facilities\* (燃煤發電機組脫硫電價及脫硫設施運行管理辦法) and the Notice on Further Diverting the Contradiction of Environmental Protection Electricity Prices (Development and Reform Price [2014] No. 1908\* (關於進一步疏導環保電價矛盾的通知(發改價格[2014]1908號)), with a reduction taking into account of the fees and expenses incurred by Guangdong Huaxia Yangxi power plant in respect of the O&M services of the desulfurization and denitrification facilities.

It is the opinion of the Board that the revenue from the operation and maintenance of environmental protection facilities of coal-fired power plants is greatly affected by the scope of service and technical parameters. The company’s historical O&M projects (the “**Historical O&M Projects**”) data shows that the contract price obtained through commercial negotiations with independent third parties accounts for 65% to 142% of the prevailing government subsidies (the “**Range**”). The variation arises out of the difference in the installed capacity of the coal-fired power plant, the type of devices installed, and the flue gas parameters of the environmental protection device (flue gas volume, SO<sub>2</sub> content of the flue gas inlet, NO<sub>x</sub> content of the inlet), limestone, spare parts, labor, which reflect the specific requirements of each project. Given the rate for the provision of the O&M services under the Yangxi Agreements was finally set at a fixed rate that is within the abovementioned range after arm’s length negotiations among Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric. Therefore, the Board considers the Yangxi Agreements to be on normal commercial terms.

---

## LETTER FROM GRAM CAPITAL

---

For our due diligence purpose, we obtained contract price / implied contract price for each of the comparable projects. We noted from the data that:

- (i) The portion of D&D Fixed Rates to subsidies with respect to desulfurization and denitrification is within the Range.
- (ii) The Group provided O&M to party A with different services fees. We understood from the Directors that the Group and party A entered into the original agreement and various supplemental agreements to govern fees for desulfurization service (the “**Project A**”).

Pursuant to the supplemental agreement entered into between the Group and party A in 2017, the calculation model of service fee for Project A was changed from on-grid power generation multiply by a fixed rate to a total fixed price.

As further advised by the Directors, pursuant to the supplemental agreement entered into between the Group and party A in 2018, the scope of services for Project A was changed. Accordingly, the Directors did not compare services fees under the Yangxi Projects to the services fees for Project A since 2018.

According to the data, excluding services fees of Project A in 2017 (which was substantial larger than the percentage of other comparables and the calculation method was different to other comparables), the range of comparable projects’ percentages were 65% to 70%. The percentage of Yangxi Project was higher than the range of comparable projects’ Percentages.



---

## LETTER FROM GRAM CAPITAL

---

(ii) UE Fees

With reference to the Board Letter, as the “ultra-low emission” standards relate to (i) desulfurization, (ii) denitrification and (iii) dust-removal and Beijing Boqi is only responsible for the O&M services of (i) and (ii), such entitlements were apportioned to Beijing Boqi based on the following formula:

$$(A + B)/(C + D)$$

where,

A = construction costs in relation to (i) and (ii);

B = the additional costs of O&M for the compliance of the “ultra-low emission” standards in 2017 (fixed) Beijing Boqi had incurred in relation to (i) and (ii);

C = construction costs in relation to (i), (ii) and (iii); and

D = the additional costs of O&M for the compliance of the “ultra-low emission” standards in 2017 (fixed) Beijing Boqi had incurred in relation to (i), (ii) and (iii).

The Directors are of the view that the consideration of the above factors in determining Beijing Boqi’s entitlement to the Ultra-low Emission Subsidies (the “**UE Fixed Rates**”) are fair and reasonable, and is in line with the market practice.

For our due diligence purpose, we obtained figures in respect the above mentioned costs from the Directors. The fixed rates which we calculated based on the aforesaid figures and relevant formula as contained in the agreements were the same as fixed rates for #1 & #2 facilities and #3 & #4 facilities respectively.

In addition, the Directors also advised us the expected margin regarding the provision of O&M services in respect of provision of O&M services relating to the desulfurization and denitrification facilities (including “ultra-low emission”) by the Group to (i) #1 to #4 facilities; and (ii) independent third parties. We noted that the margins regarding the provision of O&M services in respect of “ultra-low emission” by the Group to #1 to #4 facilities were within the range of margins regarding provision of similar services to independent third parties.

---

## LETTER FROM GRAM CAPITAL

---

We further noted that the Company disclosed in the Prospectus in respect of different pricing policy according to the characteristics of its respective business models and market practice in the flue gas treatment industry in China. According to the Prospectus, the pricing policy adopted for the O&M business model takes into account the following factors:

- (i) cost for the Group's projects operation and facilities maintenance services;
- (ii) on-grid tariff subsidy standards included in benchmark on-grid tariff, which is under the governmental guidance. Currently, the desulfurization tariff is RMB0.015 per kWh (value-added tax included), the denitrification tariff is RMB0.01 per kWh (value-added tax included), the dust removal tariff is RMB0.002 per kWh (value-added tax included) and the "ultra-low emission" tariff is RMB0.01 per kWh (value-added tax included);
- (iii) average sulfur and nitrogen content and dust volume of flue gas emission of the power plant and the standards to be met, the power generation volume and the location;
- (iv) reasonable returns, including profits gained through sale of reserve parts, spare parts and materials for flue gas treatment equipment procured from third-party suppliers; and
- (v) comparison with average market price for similar projects.

As confirmed by the Directors the fixed rates and unit service fees under the above mentioned projects are in line with the above pricing policy.

Upon our request, the Company provided us three bills in 2018 and one bill in 2019 issued by the Group to Yangxi Electric. We noted from the aforesaid bills that (i) service fee is calculated based on the their respective on-grid power generation multiply by the D&D Fixed Rates or UE Fixed Rates respectively; and (ii) D&D Fixed Rates are the same as the fixed rates as agreed by parties under the Yangxi Agreements; (iii) UE Fixed Rates are nearly the same as fixed rates as calculated based on formula contained in Upgrade Project Cooperation Agreement and relevant costs.

Having considered that (i) the portion of D&D Fixed Rates to subsidies with respect to desulfurization and denitrification is within the Range (including services fees of Project A in 2017) or higher than the range of comparable projects' Percentages (excluding services fees of Project A in 2017); (ii) as confirmed by the Directors, the operation model under the Historical O&M Projects are similar to the operation model under the Yangxi Project; and (iii) as advised by the Directors, bases for determination of such contract price are similar to the basis for determination of the D&D Fixed Rates, we consider that the D&D Fixed Rates to be acceptable.

---

## LETTER FROM GRAM CAPITAL

---

Having considered that (i) the fixed rates which we calculated based on the aforesaid figures and relevant formula as contained in the agreements were the same as fixed rates for #1 & #2 facilities and #3 & #4 facilities respectively; (ii) the margins regarding the provision of O&M services (including “ultra-low emission”) by the Group to #1 to #4 facilities were within the range of margins regarding provision of similar services to independent third parties, we consider that the UE Fixed Rates to be acceptable.

Ancillary charges are paid by Beijing Boqi to Yangxi Electric, based on the actual operation costs incurred in the daily operation of the O&M services, such as water, electricity, vapor, gas, environmental protection penalty (if any) and pollution tax fees and other relevant operational charges.

In order to ensure that the sum paid upon settlement is the actual charges occurred, Beijing Boqi has installed meters in the areas of its operation. Each month, Beijing Boqi settle costs by calculation of the actual data with Guangdong Huaxia Yangxi power plant.

As advised by the Directors, cost for water, electricity and pollution tax fees constituted over 85% to the ancillary charge for the year ended 31 December 2018. Upon our further enquiry, the Directors advised us that determination of unit cost for water, electricity and pollution tax fees would be in compliance with the government-prescribed price.

For our due diligence purpose, we obtained documents showing breakdowns of ancillary charges paid by Beijing Boqi to Yangxi Electric in October 2018. We selected cost of electricity consumptions during operation, which represented over 90% to the ancillary charges for that month. We noted that Beijing Boqi checked volume of electricity consumption as shown in electricity metre. The volume of electricity consumption was equal to the volume of electricity consumption as checked by Beijing Boqi.

With reference to the Board Letter, the desulfurization tariff was set at RMB0.015 per kWh (value-added tax included) on 29 May 2007 and had not changed since. The denitrification tariff was RMB0.008 per kWh (value-added tax included) on 29 November 2011, and was increased to RMB0.01 per kWh (value-added tax included) on 27 August 2013. The desulfurization tariff and denitrification tariff did not change after the Yangxi Agreements.

Yangxi Electric is the party entitled to receiving the relevant subsidies, which pay the service fees to Beijing Boqi within 15 days of receiving such sum from the State Power Grid. In event that the government prescribed subsidies are adjusted, the service fees under the Yangxi Agreements shall be adjusted in accordance with a further arm’s length negotiations with Yangxi Electric such that it is on normal commercial terms, no less favourable than those with independent third parties. We noted that there was relevant term for adjustment as contained in the Yangxi Agreements.

---

## LETTER FROM GRAM CAPITAL

---

As advised by the Directors, staff of Company's 特許經營中心 (Concession Operation Centre\*) will check if there is any update on policies regarding adjustment on the government prescribed subsidies on a weekly basis. Upon our request, the Company arranged a telephone conversation among us, the aforesaid staff and management of the Company's market department. Based on our discussion, we understood that (i) the aforesaid staff conducted weekly check on policies regarding adjustment on the government prescribed subsidies; and (ii) in the event of the aforesaid staff's absence, the management of Concession Operation Centre will assign another staff to handle the aforesaid matters to ensure the policies the checking on the adjustment of the government prescribed subsidies would be checked done on a weekly basis.

### *Internal control*

With reference to the Prospectus, the Company implemented certain internal control procedures to closely monitor and manage on-going continuing connected transaction, which involve procedures for both before transactions and after transactions.

### *Service Fees*

The Company has in place comprehensive project management procedures:

- Firstly, the Company will establish a project team, which comprises of professionals from the marketing department, O&M business center and technical actuarial department.
- Secondly, cost estimation will be performed by an inspector from Beijing Boqi who will enter the site of project.
- Finally, the Group will enter into commercial negotiation with site owners.

During the contracting process, the Company will perform strict contract review and approval process internally with the terms of contract being confirmed by the legal department and financial department in addition to the review conducted by participating business department and the technical actuarial department, so as to guarantee the Company's interests.

Each O&M project is unique due to the variation in technical parameters and scopes. The Company has 17 years of operation and management experience and has developed standardization systems, enabling it to determine service fees for each project through strict calculation. As such, the Directors are of the view that the project is carried out according to market practice, and the service fees payable by Yangxi Electric will not be lower than those with third-party customers.

---

## LETTER FROM GRAM CAPITAL

---

### *Ancillary charges*

Beijing Boqi has technical personnel on the project site for the provision of O&M services in respect of the Yangxi Facilities, who will check the on-site meters tracking the energy consumption, such as water, electricity, gas and steam. Beijing Boqi and Yangxi Electric shall both confirm the relevant monthly statements prior to payment by Beijing Boqi, ensuring that the ancillary charges are the actual operation costs incurred.

With reference to the Board Letter, as the relevant rate is fixed, the only variable in the calculation of the services fees is the on-grid power generation of the Guangdong Huaxia Yangxi power plant, which is managed by the State Grid Corporation of China based on the installed capacity of the power plant and regional electricity demand. Whereas for the ancillary charges, it is based on the actual operation costs incurred in the daily operation of the O&M services.

### *Remedial actions*

Despite that the Group implemented internal control procedures to monitor and manage on-going continuing connected transaction, the annual cap for the year ended 31 December 2018 was exceeded. As advised by the Directors, since the actual volume of on-grid power generation in 2018 was higher than the expected volume, the electricity price and electricity subsidies granted to the power plant in respect of its desulfurization and denitrification operations in 2018 and operational charges in 2018 correspondingly increased.

With reference to the Board Letter, the Company will endeavor to carry out adequate supervision over the transaction amount under the Yangxi Agreements against the relevant annual caps in future, with a view to ensuring that necessary measures and appropriate actions for the compliance with the applicable requirements under the Listing Rules will be promptly taken (the “**Measures and Actions**”).

Taking into account the following factors:

- (i) additional and continuous training on connected transactions shall be conducted to be concluded for Directors, senior management and the accounting personnel of the Company on a regular basis;

---

## LETTER FROM GRAM CAPITAL

---

- (ii) data relating to connected transactions of the Company (including quarterly transaction amounts and cumulative amounts) will be reviewed on a quarterly basis. If the transaction amount reaches 80% of the annual caps at any point of the year, the management would seek advice from the audit committee and the Board would consider the next steps, including the need to inform the Stock Exchange, to publish any announcement and to seek independent Shareholders' approval for an increase in annual caps, if applicable; and
- (iii) upon finalizing the annual audited accounts of the Group, if the audited financial figures would indicate the exceed of the annual caps, the Company would inform the Stock Exchange and make an immediate announcement,

we consider that the proposed implementation of the Measures and Actions would help to ensure (i) the transactions are conducted in accordance with the terms of the Yangxi Agreements; (ii) the transactions are on normal commercial terms, including the fair pricing of the transactions contemplated under the Yangxi Agreements according to the pricing policies; and (iii) the annual caps are not exceeded.

Furthermore, we discussed with senior management, staff of Company's board office and staff of Company's finance department and understood that the Company's senior management, staff of board office and finance department are aware of the Measures and Actions and will comply with existing internal control measures and Measures and Actions, when conducting transactions contemplated under the Yangxi Agreements.

### *2019 and 2020 Annual Caps*

Set out below are (i) historical transaction amounts of O&M services and ancillary charges for the year ended 31 December 2018; (ii) existing and revised annual caps of O&M services and ancillary charges for the two years ending 31 December 2020.

	<b>For the year ended 31 December 2018</b>
	<i>RMB'million</i>
— <i>O&amp;M services</i>	261.74
— <i>Ancillary charges</i>	89.72

---

## LETTER FROM GRAM CAPITAL

---

	<b>For the year ending 31 December 2019</b>	<b>For the year ending 31 December 2020</b>
	<i>RMB'million</i>	<i>RMB'million</i>
O&M services		
— <i>Existing annual caps</i>	245.00	245.00
— <i>Revised annual caps</i>	302.3	302.3
Ancillary charges		
— <i>Existing annual caps</i>	85.05	85.05
— <i>Revised annual caps</i>	103.6	103.6

As advised by the Directors, the New 2019 and 2020 Annual Caps are determined with reference to various factors. Details of the factors are set out under the section headed “REVISION OF EXISTING 2019 AND 2020 ANNUAL CAPS” of the Board Letter.

For our due diligence purpose, we have obtained a list (the “**List**”), showing the calculation of revised annual caps for the two years ending 31 December 2020. Based on the List, we noted that:

- (i) an increase of 5% for the estimated amounts on O&M services and ancillary charges for each of the two years ending 31 December 2020 based on the actual transaction amounts for each of O&M services and ancillary charges for the year ended 31 December 2018; and
- (ii) a buffer of 10% on the estimated amounts of O&M services and ancillary charges respectively for each of the two years ending 31 December 2020.

---

## LETTER FROM GRAM CAPITAL

---

To assess the fairness and reasonableness of the annual increase of 5% as mentioned above (the “**Increases**”), we conducted the following analysis:

### *Overview of economy and power statistics in Guangdong Province*

The table below illustrates the gross domestic products (“**GDP**”) and electricity generation of Guangdong Province:

	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
GDP (RMB Billion)	6,877.70	7,387.6	8,066.7	8,970.5	9,727.8
Electricity generation (million kWh)	386,979	390,021	408,197	440,717	436,962
Electricity consumption (million kWh)	345,468	531,069	561,013	595,897	632,335

*Source: Statistics Bureau of Guangdong Province*

As shown in the above table, the GDP of Guangdong Province had been increasing from 2014 and reached approximately RMB9,727.8 billion in 2018, representing a compound annual growth rate (“**CAGR**”) of approximately 9.1% from 2014 to 2018. Electricity consumption in Guangdong Province had been increasing at a CAGR of approximately 16.3% from 2014 to 2018, reaching approximately 632,335 million kWh in 2018. According to the above table, since 2015, electricity consumption in Guangdong Province exceed electricity generation in Guangdong Province.

### *Overview of Yangxi Electric’s operation*

As mentioned above, service fee is calculated based on the their respective on-grid power generation multiply by the D&D Fixed Rates or UE Fixed Rates respectively. Upon our request, the Directors provided us the on-grid power generated volume (million kWh) for the five years ended 31 December 2018. We noted that on-grid power generated volume decreased in 2015 as compared to 2014 and remained stable in 2016; the on-grid power generated level in 2017 recovered to the on-gird power generated level of 2014. In 2018, on-grid power generated volume further increased as compared to that of 2017.



---

## LETTER FROM GRAM CAPITAL

---

Details of the aforesaid statistics are as follows:

	2014	2015	2016	2017	2018
On-grid power generated (million kWh)	10,901	9,930	10,158	10,976	12,070

As advised by the Directors, (i) the “ultra-low emission” upgrade works as required by the latest state and municipal law, regulations and approval requirements caused the decreased in on-grid power generated volume in 2015; (ii) the increase in consumption of electricity in Guangdong Province in recent two years mainly caused the increase in on-grid power generated volume in 2017 and 2018.

According to the Directors, as (i) service fee is calculated based on the their respective on-grid power generation multiply by the D&D Fixed Rates or UE Fixed Rates respectively; (ii) the average duration in respect of operation and maintenance services provided by the Group to Yangxi Electric may increase due to the longer operation by Yangxi Electric’s power generating units; and (iii) O&M services fees and ancillary charges are directly related to on-grid power generated volume by Yangxi Electric.

Based on the above factors, including (i) the above-mentioned statistics of Guangdong Province; (ii) the historical performance of Yangxi Electric; and (iii) O&M services fees and ancillary charges are directly related to on-grid power generated volume by Yangxi Electric, we consider the Increases to be acceptable.

As the estimated amounts on O&M services and ancillary charges for the year ending 31 December 2019 were determined based on (i) the actual transaction amounts for 2018; and (ii) the Increases, we consider that the estimated amounts on O&M services and ancillary charges for the year ending 31 December 2019 to be fair and reasonable. Accordingly, we also consider the estimated amounts on O&M services and ancillary charges for the year ending 31 December 2020, which is the same as that for the year ending 31 December 2019, to be fair and reasonable.

### *Buffer*

We noted that the Company has applied a buffer of 10% as an assumption for the determination of the New 2019 and 2020 Annual Caps. Having considered that the additional buffer was applied for unforeseeable circumstances, for instance, to provide the Company with some flexibility to cater for any unexpected increase in the on-grid power generated volume and/or subsidies granted by the governments, we consider that a buffer of 10% is acceptable.

---

## LETTER FROM GRAM CAPITAL

---

In light of the above factors, we consider that both the New 2019 and 2020 Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned.

Shareholders should note that as both the New 2019 and 2020 Annual Caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2020 respectively, and they do not represent forecasts of revenue/income/cost to be incurred from the transactions contemplated under the Yangxi Agreements. Consequently, we express no opinion as to how closely the actual revenue/income to be incurred from the transactions contemplated under the Yangxi Agreements will correspond with both the New 2019 and 2020 Annual Caps.

### **3. Listing Rules implication**

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Listing Rules pursuant to which (i) the values of the continuing connected transaction must be restricted by both the New 2019 and 2020 Annual Caps for the year ended 31 December 2019 and 31 December 2020 respectively; (ii) the terms of transactions contemplated under Yangxi Agreements (including both the New 2019 and 2020 Annual Caps) must be reviewed by the independent non-executive Directors annually; and (iii) details of the independent non-executive Directors' annual review on the terms of the Yangxi Agreements must be included in the Company's subsequent published annual reports and financial accounts.

Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, that the continuing connected transaction are carried out in accordance with the pricing policies of the Company, and both the New 2019 and 2020 Annual Caps are not being exceeded. In the event that the total amounts of the continuing connected transaction is anticipated to exceed both the New 2019 and 2020 Annual Caps, or that there is any proposed material amendment to the terms of the Yangxi Agreements, the Company, as confirmed by the Directors, shall re-comply with the applicable provisions of the Listing Rules governing continuing connected transactions.

Given the above stipulated requirements for continuing connected transaction pursuant to the Listing Rules by the Company, the existing internal control procedures and the Measures and Actions, we are of the view that there are adequate measures in place to monitor the continuing connected transaction (together with both the New 2019 and 2020 Annual Caps) and hence the interest of the Independent Shareholders would be safeguarded.

---

## LETTER FROM GRAM CAPITAL

---

### RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of ratification of Actual 2018 Transaction Amounts and revision of the New 2019 and 2020 Annual Caps are on normal and commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the ratification of Actual 2018 Transaction Amounts and revision of the New 2019 and 2020 Annual Caps are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to (i) ratify and approve the Actual 2018 Transaction Amounts; and (ii) approve revision of the New 2019 and 2020 Annual Caps, and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,  
For and on behalf of  
**Gram Capital Limited**  
**Graham Lam**  
*Managing Director*

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

### Interests in Shares

Name of Director	Nature of Interest	Number and class of Shares	Approximate percentage of shareholding
Mr. Cheng Liquan Richard (Notes 1 and 2)	Interest of a controlled corporation; interests held jointly with another person (Note 1)	408,088,911 (Long Position)	40.47%
Mr. Zeng Zhijun (Notes 1 and 3)	Interest of a controlled corporation; interests held jointly with another person (Note 1)	408,088,911 (Long Position)	40.47%

Name of Director	Nature of Interest	Number and class of Shares	Approximate percentage of shareholding
Mr. Zhu Weihang (Note 4)	Interest of a controlled corporation; interests held jointly with another person (Note 1)	152,573,529 (Long Position)	15.13%

*Notes:*

- (1) Mr. Cheng Liquan Richard and Mr. Zeng Zhijun have entered into an acting-in-concert arrangement. As such, Mr. Cheng and Mr. Zeng together control 40.47% equity interests in the issued share capital of our Company through World Hero International Limited (“**World Hero**”), Asia Environment Investment Limited (“**Asia Environment**”) and Best Dawn Limited (“**Best Dawn**”). Asia Environment is owned as to 47.2% by Mr. Zeng. Asia Environment is interested in 2.67% interest in the issued share capital of the Company, and therefore Mr. Zeng is deemed to be interested in the Shares held by Asia Environment under Part XV of the SFO.
- (2) Mr. Cheng holds the entire issued share capital of World Hero. Therefore, Mr. Cheng is deemed to be interested in the Shares held by World Hero under the SFO.
- (3) Mr. Zeng holds the entire issued share capital of Best Dawn. Therefore, Mr. Zeng is deemed to be interested in the Shares held by Best Dawn under the SFO.
- (4) The entire issued share capital of New Asia Limited (“**New Asia**”) is held by Great Origin Ventures Limited (“**Great Origin**”), whose entire issued share capital is in turn held by Mr. Zhu. Therefore, Mr. Zhu is deemed to be interested in the Shares held by New Asia under the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company hold any interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the Stock Exchange.

### 3. SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, the following persons (other than Directors and chief executive of the Company) had interests or short positions in Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of shareholder	Capacity/ Nature of interests	As at Latest Practicable Date	
		Number of Shares/underlying Shares held or deemed to be held (Shares)	Percentage of the total number of Shares of the Company <sup>(1)</sup> (%)
Mr. Cheng Liquan Richard (Notes 1 and 2)	Interest of a controlled corporation; interests held jointly with another person (Note 1)	408,088,911 (Long Position)	40.47%
World Hero (Note 2)	Beneficial owner	169,034,580 (Long Position)	16.76%
Ms. Zhou Xuan (Note 3)	Interest of spouse	408,088,911 (Long Position)	40.47%
Mr. Zeng Zhijun (Notes 1 and 4)	Interest of a controlled corporation; interests held jointly with another person (Note 1)	408,088,911 (Long Position)	40.47%
Best Dawn (Note 4)	Beneficial owner	212,112,143 (Long Position)	21.03%
Ms. Ge Tong (Note 5)	Interest of spouse	408,088,911 (Long Position)	40.47%

Name of shareholder	Capacity/ Nature of interests	As at Latest Practicable Date	
		Number of Shares/underlying Shares held or deemed to be held (Shares)	Percentage of the total number of Shares of the Company <sup>(1)</sup> (%)
New Asia	Beneficial owner	152,573,529 (Long Position)	15.13%
Great Origin (Note 6)	Interest of a controlled corporation	152,573,529 (Long Position)	15.13%
Mr. Zhu Weihang (Note 6)	Interest of a controlled corporation	152,573,529 (Long Position)	15.13%
Sinopec Overseas Investment Holding Limited ("Sinopec")	Beneficial owner	110,294,118 (Long Position)	10.94%
China Petroleum & Chemical Corporation (Note 7)	Interest of a controlled corporation	110,294,118 (Long Position)	10.94%
Full Synergy Investment Limited ("Full Synergy")	Beneficial owner	56,508,715	5.60%
Partners Investment Management Limited (Note 8)	Interest of a controlled corporation	56,508,715	5.60%
Bullion Riches Limited (Note 8)	Interest of a controlled corporation	56,508,715	5.60%
Partners Financial Holdings Limited (Note 8)	Interest of a controlled corporation	56,508,715	5.60%

Name of shareholder	Capacity/ Nature of interests	As at Latest Practicable Date	
		Number of Shares/underlying Shares held or deemed to be held (Shares)	Percentage of the total number of Shares of the Company <sup>(1)</sup> (%)
Bright Hope Global Investments Limited (Notes 8 and 9)	Interest of a controlled corporation	56,508,715	5.60%
Wan Ten Lap (Notes 8 and 9)	Interest of a controlled corporation	56,508,715	5.60%
Zhang Yi (Notes 8 and 9)	Interest of a controlled corporation	56,508,715	5.60%

## Notes:

- (1) Mr. Cheng Liquan Richard and Mr. Zeng Zhijun have entered into an acting-in-concert arrangement. As such, Mr. Cheng and Mr. Zeng together control 40.47% equity interests in the issued share capital of our Company through World Hero, Asia Environment and Best Dawn. Asia Environment is owned as to 47.2% by Mr. Zeng. Asia Environment is interested in 2.67% interest in the issued share capital of our Company, and therefore Mr. Zeng is deemed to be interested in the Shares held by Asia Environment under Part XV of the SFO.
- (2) Mr. Cheng holds the entire issued share capital of World Hero. Therefore, Mr. Cheng is deemed to be interested in the Shares held by World Hero under the SFO.
- (3) Ms. Zhou Xuan is the spouse of Mr. Cheng. Under the SFO, Ms. Zhou Xuan is deemed to be interested in the same number of Shares in which Mr. Cheng is interested.
- (4) Mr. Zeng holds the entire issued share capital of Best Dawn. Therefore, Mr. Zeng is deemed to be interested in the Shares held by Best Dawn under the SFO.
- (5) Ms. Ge Tong is the spouse of Mr. Zeng. Under the SFO, Ms. Ge Tong is deemed to be interested in the same number of Shares in which Mr. Zeng is interested.
- (6) The entire issued share capital of New Asia is held by Great Origin, whose entire issued share capital is in turn held by Mr. Zhu. Therefore, Mr. Zhu is deemed to be interested in the Shares held by New Asia under the SFO.
- (7) China Petroleum & Chemical Corporation holds the entire issued share capital of Sinopec. Therefore, China Petroleum & Chemical Corporation is deemed to be interested in the Shares held by Sinopec under the SFO. China Petroleum & Chemical Corporation is a PRC state-owned company, whose H shares are listed on the Main Board (stock code: 386).



- (8) Full Synergy, a company incorporated in the BVI on 2 April 2015, is an investment holding company and a wholly-owned subsidiary of Partners Investment Management Limited. Partners Investment Management Limited is wholly owned by Bullion Riches Limited, which in turn is wholly owned by Partners Financial Holdings Limited. Partners Financial Holdings Limited is a financial holding company, whose subsidiaries are licensed corporations under the SFO holding type 1, type 4, type 6 and type 9 licences in Hong Kong. Full Synergy is the issuer of structured notes, of which one of the subscribers is a fund established in the PRC. Mr. Cheng, through World Hero, subscribed approximately 2.96% of the limited partner interest in such fund. Mr. Cheng does not hold any interest in the general partner of the fund, and is not involved in the decision making process of the fund.
- (9) Bright Hope Global Investments Limited and Wan Ten Lap own 44% and 51%, respectively, of Partners Financial Holdings Limited, the holding company of Full Synergy. Zhang Yi in turn owns 100% of Bright Hope Global Investments Limited. Under the SFO, Bright Hope Global Investments Limited, Wan Ten Lap and Zhang Yi are deemed to be interested in the same number of Shares in which Full Synergy is interested.

Save as disclosed above, as at the Latest Practicable Date, the Company has not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

#### **4. DIRECTORS' INTERESTS IN COMPETING BUSINESS**

Saved as disclosed in this Circular, our Directors confirm that, as of the Latest Practicable Date, none of the Directors or their close associates had any direct or indirect interest in any business which competes or might compete with our principal business.

#### **5. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2017 (being the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to or were proposed to be acquired or disposed of by or leased to any member of the Group.

There was no contract or arrangement subsisting as at the Latest Practicable Date in which any of the Directors was materially interested and which was significant in relation to the business of the Group.

#### **6. DIRECTORS' INTEREST IN COMPETING BUSINESS**

As at the latest Practicable Date, none of the Directors or their respective close associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group as required to be disclosed pursuant to the Listing Rules.

**7. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018 (being the date to which the latest published consolidated audited financial statements of the Group were made up).

**8. SERVICE AGREEMENTS**

None of the Directors had entered into any service contract with the Company or any member of the Group (excluding contracts expiring or terminable by the employer within one year without payment of compensation (other than statutory compensation)).

**9. LITIGATION**

As at the Latest Practicable Date, none of the members of the Group has engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any members of the Group.

**10. EXPERT AND QUALIFICATION**

- (a) Gram Capital is a Licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).
- (b) As at Latest Practicable Date, Gram Capital had given and had not withdrawn its written consent to the issue of this circular with the inclusion of its letter, statements and references to its name in the form and context in which they are included. The letter, statements and recommendations therein given by Gram Capital are given as of the date of this circular for incorporation herein.
- (c) As at the Latest Practicable Date, Gram Capital did not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (d) As at the Latest Practicable Date, Gram Capital did not have any interest, directly or indirectly, in any asset which had been, since 31 December 2018 (being the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by, or leased to or were proposed to be acquired or disposed of by, or leased to, any member of the Group.

**11. MISCELLANEOUS**

- (a) The registered office of the Company is at PO Box 309, Ugland House Grand Cayman KY1-1104 Cayman Islands, and the principal place of business in Hong Kong is at 40/F., Sunlight Tower, 248 Queen's Road East, Wanchai, Hong Kong.
- (b) The branch share registrar of the Company is Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (c) The joint company secretaries are Ms. Qian Xiaoning and Ms. Wong Wai Ling.
- (d) The English text of this circular shall prevail over the Chinese text.

**12. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the principal place of business of the Company in 40/F, Sunlight Tower, 248 Queen's Road East, Wanchai, Hong Kong, during normal business hours on any weekday (except public holidays), up to and including 14 days from the date of this circular:

- (a) the Yangxi Agreements;
- (b) the Upgrade Project Cooperation Agreement;
- (c) the letter from the Independent Board Committee, the text of which is set out in the section headed "Letter from the Independent Board Committee" of this circular;
- (d) the letter from Gram Capital, the text of which is set out in the section headed "Letter from Gram Capital" of this circular;
- (e) the written consent referred to in paragraph headed "10. EXPERT AND QUALIFICATION" in this appendix; and
- (f) this circular.

\* *For identification purpose only*

---

## NOTICE OF EGM

---



### **China Boqi Environmental (Holding) Co., Ltd.**

### **中國博奇環保(控股)有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2377)**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of the shareholders of China Boqi Environmental (Holding) Co., Ltd. (the “**Company**”) will be held at the first conference room of the Company at 11/F, R&F Center, 63 East 3rd Ring Middle Road, Chaoyang District, Beijing, the PRC on Friday, 21 June 2019 at 10:30 a.m. (the “**Meeting**”) for the purposes of considering and, if thought fit, passing the following matters. Terms used in this Notice Shall have the same meanings as those defined in the Circular of the Company date 31 May 2019 (the “**Circular**”) unless otherwise defined.

#### **ORDINARY RESOLUTION**

- (1) To consider and ratify the Actual 2018 Transaction Amounts of the Yangxi Agreements.
- (2) To consider and approve the New 2019 and 2020 Annual Caps of the Yangxi Agreements.

By order of the Board of Directors

**Mr. Zeng Zhijun**

曾之俊

*Executive Director*

Hong Kong, 31 May 2019

*As at the date of this notice, the Board comprises Mr. Cheng Liquan Richard and Mr. Zeng Zhijun, as executive Directors; Mr. Tony Tuo Zheng, Mr. Chen Xue and Mr. Zhu Weihang, as non-executive Directors; and Dr. Xie Guozhong, Mr. Liu Genyu and Mr. Lu Zhifang, as independent non-executive Directors.*

---

## NOTICE OF EGM

---

*Notes:*

1. A member entitled to attend and vote at the Meeting is entitled to appoint not more than two proxies to attend and vote on his/her behalf. A member who is a recognized clearing house within the meaning of the Securities and Futures Ordinance is entitled to appoint one or more proxies to attend and vote on its behalf. A proxy need not be a member of the Company.
2. In the case of joint holders of any shares in the Company, any one of such joint holders may vote at the above meeting, either personally or by proxy, in respect of such shares as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the meeting, either personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.
3. In order to be valid, a form of proxy must be deposited at the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof) not less than 48 hours before the time appointed for the holding of the above meeting or any adjournment thereof. The completion and return of the form of proxy shall not preclude shareholders of the Company from attending and voting in person at the above meeting (or any adjourned meeting thereof) if they so wish.
4. The register of members of the Company will be closed from 18 June 2019 to 21 June 2019 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for attending the Meeting, all share certificates with completed transfer forms must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 17 June 2019 for registration of share transfer.
5. The votes at the Meeting will be taken by poll.