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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).

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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)

**CONTINUING CONNECTED TRANSACTIONS
PROPOSED ADOPTION OF THE SHARE OPTION SCHEME
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

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



A letter from the Board is set out on pages 6 to 27 of this circular.

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

A letter from Gram Capital containing its advice to the Independent Board Committee and the Independent Shareholders in relation to the 2020 Supplemental Agreement and the Proposed Annual Caps and the transactions contemplated thereunder is set out on pages 29 to 46 of this circular.

A notice convening the EGM to be held at the first conference room of Beijing Boqi at 2/F, Guoben Culture Building, No. Jia 8, Xinglongzhuang, Chaoyang District, Beijing, the PRC on Tuesday, 29 December 2020 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 branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, Level 54, 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 27 December 2020. 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.

8 December 2020

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DEFINITIONS

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

“Adoption Date”	29 December 2020, being the date on which the Share Option Scheme is to be considered and, if thought fit, to be adopted by the Shareholders at the EGM
“associate(s)”, “subsidiary” and “substantial shareholder”	each shall have the meaning as ascribed to it under the Listing Rules
“Auditors”	the auditors of the Company for the time being
“Beijing Boqi”	Beijing Boqi Electric Power SCI-TECH Co., Ltd., a wholly-owned subsidiary of the Company
“Board”	the board of Directors
“Business Day”	any day (excluding Saturday and Sunday) on which banks in Hong Kong generally are open for business and the Stock Exchange is open for the business of dealing in securities
“close associate(s)”	has the meaning described under Rule 1.01 of the Listing Rules
“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
“connected person”	has the meaning as described under Rule 14A.06(7) of the Listing Rules
“core connected person(s)”	has the meaning described under Rule 1.01 of the Listing Rules
“Director(s)”	the director(s) of the Company

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“EGM”	the extraordinary general meeting to be convened and held at the first conference room of Beijing Boqi at 2/F, Guoben Culture Building, No. Jia 8, Xinglongzhuang, Chaoyang District, Beijing, the PRC on 29 December 2020 at 10:30 a.m. for the Independent Shareholders to consider (i) the 2020 Supplemental Agreement and transactions contemplated thereunder; (ii) the Proposed Annual Caps; and for the Shareholders to consider (iii) the proposed adoption of the Share Option Scheme
“Eligible Employee”	any full-time employee (including any executive director but excluding any non-executive director and independent non-executive director) of the Company, any Subsidiary or any Invested Entity
“Eligible Participants”	the persons who may be invited by the Directors to take up Options, and “Eligible Participant” shall be construed accordingly
“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 (i) the 2020 Supplemental Agreement and transactions contemplated thereunder; and (ii) the Proposed Annual Caps
“Grantee”	any Eligible Participant who accepts an Offer in accordance with the terms of the Share Option Scheme or (where the context so permits) his Personal Representative(s) who is entitled to any Option in consequence of the death of the original Grantee
“Group”	the Company and its subsidiaries
“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
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

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“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors, namely Mr. Liu Genyu, Dr. Xie Guozhong and Mr. Lu Zhifang, which has been formed by the Board to advise the Independent Shareholders in respect of (i) the 2020 Supplemental Agreement and transactions contemplated thereunder; and (ii) the Proposed Annual Caps
“Independent Shareholders”	Shareholder(s), other than Mr. Zhu and his associates, and any Shareholder who has a material interest in (i) the 2020 Supplemental Agreement and transactions contemplated thereunder; and (ii) the Proposed Annual Caps
“Invested Entity”	any entity in which any member of the Group holds any equity interest
“kWh”	kilowatt hours
“Latest Practicable Date”	4 December 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular
“Listing Date”	the date on which the Shares initially commenced their dealings on the Stock Exchange i.e. 16 March 2018
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange as amended from time to time
“Main Board”	the Main Board of the Stock Exchange
“Mr. Zhu”	朱偉航 (ZHU Weihang), the non-executive Director and substantial shareholder of the Company
“O&M”	operation and maintenance
“Offer”	an offer for the grant of an Option
“Offer Date”	the date, which must be a Business Day, on which an Offer is made to an Eligible Participant
“Option”	an option to subscribe for the Shares granted pursuant to the Share Option Scheme

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“Option Period”	in respect of any particular Option, a period (which may not be later than ten (10) years from the Offer Date of that Option) to be determined and notified by the Directors to the Grantee thereof and, in the absence of such determination, from the Offer Date of such Option to the earlier of (i) the date on which such Option lapses; and (ii) ten (10) years from the Offer Date of that Option
“Personal Representative(s)”	the person or persons who, in accordance with the laws of succession applicable in respect of the death of a Grantee (being an individual), is or are entitled to exercise the Option granted to such Grantee (to the extent not already exercised)
“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)
“Proposed Annual Caps”	the annual caps for the continuing connected transactions under the Yangxi Agreements and the 2020 Supplemental Agreement with Guangdong Huaxia Electric and Yangxi Electric, for the three years ending 31 December 2023
“Prospectus”	the prospectus of the Company dated 28 February 2018
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Shareholder(s)”	holders of the Share(s)
“Shares”	shares of USD0.00001 each in the ordinary share capital of the Company, or, if there has been a sub-division, consolidation, re-classification, reduction or reconstruction of the share capital of the Company, shares being the ordinary shares of the Company of such other nominal amount as shall result from any such sub-division, consolidation, re-classification or reconstruction
“Share Option Scheme”	the share option scheme in its present form or as may be amended from time to time

DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the price per Share at which a Grantee may subscribe for the Shares on the exercise of an Option
“Subsidiaries”	the companies which are for the time being and from time to time the subsidiaries (within the meaning given to it in the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)) of the Company, whether incorporated in Hong Kong, the British Virgin Islands, the People’s Republic of China or elsewhere, and “Subsidiary” shall be construed accordingly
“Termination Date”	close of business of the Company on the date which falls ten (10) years after the Adoption Date
“Upgrade Units”	the “ultra-low emission” upgrade units to the #1-#2 facilities
“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 owned by Yangxi Electric
“%”	percentage

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 Directors:

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,

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Cayman Islands

Principal place of business

in Hong Kong:

40/F., Sunlight Tower 248

Queen's Road East

Wanchai,

Hong Kong

Headquarters in the PRC:

2/F, Guoben Culture Building

No. Jia 8, Xinglongzhuang

Chaoyang District Beijing,

the PRC

8 December 2020

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
PROPOSED ADOPTION OF THE SHARE OPTION SCHEME
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

I. INTRODUCTION

Reference is made to the announcement of the Company dated 30 November 2020, in respect of, among other things, (i) the 2020 Supplemental Agreement and transactions contemplated thereunder; (ii) the Proposed Annual Caps; and (iii) the proposed adoption of the Share Option Scheme.

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The purpose of this circular is to provide you with, among other things, (i) details of the 2020 Supplemental Agreement and transactions contemplated thereunder; (ii) details of the Proposed Annual Caps; (iii) details of the proposed adoption of the Share Option Scheme; (iv) the letter of recommendation from the Independent Board Committee in respect of the 2020 Supplemental Agreement and transactions contemplated thereunder and the Proposed Annual Caps; (v) the letter from Gram Capital to the Independent Board Committee and the Independent Shareholders in respect of the 2020 Supplemental Agreement and transactions contemplated thereunder and the Proposed Annual Caps; and (vi) a notice convening the EGM.

As Mr. Zhu is deemed to have a material interest in the 2020 Supplemental Agreement and transactions contemplated thereunder and the Proposed Annual Caps, Mr. Zhu and his associate(s) who in aggregate held 152,170,529 Shares, representing 15.11% of the total issued Shares, as at the Latest Practicable Date, shall abstain from voting on the relevant resolutions.

II. CONTINUING CONNECTED TRANSACTIONS

1. 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 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.

On 1 January 2017, Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric further entered into a supplemental agreement solely to determine the pricing terms 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**”).

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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.

Based on the Notice on the Implementation of Support Policies for Ultra-low Emission Tariffs on Coal-fired Power Plant (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)), 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. 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. As at 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 received from Yangxi Electric under the Upgrade Project Cooperation Agreement.

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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
- 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 multiplied 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.

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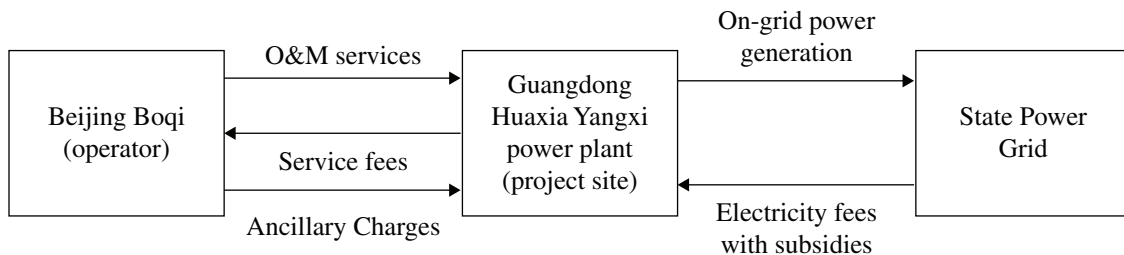
Ancillary Charges: Ancillary charges are paid by Beijing Boqi to Yangxi Electric, based on the actual operation costs incurred in the daily operation of the O&M services, such as water, electricity, vapor and pollution tax fees and other relevant operational charges (the “Ancillary Charges”).

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.

Further details of the Yangxi Agreements are set out in the Prospectus on pages 222 to 231.

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:



2. Proposed Alteration to Terms of Yangxi Agreements

Following the issue of *The Implementation Plan for Deepening the Reform of the Feed-in Tariff Mechanism for Coal-fired Power Generation by Guangdong Development and Reform Commission* (廣東省發展改革委關於深化燃煤發電上網電價形成機制改革的實施方案) with effect from 1 January 2020, benchmark on-grid tariffs of coal-fired power generation has been replaced by a market-based pricing mechanism which includes a “benchmark on-grid tariff” that sets at the same level as the benchmark on-grid tariff it replaces, and a “float” so that it can deviate up to 10% higher or 15% lower. The above-mentioned pricing mechanism had certain impact on overall operation results of Yangxi Electric. Beijing Boqi, as the service provider of Yangxi Electric, and Yangxi Electric proposed to re-adjust the calculation method of the O&M services rate under the Yangxi Agreements simultaneously with the above market-based pricing mechanism after arm’s length negotiations for commercial transactions.

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After arm's length negotiation between Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric, the parties entered into a supplemental agreement on 30 November 2020 pursuant to which the parties agreed to amend and supplement certain terms in relation to the pricing terms for the provision of O&M services and the Ancillary Charges in accordance with the market-based pricing mechanism (the "**2020 Supplemental Agreement**"). Major terms of the 2020 Supplemental Agreement are set out below:

(i) Proposed pricing terms

*The rate for provision of O&M services with respect to desulfurization and denitrification (the "**Proposed O&M Services Rate**") shall be determined by the following formula:*

$$A \times (1-B)$$

Where:

A = Negotiated fixed rate (per kWh) for provision of O&M services

B = (C-D)/C

Where:

C = "benchmark on-grid tariff" published by Guangdong Development and Reform Commission. According to the Implementation Plan for Deepening the Reform of the Feed-in Tariff Mechanism for Coal-fired Power Generation by Guangdong Development and Reform Commission, the currently applicable "benchmark on-grid tariff" in Guangdong Province is RMB0.453/kWh. Given that the "benchmark on-grid tariff" is determined and promulgated by the relevant government authorities, the frequency of renewal is uncertain.

D = weighted average on-grid tariff based on on-grid power of single unit, which is calculated by below formula:

\sum (Each power component of on-grid electricity sales of the single unit * Corresponding tariff (including environmental subsidies))/On-grid electricity sales of the single unit

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The price of electricity included in the Ancillary Charges (the “Proposed Electricity Price in Ancillary Charges”) shall be determined by the following formula:

$$E \times (1-F)$$

Where:

E = Negotiated fixed rate (per kWh) for electricity price in the Ancillary Charges

F = (C-G)/C

Where:

C = “benchmark on-grid tariff” published by Guangdong Development and Reform Commission

G = weighted average on-grid tariff calculated based on on-grid power generated by #1-4 Facilities, which is calculated by below formula:

\sum (Each power component of on-grid electricity sales of #1-4 facilities * Corresponding tariff (including environmental subsidies))/On-grid electricity sales of #1-4 facilities

- (ii) The parties proposed to implement the above pricing terms on and after 1 January 2020.
- (iii) For the avoidance of doubt, the 2020 Supplemental Agreement does not involve any adjustment with regard to the entitlement of the “ultra-low emission” subsidies in relation to #1-4 Facilities.

The parties shall complete the approval procedures in accordance with the laws, their respective articles of association and other applicable regulations before the 2020 Supplemental Agreement comes into force. Such agreement shall become established after signing and sealing between Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric and become effective on the day of approval by the Independent Shareholders at the EGM.

LETTER FROM THE BOARD

2.1 Pricing basis for provision of O&M services

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 pricing policy adopted for the O&M business model takes into account the following factors:

- (i) cost for our project operation and facilities maintenance services;
- (ii) on-grid tariff subsidy standards, which is under the governmental guidance;

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. The subsidies with respect to desulfurization and denitrification being RMB0.025 per kWh is determined 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)

- (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.

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 cost 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, SO₂ content of the flue gas inlet, NO_x content of the inlet), limestone, spare parts, labor, which reflect the specific requirements of each O&M project. At the time of entering into the Yangxi Agreements, the rate for the provision of O&M services was determined based on cost plus a reasonable profit margin. Yangxi Agreements has been implemented since 2017 and the overall gross profit margin of the O&M segment of the Company remained between 20% and

LETTER FROM THE BOARD

31.5% for the three financial years ended 31 December 2019. The profit margin for provision of O&M services under 2020 Supplemental Agreement will not adversely affect the overall gross profit margin of the O&M segment of the Company.

In the meantime, at the time of entering into the Yangxi Agreements, the government subsidies available to Guangdong Huaxia Electric and Yangxi Electric have been taken into account as one of the factors for the negotiation between the parties for the O&M services rate, which is determined based on the relevant subsidies with respect to desulfurization and denitrification being RMB0.025 per kWh. 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 Guangdong Huaxia Electric and Yangxi Electric and by mutual agreement between the parties to ensure that it is on normal commercial terms, no less favourable than those with independent third parties. If there will be any adjustment to the O&M service rate due to adjustment to government subsidies accordingly and supplemental agreement to the Yangxi agreements to be entered into between the parties, the Company will comply with the approval and disclosure procedures as appropriate in a timely manner in accordance with the Listing Rules, if applicable. The government subsidies are for reference and any risks arising from Yangxi Electric's failure to receive the relevant subsidies from the power grid companies will not affect the service fee income of the Company. Since the implementation of the Yangxi Agreement in 2017 and as at the Latest Practicable Date, the rate (per kWh) for the provision of O&M services under the Yangxi Agreement is a fixed rate (exclusive of value-added tax), which has not been adjusted as the government subsidies have not been adjusted during the corresponding period.

Upon approval on the 2020 Supplemental Agreement by the Independent Shareholders at the EGM, the service fees for provision of O&M services will be settled based on the Proposed O&M Services Rate. According to the calculation method of float rate set under the 2020 Supplemental Agreement, even if the on-grid tariff reaches the lowest level, i.e. 15% lower than the benchmark on-grid tariff, the negotiated fixed rate is reduced simultaneously based on the maximum float rate of 15%, and it is estimated that the lowest level of the float rate for the provision of O&M services is within the range of 65% to 142% of the prevailing government subsidies, which is no less favourable than the contract price obtained from independent third parties. In general, after determining the initial rate based on the settlement data of historical projects, the business department of the Company will send the initial rate to the finance department to review whether the profit margin levels are comparable to those of the Company's similar projects, so as to ensure that the final rate for the O&M services provided to Yangxi Electric are no less favourable to the Company than those available to the Company from independent third parties. 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.

LETTER FROM THE BOARD

Therefore, the Board considers the Yangxi Agreements and the 2020 Supplemental Agreement and transactions contemplated thereunder to be on normal commercial terms, and are of the opinion that the basis of determining the service fees under the Yangxi Agreement and the 2020 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.

Ancillary Charges based on the 2020 Supplemental Agreement

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, environmental protection penalty (if any), pollution tax fees and other relevant operational changes. The price of electricity included in the actual operation cost shall be settled based on the Proposed Electricity Price in Ancillary Charges as disclosed above.

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 of the Ancillary Charges is in line with the market practice.

2.2 *Re-compliance with the Listing Rules*

Reference is made to the section headed “Waivers from Compliance with the Listing Rules and Exemption from Compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance” and “Connected Transactions” in the Prospectus containing details regarding, among other things, a waiver from strict compliance with the three year term requirement for continuing connected transactions under the Yangxi Agreements granted by the Stock Exchange. However, the Company must fully comply with the relevant requirements under Chapter 14A under the Listing Rules unless it applies for and obtains a separate waiver from the Exchange if any terms of the continuing connected transactions under the Yangxi Agreements are altered since the Listing Date.

Subject to Independent Shareholders’ approval requirements under chapter 14A of the Listing Rules, the 2020 Supplemental Agreement constitutes alteration to pricing term of the Yangxi Agreements. Gram Capital has been appointed as the independent financial adviser to analyze the term of Yangxi Agreements. For details, please refer to the letter from Gram Capital as set out on page 29 to page 46 of this circular.

LETTER FROM THE BOARD

3. Renewal of Annual Caps for Continuing Connected Transactions

On 30 November 2020, the Board also resolved to propose to renew the annual caps for the continuing connected transactions under the Yangxi Agreements for the three years ending 2023.

3.1 Historical figures and annual caps

The following table sets forth the transaction amounts under the Yangxi Agreements with Guangdong Huaxia Electric and Yangxi Electric for the two years ended 31 December 2019 and for the six months ended 30 June 2020:

Financial year ended 31 December	Transaction amounts^(Note 1) for the year/period (RMB million)	
	Services fees	Ancillary Charges
2018	261.74	89.72
2019	172.97	66.13
Six months ended 30 June		
2020	69.19 ^(Note 2)	24.86 ^(Note 2)

Notes:

- (1) *The transaction amount in respect of the “ultra-low emission” subsidy was nil as Beijing Boqi has not received any “ultra-low emission” subsidy from Yangxi Electric. As disclosed in section headed “CONTINUING CONNECTED TRANSACTIONS – Background” of this circular, the parties have agreed on the price adjustment under the July 2018 Supplemental Agreement, and Beijing Boqi has recovered all the costs for the construction of the Upgrade Units by the “ultra-low emission” subsidies received from Yangxi Electric under the Upgrade Project Cooperation Agreement, and Beijing Boqi has not incurred any fees and expenses in relation to the “ultra-low emission” upgrade project thereafter. In particular, as the ultra-low emission facilities are facilities ancillary to the desulfurization and denitrification environmental protection system, during the course of project operation and maintenance, there will be no additional Ancillary Charges paid by Beijing Boqi to Yangxi Electric. Therefore, the parties need to re-negotiate the rate for “ultra-low emission” subsidy and its payment arrangement, and uncertainties remain in the relevant commercial arrangements. Therefore, the Proposed Annual Caps as disclosed below are determined without taking the expected receipt of part of the “ultra-low emission” subsidy into account. The Company will duly perform its compliance obligations in accordance with the applicable provisions of the Listing Rules based on the negotiation progress.*
- (2) *The projected transaction amounts for the six months ended 30 June 2020 in accordance with the pricing adjustment based on the 2020 Supplemental Agreement which has not been settled as at the Latest Practicable Date between the parties and is subject to the approval by the Independent Shareholders at the EGM on the 2020 Supplemental Agreement.*

LETTER FROM THE BOARD

The following table sets forth the annual caps for the continuing connected transactions under the Yangxi Agreements with Guangdong Huaxia Electric and Yangxi Electric, for the three years ending 31 December 2020:

Financial year ended 31 December	Existing annual caps of transaction amounts	
	<i>(RMB million)</i>	
	Services Fees	Ancillary charges
2018	245 ^(Note 1)	85.05 ^(Note 1)
2019	302.30	103.63
2020	302.30	103.63

Note:

- (1) Reference is made to the announcement of the Company dated 12 March 2019 and the circular of the Company dated 31 May 2020, in relation to, among other things, the transaction amount under the Yangxi Agreement for the year 2018 exceeding the original 2018 annual cap. As the highest applicable percentage ratio in respect of the actual 2018 transaction amount 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. The transactions under the Yangxi Agreements for the year ended 31 December 2018 had been ratified by the Independent Shareholders at the extraordinary general meeting held on 21 June 2019.

3.2 Renewal of annual caps for the three years ending 2023

The following table sets forth the Proposed Annual Caps:

Financial year ending 31 December	Proposed Annual Caps	
	<i>(RMB million)</i>	
	Services fees	Ancillary Charges
2021	189.31	65.27
2022	189.31	65.27
2023	189.31	65.27

LETTER FROM THE BOARD

The Proposed Annual Caps have taken into account the following factors:

- (i) the historical actual transaction amount under the Yangxi Agreements with Guangdong Huaxia Electric and Yangxi Electric for the two years ended 31 December 2019 and six months ended 30 June 2020.
- (ii) the pricing adjustments based on the 2020 Supplemental Agreement as disclosed above.
- (iii) an expected growth at 5% of the transaction amount for the year ending 31 December 2021 over historical actual transaction, which is based on the increasing trend observed in the operation statistics of Guangdong Huaxia Yangxi power plant.

The transaction amount of O&M services and the electricity price in the Ancillary Charges are directly related to the on-grid power generation of Yangxi Electric and the electricity consumption of the O&M services provided by Beijing Boqi. The table below sets forth the on-grid power generation statistics of Yangxi Electric from 2014 to 2019:

	2014	2015	2016	2017	2018	2019
On-grid power generation (million kWh)	10,901	9,930	10,158	10,976	12,070	9,673

According to the data in the above table, the on-grid power generation in 2015 decreased as compared to 2014 and remained stable in 2016. In 2017, the level of on-grid power generation resumed to that in 2014. In 2018, on-grid power generation further increased as compared to that of 2017. Due to the cyclical maintenance of the power generating units of Yangxi Electric, the unit facilities underwent maintenance outage in 2019, which resulted in a decrease in on-grid power generation and recorded the lowest level during the period from 2014 to 2019. In the second half of 2019, the units which were shut down have resumed operation. The on-grid power generation of Yangxi Electric is expected to remain at a relatively stable level in the next three years from 2021 with reference to the historical power generation of Yangxi Electric, the GDP growth of Guangdong Province in recent years and the electricity consumption in Guangdong Province.

Based on the above trend of historical operation data of Yangxi Electric and the cyclical nature of the maintenance of the Yangxi Facilities, with regard to the O&M services, the estimated on-grid power generation for the year 2021 is calculated based on the 5% increase in the average on-grid power generation for the three years from 2018 to 2020. In respect of the electricity price in the Ancillary Charges, the estimated electricity consumption in 2021 is calculated

LETTER FROM THE BOARD

based on the average electricity consumption for the three years from 2018 to 2020 with an increase of 5%, and the electricity cost in the Ancillary Charges in 2021 as a percentage of the Ancillary Charges is consistent with the situation in the first half of 2020.

- (iv) a prudent view that the transaction amounts for each of the three years ending 31 December 2023 shall be the same or within limited variation.
- (v) 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.

The Directors are of the view that the consideration of the above factors in determining the proposed annual caps for the three years ending 31 December 2023 is prudent, fair and reasonable.

4. Internal Control Measures

- *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 and the 2020 Supplemental Agreement shall be adjusted in accordance with a further arm's length negotiations with Guangdong Huaxia Electric and Yangxi Electric to ensure that it is on normal commercial terms, no less favourable than those with independent third parties. The Concession Operation Center of the Company will also review the latest status of the "benchmark on-grid tariff" promulgated by the competent government authorities on a monthly basis.

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Each O&M project is unique due to the variation in technical parameters and scopes. The Company has 18 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.

The service fees under the Yangxi Agreements and the 2020 Supplemental Agreement are settled monthly. On the 15th of each month, the settlement personnel of Yangxi Electric provide the relevant data with respect of the tariff and the settlement certificate between Guangdong Huaxia Yangxi power plant and the State Power Grid. Beijing Boqi determines the actual O&M Services Rate for the previous month according to the settlement certificate between Guangdong Huaxia Yangxi power plant and the State Power Grid, including the weighted average on-grid tariff based on the on-grid power generation, and the power generation data, and according to the calculation method of the Proposed O&M Services Rate under the terms of the 2020 Supplemental Agreement. After the settlement personnel of both parties have confirmed the actual O&M services rate and the settlement data, the monthly settlement statement will be signed by the project personnel with the department seal in accordance with the internal approval process of 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.

In addition, the Company will endeavor to carry out adequate supervision over the transaction amount under the Yangxi Agreements and the 2020 Supplemental Agreement against the relevant annual caps, 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. 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.

LETTER FROM THE BOARD

5. Reasons for and Benefits of the Continuing Connected Transactions

- *The provision of O&M services under the Yangxi Agreements and the 2020 Supplemental Agreement*

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 is able to 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 2020 Supplemental Agreement was entered into taking into account the market-based pricing mechanism for on-grid tariffs established by competent government department as disclosed in this circular. The profit margin for provision of O&M services under the 2020 Supplemental Agreement will not adversely affect the overall gross profit margin of the O&M segment of the Company. Therefore, the execution of the Yangxi Agreements and the 2020 Supplemental Agreement 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 flue gas treatment business is in the interests of the Group as a whole.

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 2020 Supplemental 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 Yangxi Agreements and the 2020 Supplemental Agreement and the transactions contemplated thereunder, Mr. Zhu and his associate(s) has abstained from voting on the relevant Board resolutions.

LETTER FROM THE BOARD

6. Information about the Parties

About our Group and Beijing Boqi

As a comprehensive treatment service provider for the industrial environment, the Group provides comprehensive one-stop environmental protection and energy conservation services to large-scale industrial customers in energy, chemical and manufacturing industries, by mainly engaging in the businesses of flue gas treatment, water treatment, hazardous and solid waste treatment/disposal and energy conservation and environmental protection. The Group is committed to becoming a world-class comprehensive environmental industrial group and a service provider of intelligent green housekeeping.

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 provision of flue gas treatment, water treatment, hazardous and solid waste treatment and disposal, and energy conservation and environmental protection business 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. Guangdong Pearl River Investment Management Group Co., Ltd. is the ultimate beneficial owner of Guangdong Huaxia Electric and is primarily engaged in energy and infrastructure investment in China.

7. 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 the non-executive Director and substantial shareholder of the Company. Mr. Zhu and his associate(s) who in aggregate held 152,573,529 Shares, representing 15.15% 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 and the 2020 Supplemental Agreement with Guangdong Huaxia Electric and Yangxi Electric constitute continuing connected transactions of the Company.

Pursuant to Rule 14A.54 of the Listing Rules, before a material change to terms of agreement for continuing connected transaction, the Company is required to re-comply with the requirements under Chapter 14A of the Listing Rules. As the 2020 Supplemental Agreement constitutes a material change to the terms of Yangxi Agreements, the 2020 Supplemental Agreement is subject to the announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules and Gram Capital has been appointed as the independent financial adviser to analyze the term of the Yangxi Agreements.

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In addition, as the highest applicable percentage ratio in respect of annual caps for the continuing connected transactions under the Yangxi Agreements and the 2020 Supplemental Agreement for the three years ending 2023 is expected to exceed 5%, accordingly the transactions under the Yangxi Agreements and the 2020 Supplemental Agreement with Guangdong Huaxia Electric and Yangxi Electric are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

III. PROPOSED ADOPTION OF THE SHARE OPTION SCHEME

The Company proposes to seek approval of the Shareholders to adopt the Share Option Scheme at the EGM, the provisions of which will comply with the requirements of Chapter 17 of the Listing Rules.

The Share Option Scheme will enable the Company to grant Options to Eligible Participants as incentives or rewards for their contribution to the Group.

The Board considers that the Share Option Scheme will incentivise more persons to contribute positively to the Group, and facilitate the retention and the recruitment of high-calibre staff of the Group.

The Board believes that the inclusion of persons other than the employees, shareholders and directors of the Group as Participants is appropriate given that the success of the Group requires the cooperation and contribution not only from the employees, shareholders and directors of the Group but also from persons who play a role in the business of the Group, such as advisers and consultants of the Group. For the better development of the Group, it is important that the Group is able to maintain good relationship with its business partners. Having a share option scheme in place is one of the means to attract and retain those persons who contribute to the continuous development of the Group, so that they have an incentive to render improved services and/or patronage to the Group on a long-term basis. The Board also believes it is in the interest of the Group by giving incentive to a broader category of Eligible Participants (other than the employees, shareholders and directors) such as consultants and advisers to participate in the growth of, and contribute to the Group in the form of Options, as the Participants will share common interests and objectives with the Group upon their exercise of the Options.

The eligibility of those parties other than employees, shareholders and directors of the Group will be determined by the Board according to their potential and/or actual contribution to the business affairs of and benefits to the Group. In addition, the adoption of the Share Option Scheme is in line with modern commercial practice that full-time or part-time employees, directors, management, consultants and advisers be given incentives to work towards enhancing the value and attaining the long-term objectives of the Company and for the benefit of the Group as a whole. As such, the Directors consider that the adoption of the Share Option Scheme is in the interest of the Company and its Shareholders as a whole.

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There were no other share option schemes put in place by the Company as at the Latest Practicable Date. The Share Option Scheme shall take effect on the date of its adoption at the EGM and is conditional upon (i) the Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of the Options granted under the Share Option Scheme; and (ii) the passing of the necessary resolution to approve and adopt the Share Option Scheme in general meeting of the Company.

Under the Share Option Scheme, the total number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme shall not exceed 10% of the total issued share capital of the Company as at the Adoption Date. As at the Latest Practicable Date, the issued share capital of the Company comprised a total of 1,007,106,799 Shares. Assuming that there is no change to the issued share capital of the Company between the Latest Practicable Date and the Adoption Date, the total number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme would be 100,710,679 Shares. During the 12-month period after obtaining the Shareholders' approval, the Company will propose to grant the first tranche of the Options, mainly to the existing senior management, mid-level management, independent non-executive Directors, chief executives of the Group and other employees of the Group who have made significant contributions to the Group. However, as at the Latest Practicable Date, the Company has not determined the details of the grantees, number of shares to be granted, price and validity period, and the Company will disclose the details of the grant in strict compliance with the requirements under Chapter 17 of the Listing Rules.

Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares which may fall to be allotted and issued pursuant to the exercise of the Options granted under the Share Option Scheme.

The Share Option Scheme provides that in granting Options under the Share Option Scheme, the Company may specify a minimum holding period and performance conditions or targets which must be achieved before Options can be exercised by the Grantees. In addition, the basis for the determination of the exercise price of the Options has been set out in the Share Option Scheme. The Board considers that the aforesaid criteria and the terms of the Share Option Scheme will serve to preserve the value of the Company and encourage Grantees to acquire proprietary interests in the Company.

The Directors consider that it is not appropriate to state the value of the Options which may be granted under the Share Option Scheme as if they had been granted as at the Latest Practicable Date, as a number of variables which are crucial for the calculation of the value of the Options have not been determined. Such variables include the exercise price, exercise period, lock-up period (if any), performance target (if any) and other relevant variables such as the lapse or cancellation of Options prior to the expiry of their respective exercise periods on the happening of certain events as specified in the Share Option Scheme which are not

LETTER FROM THE BOARD

predictable or controllable by the Directors. The Directors believe that any calculation of the value of the Options as at the Latest Practicable Date would be based on a great number of speculative assumptions and would therefore not be meaningful and could be misleading to the Shareholders.

There is no trustee regime under the Share Option Scheme. As such, none of the Directors are trustees of the Share Option Scheme or have any direct or indirect interest in the trustees.

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, having made all reasonable enquires, no Shareholder is required to abstain from voting on the resolution in respect of the adoption of the Share Option Scheme under the Listing Rules.

A summary of the principal terms of the Share Option Scheme is set out in Appendix II to this circular. A copy of the Share Option Scheme will be available for inspection at the Company's principal office and principal place of business in Hong Kong at 40/F., Sunlight Tower 248 Queen's Road East Wanchai, Hong Kong at normal business hours from the date of this circular and up to the date of the EGM and at the EGM.

IV. GENERAL INFORMATION

1. EGM

A notice of the EGM to be held at the first conference room of Beijing Boqi at 2/F, Guoben Culture Building, No. Jia 8, Xinglongzhuang, Chaoyang District, Beijing, the PRC on 29 December 2020 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 in respect of (i) the 2020 Supplemental Agreement and transactions contemplated thereunder; (ii) the Proposed Annual Caps; and (iii) the proposed adoption of the Share Option Scheme at the EGM.

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 in respect of (i) the 2020 Supplemental Agreement and transactions contemplated thereunder and (ii) the Proposed Annual Caps at the EGM. As at the Latest Practicable Date, Mr Zhu and his associates controlled 152,170,529 Shares (representing approximately 15.11% of the issued share capital of the Company).

Mr Zhu, as non-executive Director, has material interests in the Yangxi Agreements and the 2020 Supplemental Agreement and transactions contemplated thereunder and had abstained from voting at 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 (i) the 2020 Supplemental Agreement and transactions contemplated thereunder; (ii) the Proposed Annual Caps; and (iii) the proposed adoption of the Share Option Scheme at the EGM.

LETTER FROM THE BOARD

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 branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, Level 54, 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 27 December 2020. 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.

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.

2. Recommendation

An Independent Board Committee comprising all the independent non-executive Directors namely Mr. Liu Genyu, Dr. Xie Guozhong and Mr. Lu Zhifang, has been formed to advise the Independent Shareholders in respect of (i) the 2020 Supplemental Agreement and transactions contemplated thereunder and (ii) the Proposed Annual Caps.

Gram Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders whether Independent Shareholders should vote in favour of the resolutions in respect of (i) the 2020 Supplemental Agreement and transactions contemplated thereunder and (ii) the Proposed Annual Caps.

Your attention is therefore drawn to the letter from the Independent Board Committee set out on page 28 of this circular and the letters from Gram Capital set out on pages 29 to 46 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 2020 Supplemental Agreement and the Proposed Annual Caps 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. Also, The Directors (including the independent non-executive Directors) are of the view that the adoption of the Share Option Scheme are in the best 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 the ordinary resolutions in respect of (i) the 2020 Supplemental Agreement and transactions contemplated thereunder; (ii) the Proposed Annual Caps; and (iii) the proposed adoption of the Share Option Scheme at the EGM.

LETTER FROM THE BOARD

3. Additional Information

Your attention is also drawn to the general information of the Group as set out in appendix I to this circular as well as the summary of the principal terms of the Share Option Scheme as set out in appendix II to this circular.

Yours faithfully,
For and on behalf of the Board of Directors
Zeng Zhijun
*Vice Chairman, Executive Director and
Chief Executive Officer*



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)

8 December 2020

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 2020 Supplemental Agreement and the Proposed 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 8 December 2020 (the “**Circular**”), which contain, among other things, information and the advice from Gram Capital in respect of the the 2020 Supplemental Agreement and transactions contemplated thereunder and the Proposed Annual Caps.

Having taking into account the reasons for and benefits of the 2020 Supplemental Agreement and transactions contemplated thereunder and the Proposed Annual Caps as set out in the “Letter from Gram Capital” on pages 29 to 46 of this Circular, we consider that the 2020 Supplemental Agreement and the Proposed Annual Caps are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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 29 December 2020 and thereby approve the 2020 Supplemental Agreement and transactions contemplated thereunder and the Proposed 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 Transactions 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

8 December 2020

*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 (i) the Proposed Annual Caps; and (ii) the 2020 Supplemental Agreement and transactions contemplated thereunder (together, the “**Transactions**”), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 8 December 2020 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.

Under the Yangxi Agreements, Beijing Boqi provides operation, daily maintenance and repair services in respect of the Yangxi Facilities to Yangxi Electric for a term from 1 January 2017 to 31 December 2025. As the existing annual caps under the Yangxi Agreements will expire on 31 December 2020, the Company proposed to renew annual caps under the Yangxi Agreements for the three years ending 31 December 2023.

In addition, after arm’s length negotiation among Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric, the parties entered into the 2020 Supplemental Agreement on 30 November 2020. Pursuant to the 2020 Supplemental Agreement, the parties agreed to amend and supplement certain terms in relation to pricing terms for the provision of O&M services and Ancillary Charges in accordance with the market-based pricing mechanism.

With reference to the Board Letter, the Transactions constitute non-exempt continuing connected transactions of the Company and are subject to the reporting, annual review, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM GRAM CAPITAL

The Independent Board Committee comprising Mr. Liu Genyu, Dr. Xie Guozhong and Mr. Lu Zhifang (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Transactions are on normal commercial terms and are fair and reasonable; (ii) whether the Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to the Transactions 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 and the 2020 Supplemental Agreement. We consider that we have taken sufficient and necessary steps (including review of the Group's financial information for each of the two years ended 31 December 2018 and 2019 and the six months ended 30 June 2020; review of the Yangxi Contracts, the 2020 Supplemental Agreement and the Proposed Annual Caps; and discussion with the Company's management) on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

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.

LETTER FROM GRAM CAPITAL

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 the Transactions. 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.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Transactions, 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, as a comprehensive treatment service provider for the industrial environment, the Group provides comprehensive one-stop environmental protection and energy conservation services to large-scale industrial customers in energy, chemical and manufacturing industries, by mainly engaging in the businesses of flue gas treatment, water treatment, hazardous and solid waste treatment/disposal and energy conservation and environmental protection. The Group is committed to becoming a world-class comprehensive environmental industrial group and a service provider of intelligent green housekeeping.

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 provision of flue gas treatment, water treatment, hazardous and solid waste treatment and disposal, and energy conservation and environmental protection business in China and abroad.

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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 Transactions

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.

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.

On 1 January 2017, Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric further entered into a supplemental agreement solely to determine the pricing terms 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

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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 Agreements 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, according to the July 2018 Supplemental Agreement, the parties to the July 2018 Supplemental Agreement confirmed that Beijing Boqi’s entitlements of the “ultra-low emission” subsidies 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.

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. 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. As at the 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 received from Yangxi Electric under the Upgrade Project Cooperation Agreement.

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 is able to 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 2020

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Supplemental Agreement was entered into taking into account the market-based pricing mechanism for on-grid tariffs established by competent government department as disclosed in the Circular. The profit margin for provision of O&M services under the 2020 Supplemental Agreement will not adversely affect the overall gross profit margin of the O&M segment of the Company. Therefore, the execution of the Yangxi Agreements and the 2020 Supplemental Agreement 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.

For the year ended 31 December 2018 and 31 December 2019, service fees recognized under the Yangxi Agreements were RMB261.74 million and RMB172.97 million, which represented approximately 15.0% and 9.4% of the Group's total revenues for the same years. As advised by the Directors, the decrease in the service fees for the year ended 31 December 2019 was mainly due to Yangxi Facilities' maintenance downtime and the reduction of power generation.

The provision of O&M services will provide a source of income to the Group and is 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 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, environmental protection penalty (if any), pollution tax fees and other relevant operational changes. The price of electricity included in the actual operation cost shall be settled based on the Proposed Electricity Price in Ancillary Charges as disclosed above. 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.

Furthermore, following the issue of 廣東省發展改革委關於深化燃煤發電上網電價形成機制改革的實施方案 (The Implementation Plan for Deepening the Reform of the Feed-in Tariff Mechanism for Coal-fired Power Generation by Guangdong Development and Reform Commission*, the "**Implementation Plan**") on 31 December 2019, with the effective from 1 January 2020, benchmark on-grid tariffs of coal-fired power generation has been replaced by a market-based pricing mechanism which includes a "benchmark on-grid tariff" that set at the same level as the benchmark on-grid tariff it replaces, and a "float" so that it can deviate up to 10% higher or 15% lower. The above-mentioned pricing mechanism had certain impact on overall operation results of Yangxi Electric. Beijing Boqi, as the service provider of Yangxi Electric, and Yangxi Electric proposed to re-adjust the calculation method of the O&M services rate under the Yangxi Agreements simultaneously with the above market-based pricing mechanism after arm's length negotiations for commercial transactions.

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In view of the above factors, we consider that the Transactions are conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole.

2. Terms of the 2020 Supplemental Agreement

As confirmed by the Directors, other than the alteration of pricing policy under Yangxi Agreements, the terms therein remain unchanged. Detailed terms of the Yangxi Agreements and the 2020 Supplemental Agreement are set out under the section headed “Proposed Alteration to Terms of Yangxi Agreements” of the Board Letter.

Pursuant to the Yangxi Agreements, the service fee under the Yangxi Project included (i) service fees in respect of the O&M services of the desulfurization and denitrification facilities; and (ii) part of the “ultra-low emission” subsidies granted by the PRC government^(Note).

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 (the “**Electricity Costs**”), vapor, gas environmental protection penalty (if any) and pollution tax fees and other relevant operational charges (excluding the Electricity Costs, the “**Other Costs**”).

Proposed pricing terms

The rate for provision of operation, daily maintenance and repair services in respect of the #1-4 of the desulfurization and denitrification facilities owned by Yangxi Electric (the “**Proposed D&D Fees**”) shall be calculated by the following formula:

$$A \times (1-B)$$

Where:

A = Negotiated fixed rate (per kWh) for provision of O&M services (the “**Existing D&D Fees**”)

Note: With reference to the Board Letter, the parties have agreed on the price adjustment under the July 2018 Supplemental Agreement, and Beijing Boqi has recovered all the costs for the construction of the Upgrade Units by the “ultra-low emission” subsidies received from Yangxi Electric under the Upgrade Project Cooperation Agreement, and Beijing Boqi has not incurred any fees and expenses in relation to the “ultra-low emission” upgrade project thereafter. In particular, as the ultra-low emission facilities are facilities ancillary to the desulfurization and denitrification environmental protection system, during the course of project operation and maintenance, there will be no additional Ancillary Charges paid by Beijing Boqi to Yangxi Electric. Therefore, the parties need to re-negotiate the rate for “ultra-low emission” subsidy and its payment arrangement, and uncertainties remain in the relevant commercial arrangements.

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$$B = (C - D)/C$$

Where:

C = “benchmark on-grid tariff” published by Guangdong Development and Reform Commission. According to the Implementation Plan for Deepening the Reform of the Feed-in Tariff Mechanism for Coal-fired Power Generation by Guangdong Development and Reform Commission, the currently applicable “benchmark on-grid tariff” in Guangdong Province is RMB0.453/kWh. Given that the “benchmark on-grid tariff” is determined and promulgated by the relevant government authorities, the frequency of renewal is uncertain

D = weighted average on-grid tariff based on on-grid power of single unit, which is calculated by \sum (Each power component of on-grid electricity sales of the single unit x Corresponding tariff (including environmental subsidies)) / On-grid electricity sales of the single unit

According to the above formula:

$$\text{The Proposed D\&D Fees} = A \times (1 - (C - D)/C) \quad (I)$$

We further expand the formula (I) for easy understanding purpose:

$$\begin{aligned} \text{The Proposed D\&D Fees} &= A \times (C/C - (C - D)/C) \\ &= A \times ((C - C + D)/C) \\ &= A \times (D/C) \\ &= \text{Existing D\&D Fees} \times (\text{weighted average on-grid tariff} \\ &\quad \text{based on on-grid power of single unit} / \text{benchmark} \\ &\quad \text{on-grid tariff}) \end{aligned}$$

Based on the above simplified formula and having considered the following factors:

- (i) the adjustment of Existing D&D Fees will be in compliance with the change of portion in actual on-grid tariff of Yangxi Electric (i.e. weighted average on-grid tariff based on on-grid power of single unit) as compared to benchmark on-grid tariff;
- (ii) the weighted average on-grid tariff represented the average price that Yangxi Electric sells to all its clients;
- (iii) for illustration purpose, after considering the possible cost of the provision of O&M services under the Yangxi Agreements (i.e. labour cost, administration cost, accessories/spare material cost, etc.), the Group anticipates to record gross profit from the provision of O&M services under the Yangxi Agreements even the on-grid tariff reached the minimum level (i.e. benchmark on-grid tariff with a downward adjustment of 15%) and the gross profit margin would be not lower than the gross

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profit margin (which was calculated by (estimated revenue – estimated cost) / estimated revenue, where the estimated revenue was based on the Proposed D&D Fees = Existing D&D Fees x 85%) will not adversely affect the overall gross profit margin of the O&M segment of the Company for year ended 31 December 2019 (i.e. 21.5%),

we are of the view that the basis for determination of Proposed D&D Fees to be reasonable.

The price of electricity included in the Ancillary Charges (the “**Proposed Electricity Price in Ancillary Charges**”) shall be determined by the following formula:

$$E \times (1-F)$$

Where:

E = Negotiated fixed rate (per kWh) for electricity price in Ancillary Charges

F = (C-G)/C

Where:

C = “benchmark on-grid tariff” published by Guangdong Development and Reform Commission

G = weighted average on-grid tariff calculated based on on-grid power generated by #1-4 facilities, which is calculated by \sum (Each power component of on-grid electricity sales of #1-4 facilities x Corresponding tariff (including environmental subsidies)) / On-grid electricity sales of #1-4 facilities

According to the above formula:

$$\text{The Proposed Electricity Price in Ancillary Charges} = E \times (1 - (C - G)/C) \quad (\text{II})$$

We further expand the formula (II) for easy understanding purpose:

The Proposed Electricity

$$\begin{aligned} \text{Price in Ancillary Charges} &= E \times (C/C - (C - G)/C) \\ &= E \times ((C - C + G)/C) \\ &= E \times (G/C) \\ &= \text{Negotiated fixed rate (per kWh) for electricity price in Ancillary Charges} \times (\text{weighted average on-grid tariff calculated based on on-grid power generated by \#1-4 facilities/benchmark on-grid tariff}) \end{aligned}$$

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Based on the above simplified formula and having considered the following factors:

- (i) the adjustment of electricity price in Ancillary Charges will be in compliance with the change of portion in actual on-grid tariff of Yangxi Electric (i.e. weighted average on-grid tariff calculated based on on-grid power generated by #1-4 facilities) as compared to benchmark on-grid tariff;
- (ii) the weighted average on-grid tariff represented the average price that electricity generated by Facilities #1-4 (which was then sold by Yangxi Electric to all its clients);

we are of the view that the basis for determination of Proposed Electricity Price in Ancillary Charges to be reasonable.

Internal control

As the issuance of the Implementation Plan, the Proposed D&D Fees and Proposed Electricity Price in Ancillary Charges, which were fixed before the issuance of the Implementation Plan, may vary. Accordingly, the Company updated internal control procedures, details of which are set out under the section headed “Internal Control Measures” of the Board Letter.

Having considered that (i) the Proposed D&D Fees and the Proposed Electricity Price in Ancillary Charges were mainly affected by weighted average on-grid tariff and benchmark on-grid tariff; (ii) Beijing Boqi will double check weighted average on-grid tariff according to settlement certificate between Guangdong Huaxia Yangxi power plant and the State Power Grid; (iii) the settlement certificate indicates (a) each power component of on-grid electricity sales of single unit; (b) corresponding tariff (including environmental subsidies); and (c) on-grid electricity sales of single unit; and (iv) a 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 and will also review the latest status of the “benchmark on-grid tariff” promulgated by the competent government authorities on a monthly basis, we are of the view that the effective implementation of the internal control procedure will ensure the fair pricing of the Proposed D&D Fees and the Proposed Electricity Price in Ancillary Charges.

Based on the above factors, we consider that terms of the 2020 Supplemental Agreement are on normal commercial terms and fair and reasonable.

In addition, the Company carried out adequate supervision over the transaction amount under the Yangxi Agreements and the 2020 Supplemental Agreement, such measures included, among other things, 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).

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Term of Yangxi Agreements

Pursuant to the Yangxi Agreements, the term of the Yangxi Agreements commenced from 1 January 2017 to 31 December 2025.

In assessing the reasons for the term of Yangxi Agreements to be longer than three years, we considered the following factors:

- (i) as the general maintenance cycle for the Yangxi Facilities is every four years to five, it is necessary for the term of such operation and maintenance agreements to be exceeding three years as it will not be in the benefit of either party to enter into a term that is shorter than the general maintenance cycle;
- (ii) it is in the commercial benefit of power plants to enter into longer operation and maintenance agreements due to the technical requirements and emission standards imposed by the PRC government to ensure compliance and certainty in their operations and minimizing their operational risk;
- (iii) as the provision of O&M services are revenue nature of the Group and the Group expects to record gross profit from the transactions contemplated under the Yangxi Agreements, it is in the benefit of the Group to secure Yangxi Agreements for as long as possible; and
- (iv) Beijing Boqi is also responsible for the materials used in the services provided as well as treatment of waste created during the provision of O&M services.

In considering whether it is a normal business practice for agreements of similar nature with the Yangxi Agreements to have a term of such duration, we noted that the Group also entered into agreements with independent third parties regarding the provision of O&M services, with duration of more than three years.

Taking into account of the above, we confirm that, the term of the Yangxi Agreements being longer than three years is necessary and it is a normal business practice.

Payment obligations under the Yangxi Agreements

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.

As stated in the Prospectus, under typical O&M contracts, the service fees are generally settled by the Group's customers on a monthly or quarterly basis. Based on the Directors' understanding, the State Power Grid settled Yangxi Electric's electricity fee monthly. Therefore, the payment terms under the Yangxi Agreements are in line with the Group's typical O&M contracts.

In addition, the Company also provided previous contracts entered into between the Group and independent third parties in respect of the provision of O&M services by the Group with similar charging model. Pursuant to the previous contracts, similar payment arrangements (as compared to payment obligations under the Yangxi Agreements) for service fee and ancillary charges were applied.

Based on the above, we consider the payment terms under the Yangxi Agreements are on normal commercial terms.

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The Proposed Annual Caps

Set out below are (i) historical transaction amounts of O&M services and ancillary charges for the two years ended 31 December 2019; (ii) the Proposed Annual Caps of O&M services and ancillary charges for the three years ending 31 December 2023.

	For the year ended 31 December 2018 <i>RMB'million</i>	For the year ended 31 December 2019 <i>RMB'million</i>	For the six months ended 30 June 2020 <i>RMB'million</i>
– O&M services (Note 1)	261.74	172.97	69.19 (Note 2)
– Ancillary charges	89.72	66.13	24.86 (Note 2)
	For the year ending 31 December 2021 <i>RMB'million</i>	For the year ending 31 December 2022 <i>RMB'million</i>	For the year ending 31 December 2023 <i>RMB'million</i>
O&M services	189.31	189.31	189.31
Ancillary charges	65.27	65.27	65.27

Notes:

1. The transaction amount in respect of the “ultra-low emission” subsidy was nil as Beijing Boqi has not received any “ultra-low emission” subsidy from Yangxi Electric. With reference to the Board Letter, the parties have agreed on the price adjustment under the July 2018 Supplemental Agreement, and Beijing Boqi has recovered all the costs for the construction of the Upgrade Units by the “ultra-low emission” subsidies received from Yangxi Electric under the Upgrade Project Cooperation Agreement, and Beijing Boqi has not incurred any fees and expenses in relation to the “ultra-low emission” upgrade project thereafter. In particular, as the ultra-low emission facilities are facilities ancillary to the desulfurization and denitrification environmental protection system, during the course of project operation and maintenance, there will be no additional Ancillary Charges paid by Beijing Boqi to Yangxi Electric. Therefore, the parties need to re-negotiate the rate for “ultra-low emission” subsidy and its payment arrangement, and uncertainties remain in the relevant commercial arrangements.

2. The projected transaction amounts for the six months ended 30 June 2020 in accordance with the pricing adjustment based on the 2020 Supplemental Agreement which were not settled as at the Latest Practicable Date between the parties which is subject to the approval by the Independent Shareholders at the EGM on the 2020 Supplemental Agreement.

As advised by the Directors, the Proposed Annual Caps for the three years ending 31 December 2021 are determined with reference to various factors. Details of the factors are set out under the section headed “Renewal of annual caps for the three years ending 2023” of the Board Letter.

For our due diligence purpose, we obtained a list (the “**List**”), showing the calculation of the Proposed Annual Caps for the year ending 31 December 2021. Based on the List, we noted that the Proposed Annual Cap for the year ending 31 December 2021 was calculated based on a buffer (the “**Buffer**”) of 10% on the estimated amounts of O&M services (the “**2021 O&M Services Amounts**”) and ancillary charges (the “**2021 Ancillary Charges Amounts**”) respectively for each of the year ending 31 December 2021.

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A. *The 2021 O&M Services Amounts*

According to the List, the 2021 O&M Services Amounts represented estimated transaction amounts from desulfurization and denitrification services, which were calculated by “the estimated on-grid power generation (in kWh) for the year ending 31 December 2021” times “the estimated service fee for desulfurization and denitrification services” for the year ending 31 December 2021).

Based on the data provided by the Directors, the estimated on-grid power generation (in kWh) for the year ending 31 December 2020 was mainly based on the annualised on-grid power generation during the first six months of 2020. In the other word, on-grid power generation (in kWh) during the first half of year 2020 (the “**1H2020**”) represented approximately 50.0% of the estimated on-grid power generation (in kWh) for the year ending 31 December 2020, the portion of which was in line with the portions of on-grid power generation (in kWh) for the first half year to full financial year during 2017 and 2018 (i.e. approximately 45.5% and 50.1% respectively, first half year to full financial year during 2019 was not considered as there was maintenance downtime). Therefore, we consider the estimated on-grid power generation (in kWh) for the year ending 31 December 2020 to be reasonable.

The estimated on-grid power generation (in kWh) for the year ending 31 December 2021 was calculated by an increase of 5% on average on-grid power generation (in kWh) for the three years ending 31 December 2020 (the “**Increase**”) (Note: on-grid power generation (in kWh) for the year ending 31 December 2020 was estimated amount). Based on our analyses as set out under the sub-section headed “The Increase” below, we consider the Increase to be acceptable. Having also considered the estimated on-grid power generation (in kWh) for the year ending 31 December 2020 to be reasonable, we are of the view that the estimated on-grid power generation (in kWh) for the year ending 31 December 2021 to be reasonable.

The estimated service fee for desulfurization and denitrification services for the year ending 31 December 2021 was based on the average service fee for desulfurization and denitrification services for 1H2020, which indicate the overall level of service fee for desulfurization and denitrification services for 1H2020. For our due diligence purpose, we obtained settlement certificates for the first six months of 2020 and noted that the monthly implied on-grid tariff for Yangxi Facilities fluctuated for 1H2020, but below the benchmark on-grid tariff. In addition, we also noted that the average service fee for 1H2020 was calculated by O&M services fees for 1H2020 over the total number of on-grid electricity sales of Yangxi Facilities for 1H2020. Accordingly, we consider the estimated service fee on desulfurization and denitrification services for the year ending 31 December 2021 to be reasonable.

As mentioned above, the parties to the Yangxi Agreements are still negotiating on the relevant commercial arrangements with regard to payment of the “ultra-low emission” subsidy, and there is uncertainty about the receipt of “ultra-low emission” subsidy in the future. For the sake of prudence, the Directors did not include “ultra-low emission” subsidy in the 2021 O&M Services Amounts.

Having considered the above, in particular, (i) the estimated on-grid power generation (in kWh) for the year ending 31 December 2021 to be reasonable; and (ii) the estimated service fee on desulfurization and denitrification services for the year ending 31 December 2021 to be reasonable, we are of the view that the 2021 O&M Services Amounts to be fair and reasonable.

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B. 2021 Ancillary Charges Amounts

According to the List, the 2021 Ancillary Charges Amounts included (i) the estimated Electricity Costs for the year ending 31 December 2021; and (ii) the estimated Other Costs for the year ending 31 December 2021.

The estimated Electricity Costs for the year ending 31 December 2021 was calculated by the estimated use of electricity (in kWh) for the year ending 31 December 2021 and estimated unit cost of electricity for the year ending 31 December 2021.

In calculating the estimated use of electricity (in kWh) for the year ending 31 December 2021, the Directors assumed that there was an increase of 5% (i.e. the Increase) on the average use of electricity (in kWh) for the three years ending 31 December 2020 (Note: estimated use of electricity (in kWh) for the year ending 31 December 2020 was based on the annualised use of electricity for the six months ended 30 June 2020). Having considered the above and that the Increase to be acceptable as analysed under the sub-section headed “The Increase” below, we consider the estimated use of electricity (in kWh) for the year ending 31 December 2021 to be reasonable.

In addition, we noted that the estimated unit cost of electricity for the year ending 31 December 2021 represented the average unit cost of electricity for the six months ended 30 June 2020.

Based on the above factors, we are of the view that the estimated Electricity Costs for the year ending 31 December 2021 to be reasonable.

Furthermore, we noted that the estimated Electricity Costs for the year ending 31 December 2021 represented approximately 88% to the 2021 Ancillary Charges Amounts. As the aforesaid percentage was the same as the percentage of Electricity Costs for the six months ended 30 June 2020 to the total ancillary charges for the six months ended 30 June 2020 (i.e. approximately 88%), we are of the view that the 2021 Ancillary Charges Amounts to be fair and reasonable.

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C. *The Increase*

To assess the fairness and reasonableness of the Increase of 5%, 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:

	2015	2016	2017	2018	2019
GDP (RMB Billion)	7,387.6	8,066.7	8,970.5	9,727.8	10,767.1
Electricity generation (million KWh)	390,021	408,197	440,717	436,962	472,632
Electricity consumption (million KWh)	531,069	561,013	595,897	632,335	669,585

Source: Statistics Bureau of Guangdong Province

As shown in the above table, the GDP of Guangdong Province had been increasing from 2015 and reached approximately RMB10,767.1 billion in 2019, representing a compound annual growth rate (“CAGR”) of approximately 9.9% from 2015 to 2019. Electricity consumption in Guangdong Province had been increasing at a CAGR of approximately 6.0% from 2015 to 2019, reaching approximately 669,585 million KWh in 2019. According to the above table, since 2015, Electricity consumption in Guangdong Province exceed electricity generation in Guangdong Province.

Overview of Yangxi Electric’s operation

Upon our request, the Directors provided us the on-grid power generated volume (million KWh) for the six years ended 31 December 2019. 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. In 2019, on-grid power generated volume decreased and recorded the lowest level during 2014 to 2019.

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Details of the aforesaid statistics are as follows:

	2014	2015	2016	2017	2018	2019
On-grid power generated (million KWh)	10,901	9,930	10,158	10,976	12,070	9,673

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 decrease in on-grid power generated volume in 2015; (ii) the increase in consumption of electricity in Guangdong Province in 2017 and 2018 mainly caused the increase in on-grid power generated volume in 2017 and 2018; and (iii) Yangxi Facilities’ maintenance downtime caused the decrease in the on-grid power generated volume for 2019 as compared to that of 2018.

According to the Directors, (i) 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 (ii) 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 Increase to be acceptable.

D. Buffer

We noted that the Company has applied a buffer of 10% as an assumption for the determination of the Proposed 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.

In light of the above factors, we consider that the Proposed Annual Cap for the year ending 31 December 2021 to be fair and reasonable.

In addition, the Directors advised that they expected the transactions amounts under Yangxi Agreements to be stable during 2021 to 2023. Accordingly, the Directors set the Proposed Annual Caps for the two years ending 31 December 2023 to be the same as that for the year ending 31 December 2021. According to the List, we noted the same calculations (as compared to the calculation for Proposed Annual Cap for the year ending 31 December 2021) were applied to the determination of the Proposed Annual Caps for the two years ending 31 December 2023. Having considered (i) the Directors’ expectation on the transactions amounts under Yangxi Agreements during 2021 to 2023; (ii) the Proposed Annual Caps were the same

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for each of the three years ending 31 December 2023; and (iii) our analyses in respect of the Proposed Annual Cap for the year ending 31 December 2021 as mentioned above, we consider the Proposed Annual Caps for the two years ending 31 December 2023 to be fair and reasonable.

Shareholders should note that as the Proposed Annual Caps for the three years ending 31 December 2021 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 2023 respectively, and they do not represent forecasts of revenue/income/cost to be incurred from the transactions contemplated under the Yangxi Agreements (as supplemented by the 2020 Supplemental Agreement). Consequently, we express no opinion as to how closely the actual revenue/income to be incurred from the transactions contemplated under the Yangxi Agreements (as supplemented by the 2020 Supplemental Agreement) will correspond with the Proposed 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 the Proposed Annual Caps for the three years ending 31 December 2023; (ii) the terms of transactions contemplated under Yangxi Agreements (including the Proposed 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 transactions contemplated under 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, whether anything has come to their attention that causes them to believe that the continuing connected transactions of the Company (i) have not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group; (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iv) have exceeded their respective annual caps.

In the event that the total amounts of the continuing connected transaction is anticipated to exceed the Proposed Annual Caps, or that there is any proposed material amendment to the terms of the Yangxi Agreements and the 2020 Supplemental Agreement, 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 internal control procedures, we are of the view that there are adequate measures in place to monitor the continuing connected transaction (together with the Proposed Annual Caps) and hence the interest of the Independent Shareholders would be safeguarded.

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RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Transitions are on normal and commercial terms and are fair and reasonable; and (ii) the Transactions 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 approve the Transactions, 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

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.

* *For identification purpose only*

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	Interests held jointly with another person (<i>Note 1</i>); interest of a controlled corporation (<i>Note 2</i>); and beneficial owner (<i>Note 5</i>)	409,272,911 (Long Position)	40.69%
Mr. Zeng Zhijun	Interests held jointly with another person (<i>Note 1</i>); and interest of a controlled corporation (<i>Note 3</i>)	409,272,911 (Long Position)	40.69%
Mr. Zhu Weihang	Interest of a controlled corporation (<i>Note 4</i>)	152,170,529 (Long Position)	15.11%

Notes:

- * The percentages represented the number of Shares over the total issued share capital of the Company as at the Latest Practicable Date of 1,007,106,799 Shares.
- (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 40.69% 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**”).
 - (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 and 47.2% of interests in Asia Environment. Therefore, Mr. Zeng is deemed to be interested in the Shares held by Best Dawn and Asia Environment 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.
 - (5) Mr Cheng directly holds 400,000 shares of the Company.

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 (iii) 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 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 the 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 (%)
Mr. Cheng Liquan Richard	Interests held jointly with another person (Note 1); interests of a controlled corporation (Note 2); and beneficial owner (Note 3)	409,772,911 (Long Position)	40.69%

Name of shareholder	Capacity/ Nature of interests	As at the 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 (%)
World Hero	Beneficial owner	168,134,580 (Long Position)	16.69%
Ms. Zhou Xuan	Interest of spouse (Note 4)	409,772,911 (Long Position)	40.69%
Mr. Zeng Zhijun	Interests held jointly with another person (Note 1); and interest of a controlled corporation (Note 5)	409,772,911 (Long Position)	40.69%
Best Dawn	Beneficial owner (Note 5)	214,296,143 (Long Position)	21.28%
Ms. Ge Tong	Interest of spouse (Note 6)	409,772,911 (Long Position)	40.69%
New Asia	Beneficial owner	152,170,529 (Long Position)	15.11%
Great Origin	Interest of a controlled corporation (Note 7)	152,170,529 (Long Position)	15.11%
Mr. Zhu Weihang	Interest of a controlled corporation (Note 7)	152,170,529 (Long Position)	15.11%
Sinopec Overseas Investment Holding Limited (“Sinopec”)	Beneficial owner	110,294,118 (Long Position)	10.95%
China Petroleum & Chemical Corporation	Interest of a controlled corporation (Note 8)	110,294,118 (Long Position)	10.95%
Full Synergy Investment Limited (“Full Synergy”)	Beneficial owner	56,508,715	5.61%
Partners Investment Management Limited	Interest of a controlled corporation (Note 9)	56,508,715	5.61%
Bullion Riches Limited	Interest of a controlled corporation (Note 9)	56,508,715	5.61%
Partners Financial Holdings Limited	Interest of a controlled corporation (Note 9)	56,508,715	5.61%
Bright Hope Global Investments Limited	Interest of a controlled corporation (Notes 9 and 10)	56,508,715	5.61%
Wan Ten Lap	Interest of a controlled corporation (Notes 9 and 10)	56,508,715	5.61%

Name of shareholder	Capacity/ Nature of interests	As at the 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 (%)
Zhang Yi	Interest of a controlled corporation (Notes 9 and 10)	56,508,715	5.61%
Yunnan Energy Investment(HK) Co. Limited (Note 12)	Beneficial owner; Interest held Jointly with another person (Note 11)	217,134,580	21.56%
YUNNAN PROVINCIAL ENERGY INVESTMENT GROUP Co., LTD. (Note 12)	Interest of a controlled corporation (Note 12) Interest held Jointly with another person	217,134,580	21.56%

Notes:

* The percentages represented the number of Shares over the total issued share capital of the Company as at the Latest Practicable Date of 1,007,106,799 Shares.

- (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 40.69% equity interests in the issued share capital of our Company through World Hero, Asia Environment and Best Dawn. Asia Environment is owned as to 47.20% 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) Mr. Cheng directly holds 400,000 shares of the Company.
- (4) 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.
- (5) 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.
- (6) 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.
- (7) 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.
- (8) 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).
- (9) 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.

- (10) 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.
- (11) Yunnan Energy Investment (HK) Co. Limited directly holds 49,000,000 shares of the Company and also jointly holds 168,134,580 shares of the Company with World Hero.
- (12) The entire issued share capital of Yunnan Energy Investment (HK) Co. Limited is held by Yunnan Provincial Energy Investment Group Co., Ltd. Therefore, Yunnan Provincial Energy Investment Group Co., Ltd. is deemed to be interested in the Shares held by Yunnan Energy Investment (HK) Co. Limited under the SFO.

Save as disclosed above, as at the Latest Practicable Date, the Company has not been notified by any persons 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 at 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 2019 (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. 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 2019 (being the date to which the latest published consolidated audited financial statements of the Group were made up).

7. 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)).

8. 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.

9. 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 the 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 2019 (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.

10. 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 54, 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.

11. 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 2020 Supplemental Agreement;
- (d) 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;
- (e) the letter from Gram Capital, the text of which is set out in the section headed "Letter from Gram Capital" of this circular;
- (f) the written consent referred to in paragraph headed "9. EXPERT AND QUALIFICATION" in this appendix;
- (g) the Share Option Scheme; and
- (h) this circular.

The following is a summary of the principal terms of the Share Option Scheme proposed to be approved and adopted by an ordinary resolution of the Shareholders at the EGM.

1. PURPOSE, DURATION AND ADMINISTRATION

- (i) The purpose of the Share Option Scheme is to enable the Group to grant Options to the Eligible Participants as incentives or rewards for their contribution to the Group.
- (ii) The Share Option Scheme shall be subject to the administration of the Board whose decision on all matters arising in relation to the Share Option Scheme or their interpretation or effect shall save as otherwise provided in the Share Option Scheme) be final and binding on all persons who may be affected thereby. The Board shall have the right (i) to interpret and construe the provisions of the Share Option Scheme, (ii) to determine the persons who will be awarded Options under the Share Option Scheme, and the number and Subscription Price of Options awarded thereto, (iii) to make such appropriate and equitable adjustments to the terms of Options granted under the Share Option Scheme as it deems necessary, and (iv) to make such other decisions or determinations as it shall deem appropriate in the administration of the Share Option Scheme.

For the purpose of the Share Option Scheme, the “**Board**” means the board of Directors or a duly authorized committee or person(s) delegated with the power and authority by the board of Directors of the Company to administer the Share Option Scheme.

- (iii) Subject to the fulfillment of the effective conditions and the termination provisions, the Share Option Scheme shall be valid and effective until the Termination Date, after which period no further Options may be issued but the provisions of the Share Option Scheme shall in all other respects remain in full force and effect to give effect to the exercise of any Options granted but not exercised prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

2. GRANT OF OPTIONS

- (i) Save as otherwise provided, the Board shall, in accordance with the provisions of the Share Option Scheme and the Listing Rules, be entitled but shall not be bound at any time within a period of ten (10) years commencing from the Adoption Date to make an Offer as the Board may in their absolute discretion impose any conditions, restrictions or limitations in relation to the Options (which shall be stated in the letter containing the Offer) to any person belonging to the following classes of participants to subscribe, and no person other than the Eligible Participant named in

such Offer may subscribe, for such number of Shares at such Subscription Price as the Board shall, subject to paragraph 9, determine (provided the same shall be a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof):

- (a) any Eligible Employee;
- (b) any independent non-executive director and chief executive (as defined in the Listing Rules) of the Company or any Subsidiary;
- (c) any director (including independent non-executive director) and chief executive (as defined in the Listing Rules) of any Invested Entity;
- (d) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity;
- (e) any supplier of goods or services to any member of the Group or any Invested Entity;
- (f) any customer of any member of the Group or any Invested Entity;
- (g) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity; and
- (h) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity,

and, for the purposes of the Share Option Scheme, the Offer may be made to any company wholly owned by one or more Eligible Participants.

Options may be granted on such terms and conditions in relation to their vesting, exercise or otherwise (e.g. by linking their exercise to the attainment or performance of milestones by the Company, any Subsidiary, Invested Entity, the Grantee or any group of Eligible Participant) as the Board may determine, provided such terms and conditions shall not be inconsistent with any other terms and conditions of the Share Option Scheme.

- (ii) the making of an Offer to any independent non-executive Director, chief executive or substantial shareholder of the Company, or any of their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who or whose associate is the proposed Grantee of the Option).
- (iii) The eligibility of any of the Eligible Participants to an Offer shall be determined by the Board from time to time on the basis of the Board's opinion as to his contribution to the development and growth of the Group.
- (iv) An Offer shall be made to an Eligible Participant in writing (and unless so made shall be invalid) in such form as the Board may from time to time determine, either generally or on a case-by-case basis, specifying the number of Shares and the Option Period in respect of which the Offer is made and further requiring the Eligible Participant to undertake to hold the Option on the terms on which it is to be granted and to be bound by the provisions of the Share Option Scheme and shall remain open for acceptance by the Eligible Participant concerned (and by no other person) for a period of up to 21 days from the Offer Date, provided that no such Offer shall be open for acceptance after the tenth anniversary of the Adoption Date or after the Share Option Scheme has been terminated in accordance with the provisions hereof.
- (v) An Offer shall have been accepted by an Eligible Participant in respect of all Shares under the Option which are offered to such Eligible Participant when the duplicate letter comprising acceptance of the Offer duly signed by the Eligible Participant together with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant thereof is received by the Company within such time as may be specified in the Offer (which shall not be later than 21 days from the Offer Date). Such remittance shall in no circumstances be refundable.

3. RESTRICTIONS ON THE TIME OF GRANT OF OPTIONS

For so long as the Shares are listed on the Stock Exchange:

- (i) the Company may not make any Offer after inside information has come to the knowledge of the Company until the Company has announced the information. In particular, the Company may not make any Offer during the period commencing one month immediately before the earlier of:
 - (a) the date of the meeting of the Board of the Company (as such date is first notified to the Stock Exchange under the Listing Rules) for approving the Company's results for any year, half-year or any other interim period (whether or not required under the Listing Rules); and
 - (b) the deadline for the Company to announce its results for any year, half-year under the Listing Rules, or any other interim period (whether or not required under the Listing Rules),

and ending on the date of the results announcement. No Option may be granted during any period of delay in publishing a results announcement; and

- (ii) the Board may not make any Offer to an Eligible Participant who is a Director during the periods or times in which the Directors are prohibited from dealing in Shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by the Company.

4. VESTING

(i) **Vesting Condition(s)**

The Options granted is subject to the fulfillment of a vesting condition that the Grantee is under a full-time employment at the time. If a Grantee cease to be an Eligible Employee by reason of termination of his employment, notwithstanding the grounds of such termination, any Options not yet vested shall be immediately forfeited.

(ii) **Vesting period**

Subject to the satisfaction of the vesting conditions, the Share Option Scheme adopts a 4-year vesting schedule, in the following manner:

- first 40% of the Options are vested on the one-year anniversary from the Offer Date;
- next 25% of the Options are vested on the two-year anniversary from the Offer Date;
- then 20% of the Options are vested on the three-year anniversary from the Offer Date; and
- remaining 15% of the Options are vested on the four-year anniversary from the Offer Date.

(iii) **Vesting notice**

Within a reasonable time after the conditions and time schedule have been reached, fulfilled, satisfied or waived, our Board will send a vesting notice (the “**Vesting Notice**”) to each of the relevant Eligible Participants. The Vesting Notice will confirm the extent to which the conditions and time schedule have been reached, fulfilled, satisfied or waived, the number of Shares involved, and the duration within which the Eligible Participants shall exercise the Options.

5. SUBSCRIPTION PRICE

The Subscription Price in respect of any Option shall, subject to any adjustments made pursuant to paragraph 9, be determined at the absolute discretion of the Board, provided that it shall not be less than the highest of:

- (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the Offer Date, which must be a Business Day;
- (b) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the Offer Date; and
- (c) the nominal value of the Shares.

6. EXERCISE OF OPTIONS

- (i) Besides otherwise determined by the Board and stated in the Offer to a Grantee, the exercise of any Option is subject to the achievement of the performance targets as described in the Share Option Scheme.
- (ii) Options that are vested as evidenced by the Vesting Notice shall be exercisable in whole or in part (but if in part only, in respect of a board lot or any integral multiple thereof) by giving notice in writing to the Company stating that the Option is thereby exercised and the number of Shares in respect of which it is so exercised (which, except where the number of Shares in respect of which the Option remains unexercised is less than one board lot or where the Option is exercised in full, must be for a board lot for dealings in Shares on the Stock Exchange or an integral multiple thereof). Each notice exercising an Option must be accompanied by a remittance for the full amount of the aggregate Subscription Price multiplied by the number of for Shares in respect of which the notice is given.
- (iii) Subject as hereinafter provided and subject to the terms and conditions upon which such Option was granted, an Option may (and may only) be exercised by the Grantee at any time or times during the Option Period.

7. RANKING OF SHARES

Shares to be allotted and issued upon the exercise of an Option will be subject to all the provisions of the articles of association of the Company for the time being in force and will rank *pari passu* in all respects with the fully paid Shares in issue on the date of allotment and will entitle the holders thereof to participate in all dividends or other distributions paid or made after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with respect to a record date which shall be on

or before the date of the allotment. A Share allotted and issued upon the exercise of an Option shall not carry voting rights until the name of the Grantee has been duly registered on the register of members of the Company as the holder thereof.

8. MAXIMUM NUMBER OF SHARES AVAILABLE FOR SUBSCRIPTION

- (i) Notwithstanding any other provisions of the Share Option Scheme, the maximum number of Shares which may be allotted and issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by the Group shall not exceed 30% of the Shares in issue from time to time. No options may be granted under the Share Option Scheme or any other share option scheme adopted by the Group if the grant of such option will result in the limit referred to in this paragraph 8(i) being exceeded.
- (ii) The total number of Shares which may be allotted and issued upon exercise of all Options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of the Group) to be granted under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the Shares in issue on the Adoption Date (i.e. not exceeding 100,710,679 Shares) (“**General Scheme Limit**”), provided that:
 - (a) subject to paragraph 8(i) and without prejudice to paragraph 8(ii)(b), the Company may issue a circular to its shareholders and seek approval of its shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be allotted and issued upon exercise of all Options to be granted under the Share Option Scheme and any other share option scheme of the Group must not exceed 10% of the Shares in issue as at the date of approval of the limit, and for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of the Group) previously granted under the Share Option Scheme and any other share option scheme of the Group will not be counted. The circular sent by the Company to its Shareholders shall contain, among other information, the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules; and
 - (b) subject to paragraph 8(i) and without prejudice to paragraph 8(ii)(a), the Company may seek separate shareholders’ approval in general meeting to grant Options under the Share Option Scheme beyond the General Scheme Limit or, if applicable, the refreshed limit referred to in paragraph 8(ii)(a) to Eligible Participants specifically identified by the Company before such approval is sought. In such event, the Company must send a circular to its Shareholders containing a generic description of the specified participants, the number and

terms of options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose and such other information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

- (iii) Subject to paragraph 8(iv), the total number of Shares issued and to be issued upon exercise of the Options and the options granted under any other share option scheme of the Group (including both exercised or outstanding options) to each Grantee in any 12-month period shall not exceed 1% of the Shares (i.e. not exceeding 10,071,067 Shares) from time to time. Where any further grant of Options to a Grantee under the Share Option Scheme would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding Options) under the Share Option Scheme and any other share option schemes of the Group in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant must be separately approved by shareholders of the Company in general meeting with such Grantee and his close associates (or his associates if the Grantee is a connected person) abstaining from voting. The Company must send a circular to the Shareholders and the circular must disclose the identity of the Grantee, the number and terms of the options to be granted (and options previously granted to such Grantee), the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before Shareholders' approval and the date of Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules.

- (iv) Without prejudice to paragraph 2(ii), where any grant of Options to a substantial shareholder or an independent non-executive director of the Company or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:
 - (a) representing in aggregate over 0.1% of the Shares in issue; and
 - (b) having an aggregate value, based on the closing price of the Shares at the Offer Date of each Offer, in excess of HK\$5 million;

such further grant of Options must be approved by the shareholders of the Company in general meeting.

- (v) Without prejudice to paragraph 8(iv), any grant of options under the Option to an independent non-executive director, chief executive or substantial shareholder of the Company or any of their respective associates (each as defined under the Listing Rules) must be approved by the independent non-executive Directors (excluding any independent non-executive Director who or whose associate is the proposed Grantee of the Option).
- (vi) Any change in the terms of Options granted to any Grantee who is a substantial shareholder of the Company or an independent non-executive Director, or any of their respective associates must be approved by the shareholders of the Company in general meeting.
- (vii) For the purpose of seeking the approval of the shareholders of the Company under paragraphs 8(ii),8(iii), 8(iv), 8(v) and 8(vi), the Company must send a circular to its shareholders containing the information required under the Listing Rules and the Grantee, his associates and all core connected persons of the Company under the Listing Rules shall abstain from voting in favour in general meeting.

9. ADJUSTMENTS TO THE SUBSCRIPTION PRICE

- (i) In the event of any alteration in the capital structure of the Company whilst any Option remains exercisable or the Share Option Scheme remains in effect, and such event arises from a rights issue, consolidation or subdivision of the Shares, or reduction of the share capital of the Company or otherwise howsoever but shall not in any event exceed the limits imposed by the Listing Rules, then, in any such case the Company shall instruct the Auditors or an independent financial adviser to certify in writing the adjustment, if any, that ought in their opinion fairly and reasonably to be made either generally or as regards any particular Grantee, to:
 - (a) the number or nominal amount of Shares to which the Share Option Scheme or any Option(s) relates (insofar as it is/they are unexercised); and/or
 - (b) the Subscription Price of any Option; and/or
 - (c) (unless the relevant Grantee elects to waive such adjustment) the number of Shares consisted in an Option or which remains consisted in an Option,

and an adjustment as so certified by the Auditors or such independent financial adviser shall be made, provided that:

- (a) any such adjustment shall give the Grantee the same proportion of the issued Shares of the Company for which such Grantee would have been entitled to subscribe had he exercised all the Options held by him immediately prior to such adjustment;

- (b) no such adjustment shall be made the effect of which would be to enable a Share to be issued at less than its nominal value;
 - (c) the issue of Shares or other securities of the Group as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustment; and
 - (d) any such adjustment shall be in compliance with the Listing Rules and such applicable guidance and/or interpretation of the Listing Rules from time to time promulgated by the Stock Exchange.
- (ii) In respect of any adjustment referred to in paragraph 9(i), the Auditors or such independent financial adviser must confirm to the Board in writing that the adjustments satisfy the requirements of the relevant provisions of the Listing Rules and such other applicable guidance and/or interpretation of the Listing Rules from time to time issued by the Stock Exchange.

10. TRANSFERABILITY OF OPTIONS

An Option shall be personal to the Grantee and shall not be transferable or assignable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or otherwise dispose of or create any interest (legal or beneficial) whatsoever in favour of any third party over or in relation to any Option or enter into any agreement so to do, except with the prior written consent of the Board of the Company from time to time. Any breach of the foregoing by a Grantee shall entitle the Company to cancel any Option granted to such Grantee to the extent not already exercised.

11. LAPSE OF OPTION

- (i) An Option shall lapse automatically and shall not be exercisable, to the extent not already exercised, on the earliest of:
 - (a) the expiry of the Option Period;
 - (b) in respect of a Grantee who is an Eligible Employee, the date on which the Grantee ceases to be an Eligible Employee on the grounds that he has been guilty of misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of the Board does not bring the Grantee or any member of the Group or the Invested Entity into disrepute);
 - (c) in respect of a Grantee other than an Eligible Employee, the date on which the Board shall at its absolute discretion determine that (aa) the Grantee or his close associate (or his associate if the Grantee is a connected person) has

committed any breach of any contract entered into between the Grantee or his close associate on the one part and any member of the Group or any Invested Entity on the other part; or (bb) the Grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (cc) the Grantee could no longer make any contribution to the growth and development of any member of the Group by reason of the cessation of its relations with the Group or by any other reason whatsoever, then the Option shall lapse as a result of any event specified in sub-paragraph (aa), (bb) or (cc) above;

- (d) the date on which the Board shall exercise the Company's right to cancel the Option by reason of a breach of paragraph 10 by the Grantee in respect of that or any other Option;
 - (e) the date of the commencement of winding-up of the Company; and
 - (f) the date on which the Board shall at its absolute discretion determine that the Eligible Participant is no longer qualified as an Eligible Participant by any other reason not stated above.
- (ii) A resolution of the Board to the effect that the employment of a Grantee has or has not been terminated on one or more of the grounds specified in paragraph (i)(b), paragraph (i)(f) or that any event referred to in paragraph (i)(c)(aa) has occurred shall be conclusive and binding on all persons who may be affected thereby.
- (iii) Transfer of employment of a Grantee who is an Eligible Employee from one member of the Group to another member of the Group shall not be considered cessation of employment. It shall not be considered cessation of employment if a Grantee who is an Eligible Employee is placed on such leave of absence which is considered by the directors of the relevant member of the Group not to be a cessation of employment of the Grantee.

12. CANCELLATION OF OPTIONS

- (i) Subject to paragraph 10 and Chapter 17 of the Listing Rules, any Option granted but not exercised may not be cancelled except with the prior written consent of the relevant Grantee and the approval of the Board.
- (ii) Where the Company cancels any Option granted to a Grantee but not exercised and issues new Option(s) to the same Grantee, the issue of such new Option(s) may only be made with available unissued Options (excluding, for this purpose, the Options so cancelled) within the General Scheme Limit or the limits approved by the shareholders of the Company pursuant to paragraphs 8(ii)(a) or 8(ii)(b).

13. SHARES

The exercise of any Option shall be subject to the members of the Company in general meeting approving any necessary increase in the authorised shares of the Company. Subject thereto, the Board shall make available sufficient authorised but unissued share capital to meet subsisting requirements on the exercise of any Option.

14. DISPUTES

Any dispute arising in connection with the number of Shares the subject of an Option, or any adjustment under paragraph 9(i) shall be referred to the decision of the Auditors who shall act as experts and not as arbitrators and whose decision shall, in the absence of manifest error, be final, conclusive and binding on all persons who may be affected thereby.

15. ALTERATION TO THE SHARE OPTION SCHEME

- (i) Subject to paragraphs 15(ii) and 15(iv), the Share Option Scheme may be altered in any respect by a resolution of the Board except that:
 - (a) the provisions of the Share Option Scheme as to the definitions of “Eligible Participants”, “Grantee”, “Option Period” and “Termination Date”;
 - (b) the provisions of the Share Option Scheme relating to the matters governed by Rule 17.03 of the Listing Rules;

shall not be altered to the advantage of Grantees or prospective Grantees except with the prior approval of the shareholders of the Company in general meeting, provided that no such alteration shall operate to affect adversely the terms of issue of any Option granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority of the Grantees as would be required of the holders of the Shares under the articles of association for the time being of the Company for a variation of the rights attached to the Shares.

- (ii) Subject to paragraph 15(iii), any alterations to the terms and conditions of the Share Option Scheme which are of a material nature shall be approved by the shareholders of the Company in general meeting except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (iii) The amended terms of the Share Option Scheme or the Options shall comply with the relevant requirements of Chapter 17 of the Listing Rules, the “Supplementary Guidance on Main Board Listing Rule 17.03(13)/GEM Listing Rule 23.03(13) and the Note Immediately After the Rule” set out in the letter from the Stock Exchange to all listed issuers dated 5 September 2005 and other relevant guidance of the Stock Exchange.

- (iv) Any change to the authority of the Board or the administrators of the Share Option Scheme in relation to any alteration to the terms of the Share Option Scheme must be approved by the shareholders of the Company in general meeting.
- (v) The terms of the Share Option Scheme and/or any Options amended pursuant to this paragraph 15 must comply with the applicable requirements of the Listing Rules and the relevant guidance of the Stock Exchange.

16. TERMINATION

The Company may by resolution in general meeting at any time terminate the operation of the Share Option Scheme and in such event no further Options will be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any Options (to the extent not already exercised) granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme and Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

17. MISCELLANEOUS

- (i) The Share Option Scheme shall not form part of any contract of employment between the Company, any Subsidiary or any Invested Entity and any Eligible Employee and the rights and obligations of any Eligible Employee under the terms of his office or employment shall not be affected by his participation in the Share Option Scheme or any right which he may have to participate in it and the Share Option Scheme shall afford such an Eligible Employee no additional rights to compensation or damages in consequence of the termination of such office or employment for any reason.
- (ii) The Share Option Scheme shall not confer on any person any legal or equitable rights (other than those constituting the Options themselves) against the Company directly or indirectly or give rise to any cause of action at law or in equity against the Company.
- (iii) The Company shall bear the costs of establishing and administering the Share Option Scheme, including any costs of the Auditors or any independent financial adviser in relation to the preparation of any certificate by them or provision of any other service in relation to the Share Option Scheme.
- (iv) A Grantee shall be entitled to receive copies of all notices and other documents sent by the Company to holders of the Shares at the same time or within a reasonable time of any such notices or documents being sent to holders of Shares.

- (v) Any notice or other communication between the Company and a Grantee may be given by sending the same by prepaid post or by personal delivery to, in the case of the Company, its principal place of business in Hong Kong and, in the case of the Grantee, his address in Hong Kong as notified to the Company from time to time or, if none or incorrect or out of date, his last place of employment with the Company or the Company's principal place of business in Hong Kong from time to time.
- (vi) Any notice or other communication if sent by the Grantee shall be irrevocable and shall not be effective until actually received by the Company.
- (vii) Any notice or other communication if sent to the Grantee shall be deemed to be given or made:
 - (a) one (1) day after the date of posting, if sent by mail; and
 - (b) when delivered, if delivered by hand.
- (viii) All allotments and issues of Shares pursuant to the Share Option Scheme shall be subject to any necessary consents under the relevant laws, enactments or regulations for the time being in force in the Cayman Islands or elsewhere and a Grantee shall, before accepting an Offer or exercising his Option, obtain all necessary consents that may be required to enable him to accept the Offer or to exercise the Option and the Company to allot and issue to him in accordance with the provisions of the Share Option Scheme the Shares falling to be allotted and issued upon the exercise of his Option. By accepting an Offer or exercising his Option, the Grantee thereof is deemed to have represented to the Company that he has obtained all such consents. Compliance with this paragraph shall be a condition precedent to an acceptance of an Offer by a Grantee and an exercise by a Grantee of his Options. A Grantee shall indemnify the Company fully against all claims, demands, liabilities, actions, proceedings, fees, costs and expenses which the Company may suffer or incur (whether alone or jointly with other party or parties) for or in respect of any failure on the part of the Grantee to obtain any necessary consent or to pay tax or other liabilities referred therein.
- (ix) A Grantee shall pay all tax and discharge all other liabilities to which he may become subject as a result of his participation in the Share Option Scheme or the exercise of any Option.
- (x) By accepting an Offer, an Eligible Participant shall be deemed irrevocably to have waived any entitlement, by way of compensation for loss of office or otherwise howsoever, to any sum or other benefit to compensate him for loss of any rights under the Share Option Scheme.

- (xi) The Share Option Scheme and all Options granted shall be subject to the requirements of all applicable laws and the Listing Rules.

- (xii) The Share Option Scheme and all Options granted hereunder shall be governed by and construed in accordance with the laws of Hong Kong.

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 Beijing Boqi at 2/F, Guoben Culture Building, No. Jia 8, Xinglongzhuang, Chaoyang District, Beijing, the PRC on Tuesday, 29 December 2020 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 dated 8 December 2020 (the “**Circular**”) unless otherwise defined.

ORDINARY RESOLUTIONS

- (1) To consider and, if thought fit, to approve the 2020 Supplemental Agreement and transactions contemplated thereunder.
- (2) To consider and, if thought fit, to approve the Proposed Annual Caps.
- (3) To consider and, if thought fit, to approve:

“**THAT-**

Subject to the conditions of the share option scheme to be adopted (the “**Share Option Scheme**”) by the Company becoming fulfilled, the rules of the Share Option Scheme are hereby approved and adopted and the directors of the Company be and are hereby authorised to do all such acts and to enter into all such transactions, arrangements and agreements as may be necessary or expedient in order to give full effect to the Share Option Scheme including without limitation:

- (a) administering the Share Option Scheme and granting options under the Share Option Scheme;
- (b) modifying and/or amending the rules of the Share Option Scheme from time to time provided that such modification and/or amendment is effected in accordance with the provisions of the Share Option Scheme relating to modification and/or amendment and the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”);

NOTICE OF EGM

- (c) allotting and issuing from time to time such number of shares in the capital of the Company (the “**Shares**”) as may be required to be issued pursuant to the exercise of the options granted under the Share Option Scheme; and
- (d) making application at appropriate time or times to the Stock Exchange for the listing of, and permission to deal in, any Shares or any part thereof that may from time to time be issued and allotted pursuant to the exercise of the options granted under the Share Option Scheme.”

By order of the Board of Directors
Zeng Zhijun
*Vice Chairman, Executive Director and
Chief Executive Officer*

Hong Kong, 8 December 2020

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.

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 54, 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 23 December 2020 to 29 December 2020 (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 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on 22 December 2020 for registration of share transfer.
5. The votes at the Meeting will be taken by poll.