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If you have sold or transferred all your shares in Dynagreen Environmental Protection Group Co., Ltd., you should at once hand this circular to the purchaser or to the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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**綠色動力**  
DYNAGREEN

**綠色動力環保集團股份有限公司**

**Dynagreen Environmental Protection Group Co., Ltd.\***

*(a joint stock limited liability company incorporated in the People's Republic of China)*

**(Stock Code: 1330)**

**(1) REVISED PROPOSED NON-PUBLIC ISSUANCE OF A SHARES  
(2) CONNECTED TRANSACTION IN RELATION TO  
THE REVISED PROPOSED SUBSCRIPTION OF A SHARES BY BSAM  
AND  
(3) PROPOSED PROVISION OF GUARANTEE IN RESPECT OF  
FIXED ASSET LOANS TO SUBSIDIARIES**

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



**SOMERLEY CAPITAL LIMITED**

A letter from the Board is set out on pages 6 to 38 of this circular. A letter from the Independent Board Committee to the Independent Shareholders is set out on pages 39 to 40 of this circular. A letter from Somerley Capital Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 41 to 67 of this circular.

A notice convening the EGM and a notice convening the H Shares Class Meeting to be held at 2:00 p.m. and immediately after the A Shares Class Meeting respectively on Monday, 29 June 2020 at 3/F., Complex of Beijing Dynagreen Environment Co., Ltd.\* (北京綠色動力環保有限公司), Cailin Road, Yujiawu Township, Tongzhou District, Beijing, are set out on pages 68 to 71 and pages 72 to 75 of this circular, respectively.

Whether or not you intend to attend the EGM and/or the H Shares Class Meeting, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon. The proxy forms should be returned to the H share registrar of the Company, Tricor Investor Services Limited (Address: Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong) as soon as possible and in any event not less than 24 hours before the time appointed for the EGM and/or the H Shares Class Meeting or any adjournment thereof. Completion and return of the proxy forms will not preclude you from attending and voting in person at the EGM and the H Shares Class Meeting or at any adjourned thereof should you so wish.

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## DEFINITIONS

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

“A Shareholders(s)”	holder(s) of A Share(s)
“A Share(s)”	the domestic share(s) in the ordinary share capital of the Company with a par value of RMB1.00 each, which are listed for trading on the Shanghai Stock Exchange
“A Shares Class Meeting”	the class meeting of the A Shareholders to be convened to consider and, if thought fit, approve, amongst other things, the Revised Proposed Non-public Issuance of A Shares and the BSAM Revised Subscription
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Average Trading Price”	the average trading price of the A Shares during the 20 trading days immediately preceding the Pricing Benchmark Date (exclusive of such date), which is calculated by dividing the total trading amount of the A Shares during the 20 trading days immediately preceding the Pricing Benchmark Date by the total trading volume of the A Shares during the 20 trading days immediately preceding the Pricing Benchmark Date
“Benchmark Price”	being 80% of the Average Trading Price
“Board”	the board of Directors of the Company
“BSAM”	Beijing State-owned Assets Management Co., Ltd.* (北京市國有資產經營有限責任公司), a company established in the PRC with limited liability and is wholly-owned by the Beijing Municipal Government, being a Controlling Shareholder of the Company
“BSAMHK”	Beijing State-Owned Assets Management (Hong Kong) Company Limited (北京國資(香港)有限公司), a company incorporated in Hong Kong and a wholly-owned subsidiary of BSAM

\* For identification purposes only

## DEFINITIONS

“BSAM Revised Subscription”	the revised proposed subscription of A Shares by BSAM pursuant to the Supplemental Agreement of the BSAM Subscription Agreement
“BSAM Subscription Agreement”	the subscription agreement dated 30 October 2019 entered into between the Company and BSAM, pursuant to which BSAM has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue, not less than 40% of the Proposed Non-public Issuance of A Shares under the Proposed Non-public Issuance of A Shares which in any case shall not be more than 133,000,000 A Shares and BSAM will not directly and indirectly in aggregate hold 47.30% or more of the enlarged total issued share capital of the Company upon completion of the Proposed Non-public Issuance of A Shares
“Class Meetings”	the A Shares Class Meeting and the H Shares Class Meeting
“Company”	Dynagreen Environmental Protection Group Co., Ltd* (綠色動力環保集團股份有限公司), a joint stock limited liability company incorporated in the PRC on 23 April 2012, whose H Shares are listed on the Main Board of Hong Kong Stock Exchange (Stock Code: 1330) and A Shares are listed on the Shanghai Stock Exchange (Stock Code: 601330)
“Controlling Shareholder”	has the meaning ascribed thereto under the Listing Rules
“connected person”	has the meaning ascribed thereto under the Listing Rules
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	the director(s) of the Company

\* For identification purposes only

## DEFINITIONS

“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve, amongst other things, (i) the Revised Proposed Non-public Issuance of A Shares, (ii) the BSAM Revised Subscription, and (iii) the proposed provision of guarantee in respect of fixed asset loans to subsidiaries
“H Shareholder(s)”	holder(s) of H Share(s)
“H Share(s)”	the overseas listed foreign shares in the ordinary share capital of the Company with a par value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars
“H Shares Class Meeting”	the class meeting of the H Shareholders to be convened to consider and, if thought fit, approve, amongst other things, the Revised Proposed Non-public Issuance of A Shares and the BSAM Revised Subscription
“HK\$”, “HKD”, or “Hong Kong dollars”	the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	the independent board committee of the Company comprising of Mr Ou Yuezhou, Ms Fu Jie, and Mr Xie Lanjun, being all the independent non-executive Directors, which is formed to advise the Independent Shareholders on the BSAM Revised Subscription in accordance with the Listing Rules
“Independent Financial Adviser” or “Somerley”	Somerley Capital Limited, the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the BSAM Revised Subscription in accordance with the Listing Rules
“Independent Shareholders”	shareholders other than BSAM and its associates (including BSAMHK)

## DEFINITIONS

“Issue Date”	the date on which the A Shares are issued under the Revised Proposed Non-public Issuance of A Shares
“Latest Practicable Date”	8 June 2020, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing Securities on the Hong Kong Stock Exchange
“PRC”	the People’s Republic of China
“Pricing Benchmark Date”	the first day of the offering period of the Revised Proposed Non-public Issuance of A Shares
“Proposed Non-public Issuance of A Shares”	the proposed non-public issuance of a maximum of 232,240,000 A Shares by the Company to not more than 10 specific target subscribers, including BSAM
“Revised Proposed Non-public Issuance of A Shares”	the revised proposed non-public issuance of a maximum of 232,240,000 A Shares by the Company to not more than 35 specific target subscribers, including BSAM
“RMB”	Renminbi, the lawful currency of PRC
“SASAC”	the State-owned Assets Supervision and Administration Commission of People’s Government of Beijing Municipality
“Shanghai Stock Exchange”	the Shanghai Stock Exchange
“Shareholder(s)”	the shareholder(s) of the Company
“Specific Mandate”	the specific mandate to be sought at the EGM and the Class Meetings to issue the A Shares under the Revised Proposed Non-public Issuance of A Shares
“Supplemental Agreement of the BSAM Subscription Agreement” or “Supplemental Agreement”	the supplemental agreement of the BSAM Subscription Agreement dated 29 May 2020 entered into between the Company and BSAM

## DEFINITIONS

“trading day(s)”	a day on which the Shanghai Stock Exchange is open for dealing or trading in securities
“%”	per cent



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**Dynagreen Environmental Protection Group Co., Ltd.\***

*(a joint stock limited liability company incorporated in the People's Republic of China)*

**(Stock Code: 1330)**

*Non-Executive Directors:*

Mr. ZHI Jun (直軍先生) (*Chairman*)  
Mr. LIU Shuguang (劉曙光先生)  
Mr. CHENG Suning (成蘇寧先生)  
Mr. CAO Jinjun (曹進軍先生)

*Executive Directors:*

Mr. QIAO Dewei (喬德衛先生) (*General Manager*)  
Mr. HU Shengyong (胡聲泳先生)

*Independent Non-Executive Directors:*

Mr. OU Yuezhou (區岳州先生)  
Ms. FU Jie (傅捷女士)  
Mr. XIE Lanjun (謝蘭軍先生)

*Registered Office:*

2nd Floor,  
Jiuzhou Electronic Building,  
007 Keji South 12th Street,  
Nanshan District,  
Shenzhen, the PRC

*Principal place of business  
in Hong Kong:*

1st Floor,  
Xiu Ping Commercial Building,  
104 Jervois Street,  
Hong Kong

11 June 2020

*To the Shareholders*

Dear Sir or Madam,

**(1) REVISED PROPOSED NON-PUBLIC ISSUANCE OF A SHARES  
(2) CONNECTED TRANSACTION IN RELATION TO  
THE REVISED PROPOSED SUBSCRIPTION OF A SHARES BY BSAM  
AND  
(3) PROPOSED PROVISION OF GUARANTEE IN RESPECT OF  
FIXED ASSET LOANS TO SUBSIDIARIES**

**I. INTRODUCTION**

The purpose of this circular is to provide you with information reasonably necessary to enable you to make an informed decision on whether to vote for or against the proposed resolutions or abstain from voting at the EGM and the H Shares Class Meeting.

\* For identification purposes only



## LETTER FROM THE BOARD

At the EGM, ordinary resolutions will be proposed to approve (1) the resolution in relation to the satisfaction of the criteria for non-public issuance of A shares; (2) the resolution in relation to the “Dilution of Current Returns Due to the Non-public Issuance of A Shares and the Remedial Measures (Revised)”; (3) the resolution in relation to the report on the utilisation of the previously raised funds; (4) the resolution in relation to the Shareholder’s Return Plan for the Next Three Years 2020-2022; (5) the resolution in relation to the extension of the validity period of the authorisation to the Board to handle relevant matters in connection with the Revised Proposed Non-public Issuance of A Shares; and (6) the resolution in relation to the provision of guarantee by the Company in respect of fixed asset loans to subsidiaries. Special resolutions will be proposed to approve (1) the resolution in relation to the Revised Proposed Non-public Issuance of A Shares; (2) the resolution in relation to the “Proposal in respect of the Non-public Issuance of A Shares (Revised)”; (3) the resolution in relation to the “Feasibility Report on the Use of Proceeds from the Non-public Issuance of A Shares (Revised)”; (4) the resolution in relation to the connected transaction and the execution of the Supplemental Agreement of the BSAM Subscription Agreement; and (5) the Specific Mandate.

At the H Shares Class Meeting, special resolutions will be proposed to approve (1) the resolution in relation to the Revised Proposed Non-public Issuance of A Shares; (2) the resolution in relation to the “Proposal in respect of the Non-public Issuance of A Shares (Revised)”; (3) the resolution in relation to the connected transaction and the execution of the Supplemental Agreement of the BSAM Subscription Agreement; and (4) the Specific Mandate. An ordinary resolution will be proposed to approve the resolution in relation to the extension of the validity period of the authorisation to the Board to handle relevant matters in connection with the Revised Proposed Non-public Issuance of A Shares.

## II. REVISED PROPOSED NON-PUBLIC ISSUANCE OF A SHARES

References are made to (i) the announcement of the Company dated 30 October 2019; (ii) the circular of the Company dated 25 November 2019; (iii) the announcement of the Company dated 10 December 2019; (iv) the poll results announcement of the Company dated 20 December 2019; (v) the announcement of the Company dated 6 January 2020; (vi) the announcement of the Company dated 17 March 2020; (vii) the announcement of the Company dated 9 April 2020; (viii) the announcements of the Company dated 22 May 2020; and (ix) the announcement of the Company dated 29 May 2020 in relation to, among other things, the Proposed Non-public Issuance of A Shares.

On 29 May 2020, the Board approved the Revised Proposed Non-public Issuance of A Shares, pursuant to which the Company will issue a maximum of 232,240,000 A Shares to not more than 35 specific target subscribers, including BSAM, which is expected to raise gross proceeds of up to RMB2,390,000,000.

## LETTER FROM THE BOARD

Details of the Revised Proposed Non-public Issuance of A Shares are set out below. The final issue plan shall be the one as approved by CSRC.

### 1. Details of the Revised Proposed Non-public Issuance of A Shares

**Class and par value of shares to be issued:**

A Shares with a par value of RMB1.00 each.

**Method and time of issuance:**

The Revised Proposed Non-public Issuance of A Shares will be carried out by way of non-public issuance to not more than 35 specific target subscribers, including BSAM. The Company will choose the appropriate opportunity to issue the A Shares to specific target subscribers within 12 months after obtaining the approval from CSRC. If there are any changes in the relevant laws and regulations, administrative regulations, or regulatory documents of CSRC, the Company will adjust the Revised Proposed Non-public Issuance of A Shares accordingly.

The resolution regarding the Revised Proposed Non-public Issuance of A Shares shall be valid for 12 months from the date of the passing of such resolutions at the EGM, the A Shares Class Meeting and the H Shares Class Meeting. If after obtaining the approval from CSRC the issue date falls on a date subsequent to the validity period, the Company will seek another resolution from the Shareholders to extend such validity period.

**Pricing Benchmark Date, issue price, and pricing principles:**

The Pricing Benchmark Date of the Revised Proposed Non-public Issuance of A Shares is the first day of the offering period of the Revised Proposed Non-public Issuance of A Shares.

## LETTER FROM THE BOARD

The issue price shall not be lower than (i) the Benchmark Price, being 80% of the Average Trading Price (being the average trading price of the A Shares during the 20 trading days immediately preceding the Pricing Benchmark Date (exclusive of such date), which is calculated by dividing the total trading amount of the A Shares during the 20 trading days immediately preceding the Pricing Benchmark Date by the total trading volume of the A Shares during the said 20 trading days); and (ii) the net asset value per share attributable to the shareholders of ordinary shares of the Company as set out at the latest audited consolidated financial statements of the Company.

The pricing principles above were mainly based on the “Decision on Amending the Implementation Rules for the Non-public Issue of Shares by Listed Companies” (《關於修改〈上市公司非公開發行股票實施細則〉的決定》) and “Decision on Amending the Administration Measures on Securities Issuance of Listed Companies” (《關於修改〈上市公司證券發行管理辦法〉的決定》), revised by CSRC on 14 February 2020 and the Measures for the Supervision and Administration of State-owned Shares of Listed Companies (《上市公司國有股權監督管理辦法》) issued by State-owned Assets Supervision and Administration Commission of the State Council on 18 May 2018.

## LETTER FROM THE BOARD

Pursuant to Rule 7 under Chapter II of “Decision on Amending the Implementation Rules for the Non-public Issue of Shares by Listed Companies” (《關於修改〈上市公司非公開發行股票實施細則〉的決定》), “Pricing Benchmark Date” is the base date for calculating the issue price. The Pricing Benchmark Date for this non-public issue is the first day of the issue period. The listed company shall not issue shares at a price lower than the issue price. The calculation formula for the “Average Trading Price of the shares in 20 trading days prior to the Pricing Benchmark Date” is the average price of the trading shares in the 20 trading days before the Pricing Benchmark Date, which shall be the total amount of trading shares in the 20 trading days before the Pricing Benchmark Date/total volume of trading shares in the 20 trading days before the Pricing Benchmark Date).

Pursuant to Rule 10 of the Measures for the Supervision and Administration of State-owned Shares of Listed Companies (《上市公司國有股權監督管理辦法》), the pricing of change in state-owned shares of listed companies shall be determined rationally in accordance with such factors as public trading price in securities market, price of trading shares of comparable companies and net asset value per share.

Therefore, the pricing basis of the Revised Proposed Non-public Issuance of A Shares complies with requirements of relevant laws and regulations and is reasonable.

Given the net asset value per share attributable to the shareholders of ordinary shares of the Company as at the Latest Practicable Date as set out in the 2019 annual audited consolidated financial statements of the Company is RMB2.84, on such basis it is expected that the minimum issue price would, subject to the approval of SASAC and CSRC, be at least RMB2.84.

## LETTER FROM THE BOARD

The issue price will be adjusted accordingly if there occurs any ex-right or ex-dividend event (such as distribution of dividend, bonus issue, or capitalisation of capital reserves) between the Pricing Benchmark Date and the Issue Date.

The adjustment mechanism is as follows:

**(1) Adjustment to the issue price**

If there are any ex-right and ex-dividend issues such as cash dividend distribution, bonus issue, capitalization issue, new shares issue or allocation during the period from the Pricing Benchmark Date to the issue date, the price of shares of the Company will be changed accordingly and the price under this issuance will be treated as ex-right and ex-dividend.

Assuming  $P_0$  is the pre-adjustment issue price,  $N$  is the number of bonus shares or converted shares for each share,  $K$  is the number of new shares issued or allocated for each share,  $A$  is the price per share for new share issuance or allocation,  $D$  is the amount of dividend per share, and  $P_1$  is the post-adjustment issue price:

- (a) In the case of distribution of dividend,  
 $P_1 = P_0 - D$
- (b) In the case of grant of bonus share, or conversion of capital reserve into share capital:  $P_1 = P_0 / (1 + N)$
- (c) In the case of issue of new shares or allotment of shares:  $P_1 = (P_0 + A * K) / (1 + K)$

In the case of both (a), (b) and (c):  $P_1 = (P_0 - D + A * K) / (1 + K + N)$ .

## LETTER FROM THE BOARD

Shares under the Revised Proposed Non-Public Issuance of A Shares will be issued and the final issue price will be determined by the Board of the Company in accordance with the authorization granted at the EGM and the Class Meetings, upon negotiation with the sponsor (the lead underwriter) and the obtaining of approvals from CSRC for this issue, having regard to the auction price offered by the target subscribers.

**(2) Adjustment to number of shares to be issued**

The number of shares to be issued under the Revised Proposed Non-Public Issuance of A Shares shall be calculated based on the total proceeds from the issuance divided by the issue price, and in accordance with the Issuance Regulatory Q&A — Regulations on Guiding and Regulating Financing Activities of Listed Companies (Revised), the number of shares to be issued under this issuance shall not exceed 20% of the total share capital of the Company before the issuance, i.e. 232,240,000.00 shares (inclusive).

In the event of ex-right issues including bonus issue and capital conversion between the date of announcement of Board meeting resolution in relation to the Revised Proposed Non-public Issuance of A Shares and the issue date, the number of shares to be issued will be adjusted accordingly.

## LETTER FROM THE BOARD

The adjustment formula is as follows:

If M0 represents the number of shares to be issued before adjustment; M1 represents the number of shares to be issued after adjustment; and N represents the number of bonus shares and/or capitalization per share during the period from the Pricing Benchmark Date to the first day of the issuance, the number of shares to be issued after adjustment  $M1 = M0 \times (1 + N)$ .

The number of shares to be issued in the Revised Proposed Non-public Issuance of A Shares shall be subject to the approval document regarding this issuance from CSRC. To the extent of the above, the final number of shares under this issuance shall be determined through negotiation by the Board of the Company in accordance with the authorization granted at the EGM and the Class Meetings, the relevant requirements of CSRC and actual condition at the time of issuance, with the sponsor (the lead underwriter).

**Target subscribers:**

The target subscribers for the Revised Proposed Non-public Issuance of A Shares will not be more than 35 specific target subscribers (including BSAM). The target subscribers include securities investment fund management companies, securities companies, insurance institutional investors, trust investment companies, finance companies, qualified foreign institutional investors, individual investors or other legal investment organizations in compliance with the requirements of CSRC. The specific target subscribers will be determined by the Board with the authorization at the general meeting. Securities investment fund management companies, securities companies, qualified foreign institutional investors and RMB qualified foreign institutional investors, which subscribe for the A Shares with two or more of the products managed by them, shall each be taken as one single subscriber. Trust investment companies may only subscribe for the A Shares with their own funds.

## LETTER FROM THE BOARD

The final list of subscribers, other than BSAM, will be determined by the Board or other authorised persons in accordance with the authorisation granted at the EGM, the A Shares Class Meeting and the H Shares Class Meeting, with the sponsor (the lead underwriter) after the Company has obtained approvals from CSRC for the Revised Proposed Non-public Issuance of A Shares, having regard to the price offered by the target subscribers.

All the target subscribers will subscribe for A Shares under the Revised Proposed Non-public Issuance of A Shares in cash.

As at the Latest Practicable Date, apart from the BSAM Subscription Agreement and the Supplemental Agreement, the Company has not entered into any agreements with any potential subscribers in respect of the Revised Proposed Non-public Issuance of A Shares. The Company currently expects that, with the exception of BSAM, the A Shares to be issued under the Revised Proposed Non-public Issuance of A Shares will be issued to subscribers who are and whose ultimate beneficial owners are third parties independent of the Company and its connected persons, and the Company will comply with the requirements of Chapter 14A of the Listing Rules if the A Shares are issued to subscribers who are and whose ultimate beneficial owners are connected persons.



## LETTER FROM THE BOARD

**Number of A Shares to be issued:**

A maximum of 232,240,000 A Shares will be issued under the Revised Proposed Non-public Issuance of A Shares, which represents:

- (i) approximately 30.69% of the existing issued A Shares and 20.00% of the existing total issued share capital of the Company as at the Latest Practicable Date; and
- (ii) approximately 23.48% of the enlarged issued A Shares and approximately 16.67% of the enlarged total issued share capital of the Company upon completion of the Revised Proposed Non-public Issuance of A Shares,

out of which, BSAM intends to subscribe for not less than 40% of the A Shares to be issued under the Revised Proposed Non-public Issuance of A Shares in cash, which in any case shall not be more than 133,000,000 A Shares and BSAM will not directly and indirectly in aggregate hold 47.30% or more of the enlarged total issued share capital of the Company upon completion of the Revised Proposed Non-public Issuance of A Shares.

The number of A Shares to be issued will be adjusted accordingly if there occurs any ex-right or ex-dividend event (such as distribution of dividend, bonus issue, or capitalisation of capital reserves) between the Pricing Benchmark Date and the Issue Date.

Subject to the above, the final number of A Shares to be issued will be determined by the Board or other authorised persons in accordance with the authorisation granted at the EGM, the A Shares Class Meeting, and the H Shares Class Meeting, with the sponsor (the lead underwriter) having regard to the actual subscription status.

## LETTER FROM THE BOARD

The major considerations of the Board for the number of shares to be subscribed by BSAM are as follows:

- (1) BSAM is the Controlling Shareholder of the Company. Upon completion of the Revised Proposed Non-public Issuance of A Shares, BSAM remains the Controlling Shareholder of the Company. The shareholding of BSAM in the Company will not change significantly;
- (2) As the Controlling Shareholder of the Company, the subscription of shares under the Revised Proposed Non-public Issuance of A Shares by BSAM is conducive to boosting market confidence and transmitting positive signals to other investors to subscribe for shares under the Revised Proposed Non-Public Issuance of A Shares;
- (3) Before the Revised Proposed Non-Public Issuance of A Shares, BSAM held directly and indirectly an aggregate of 45.30% shares of the Company; it was proposed that BSAM subscribe for no less than 40% and no more than 133,000,000 A Shares to be issued under the Revised Proposed Non-Public Issuance of A Shares. Upon completion of this issuance, the percentage of total shares of the Company held by BSAM to the total issued share capital of the Company is expected to be below 47.30%. Assuming the number of A Shares in the Revised Proposed Non-Public Issuance of A Shares to be subscribed by BSAM is 133,000,000 Shares, the shareholding of BSAM in the Company will be approximately 47.2966% upon completion, which represents an increase of no more than 2% and does not trigger the code implications under Rule 26 of the Codes on Takeover, Merger and Shares Repurchase of the Securities and Future Commission of Hong Kong.

## LETTER FROM THE BOARD

**Lock-up period:**

BSAM shall not transfer the A Shares subscribed for under the Revised Proposed Non-public Issuance of A Shares within 18 months from the date of completion of the Revised Proposed Non-public Issuance of A Shares.

All other target subscribers shall not transfer the A Shares subscribed for under the Revised Proposed Non-public Issuance of A Shares within 6 months from the date of completion of the Revised Proposed Non-public Issuance of A Shares.

**Use of proceeds:**

The gross proceeds to be raised from the Revised Proposed Non-public Issuance of A Shares will be no more than RMB2,390,000,000 which is an amount determined with reference to the Company's estimated funding need towards the investment in the development of the Huizhou Phase II Project, the Jinsha Project, the Pingyang Phase II Project, Shishou Project, the Yongjia Phase II Project, and to repay bank loans of the Company.

After deducting issuance expenses, the proceeds are intended to be applied towards investment in the development of the Huizhou Phase II Project, the Jinsha Project, the Pingyang Phase II Project, Shishou Project, the Yongjia Phase II Project, and to repay bank loans of the Company. Details are as follows:

No. Project name	Total investment of project (RMB'0,000)	Proposed amount to be used from the proceeds (RMB'0,000)
1 Huizhou Phase II Project	111,345.00	60,000.00
2 Jinsha Project	45,205.00	38,000.00
3 Pingyang Phase II Project	35,063.55	30,000.00
4 Shishou Project	36,262.00	29,000.00
5 Yongjia Phase II Project	36,177.06	28,000.00
6 Repay bank loans	-	54,000.00
	Total	Total
	264,052.61	239,000.00

## LETTER FROM THE BOARD

Prior to completion of the Revised Proposed Non-public Issuance of A Shares, the Company will invest into the abovementioned projects with self-raised funds according to their progress, which will be subsequently replaced according to the procedures as governed by the relevant rules after the proceeds have been raised.

If the actual amount of proceeds raised (after deduction of issuance expenses) is not sufficient to satisfy the needs of the above projects, the shortfall will be covered by the Company through self-raised funds.

**Place of listing of the A Shares to be issued:**

The Company will apply to the Shanghai Stock Exchange for the listing of, and permission to deal in, the A Shares to be issued under the Revised Proposed Non-public Issuance of A Shares. The A Shares to be issued under the Revised Proposed Non-public Issuance of A Shares can be traded on the Shanghai Stock Exchange upon the expiration of the lock-up period.

**Distribution of profits:**

Upon completion of the Revised Proposed Non-public Issuance of A Shares, both existing and new Shareholders will be entitled to share in the Company's cumulative undistributed profits retained prior to the Revised Proposed Non-public Issuance of A Shares.

**Validity period of the resolution:**

The resolution regarding the Revised Proposed Non-public Issuance of A Shares shall be valid for 12 months from the date of the passing of such resolutions at the EGM, the A Shares Class Meeting and the H Shares Class Meeting.

**Specific mandate to issue A Shares:**

The Company will issue the A Shares under the Specific Mandate.

**Rights of the A Shares to be issued:**

The A Shares to be issued under the Revised Proposed Non-public Issuance of A Shares, when fully paid and issued, will rank *pari passu* in all respects amongst themselves and with the A Shares in issue at the time of the issuance of such A Shares.

## LETTER FROM THE BOARD

### **2. Proposal in relation to the satisfaction of the criteria for non-public issuance of A shares**

Pursuant to the Company Law of the PRC, the Securities Law of the PRC, and the “Measure for Administration of the Issuance of Securities by Listed Companies”, the Board, following self-examination and verification of the actual situation and relevant matters of the Company, considers that the Company satisfies all the criteria for non-public issuance of A Shares.

The proposal in relation to the satisfaction of the criteria for non-public issuance of A shares by the Company will be submitted, by way of ordinary resolution, for the Shareholders’ consideration and approval at the EGM.

### **3. Proposal in relation to the Revised Proposed Non-public Issuance of A Shares**

Each of the following 10 resolutions in relation to the Revised Proposed Non-public Issuance of A Shares will be submitted, by way of special resolutions, for the Independent Shareholders’ consideration and approval at the EGM, the A Shares Class Meeting, and the H Shares Class Meeting:

- (i) class and par value of shares to be issued;
- (ii) method and time of issuance;
- (iii) target subscribers and subscription method;
- (iv) Pricing Benchmark Date and issue price;
- (v) number of A Shares to be issued;
- (vi) amount and use of proceeds;
- (vii) lock-up period;
- (viii) place of listing of the A Shares to be issued;
- (ix) arrangement of accrued undistributed profit of the Company prior to the Revised Proposed Non-public Issuance of A Shares; and
- (x) validity period of resolution.

### **4. Proposal in relation to the “Proposal in respect of the Non-public Issuance of A Shares (Revised)”**

The “Proposal in respect of the Non-public Issuance of A Shares (Revised)”, which was prepared in Chinese language, was disclosed in the overseas regulatory announcement of the Company dated 29 May 2020. The full text of the English translation

## LETTER FROM THE BOARD

of the “Proposal in respect of the Non-public Issuance of A Shares (Revised)” is set out in Appendix I to this circular. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese version shall prevail.

The proposal in relation to the “Proposal in respect of the Non-public Issuance of A Shares (Revised)” will be submitted, by way of special resolution, for the Independent Shareholders’ consideration and approval at the EGM, A Shares Class Meeting and H Shares Class Meeting.

### **5. Proposal in relation to the “Feasibility Report on the Use of Proceeds from the Non-public Issuance of A Shares (Revised)”**

The “Feasibility Report on the Use of Proceeds from the Non-public Issuance of A Shares (Revised)”, which was prepared in Chinese language, was disclosed in the overseas regulatory announcement of the Company dated 29 May 2020. The full text of the English translation of the “Feasibility Report on the Use of Proceeds from the Non-public Issuance of A Shares (Revised)” is set out in Appendix II to this circular. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese version shall prevail.

The proposal in relation to the “Feasibility Report on the Use of Proceeds from the Non-public Issuance of A Shares (Revised)” will be submitted, by way of special resolution, for the Shareholders’ consideration and approval at the EGM.

### **6. Proposal in relation to the “Dilution of Current Returns Due to the Non-public Issuance of A Shares and the Remedial Measures (Revised)”**

Pursuant to the requirements set out in the Company Law of the PRC, the Securities Law of the PRC, the “Decision on Amending the Administration Measures on Securities Issuance of Listed Companies”, and the “Guiding Opinions on Matters relating to the Dilution of Current Returns in Initial Public Offering, Refinancing and Major Assets Restructuring” (《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》), the Company has prepared the “Dilution of Current Returns Due to the Non-public Issuance of A Shares and the Remedial Measures (Revised)”.

The “Dilution of Current Returns Due to the Non-public Issuance of A Shares and the Remedial Measures (Revised)”, which was prepared in Chinese language, was disclosed in the overseas regulatory announcement of the Company dated 29 May 2020. The full text of the English translation of the “Dilution of Current Returns Due to the Non-public Issuance of A Shares and the Remedial Measures (Revised)” is set out in Appendix III to this circular. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese version shall prevail.

The proposal in relation to the “Dilution of Current Returns Due to the Non-public Issuance of A Shares and the Remedial Measures (Revised)” will be submitted by way of ordinary resolution for the Shareholders’ consideration and approval at the EGM.

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### **7. Proposal in relation to the report on the utilisation of the previously raised funds**

Pursuant to the Company Law of the PRC, the Securities Law of the PRC, the “Decision on Amending the Administration Measures on Securities Issuance of Listed Companies”, and the “Regulations on Reporting the Utilisation of the Previously Raised Funds” (《關於前次募集資金使用情況報告的規定》), the Company has prepared the “Report on the Utilisation of the Previously Raised Funds”.

The “Report on the Utilisation of the Previously Raised Funds”, which was prepared in Chinese language, was disclosed in the overseas regulatory announcement of the Company dated 29 May 2020. The full text of the English translation of the “Report on the Utilisation of the Previously Raised Funds” is set out in Appendix IV to this circular. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese version shall prevail.

The proposal in relation to the report of the utilisation situation of the previously raised funds will be submitted by way of ordinary resolution for the Shareholders’ consideration and approval at the EGM.

### **8. Proposal in relation to the Shareholder’s Return Plan for the Next Three Years 2020-2022**

Pursuant to the Circular on Further Settling the Issues Concerning the Payment of Cash Dividends by listed Companies (《關於進一步落實上市公司現金分紅有關事項的通知》) and No.3 Guidelines for the Supervision of Listed Companies – Cash Dividends of Listed Companies (《上市公司監管指引第3號 – 上市公司現金分紅》), both issued by CSRC, the Board has formulated and proposes to adopt the “Shareholders’ Return Plan for the Next Three Years 2020-2022”.

The “Shareholder’s Return Plan for the Next Three Years 2020-2022”, which was prepared in Chinese language, was disclosed in the overseas regulatory announcement of the Company dated 29 May 2020. The full text of the English translation of the “Shareholders’ Return Plan for the Next Three Years 2020-2022” is set out in Appendix V to this circular. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese version shall prevail.

The proposal in relation to the “Shareholder’s Return Plan for the Next Three Years 2020-2022” will be submitted, by way of ordinary resolution, for the Shareholders’ consideration and approval at the EGM.

### **9. Proposal in relation to extend the validity period of the authorisation to the Board to handle relevant matters in connection with the Revised Proposed Non-public Issuance of A Shares**

In order to ensure effective and efficient implementation of the Revised Proposed Non-public Issuance of A Shares, the Board proposes to seek approval from the Shareholders at the EGM and the Class Meetings to extend the period of the authorization

## LETTER FROM THE BOARD

to the Board and any person authorised by the Board to handle all matters in connection with the Revised Proposed Non-public Issuance of A Shares, including but not limited to the following:

- (i) authorise the Board to formulate and implement specific proposal for the Revised Proposed Non-public Issuance of A Shares in accordance with the proposals as approved by the Shareholders and specific circumstances at the time of issue, including but not limited to the number of A Shares to be issued, subscription price, target subscribers, and any other matters relating to the Revised Proposed Non-public Issuance of A Shares. The number of A Shares to be issued and the subscription price will be adjusted accordingly if there occurs any ex-right or ex-dividend event (such as distribution of dividend, bonus issue, or capitalisation of capital reserves) between the Pricing Benchmark Date and the Issue Date;
- (ii) authorise the Board to supplement, review, and adjust the specific proposals for the Revised Proposed Non-public Issuance of A Shares in accordance with the requirements of relevant laws and regulations, change in policies, changes in market and operational conditions, and requirements of relevant authorities;
- (iii) approve and authorise the Board to sign agreements during the implementation of the projects specified in the use of proceeds;
- (iv) authorise the Board, the Company's legal representative or persons authorised by the Company's legal representative to handle the filing and registration matters relating to the Revised Proposed Non-public Issuance of A Shares; prepare, revise, and submit the application materials for the Revised Proposed Non-public Issuance of A Shares;
- (v) authorise the Board, the Company's legal representative or persons authorised by the Company's legal representative to sign, revise, supplement, submit, report, and execute all agreements and documents relating to the Revised Proposed Non-public Issuance of A Shares, and to reply to the relevant authorities in relation to any enquiries raised;
- (vi) authorise the Board to terminate or make adjustments to the Revised Proposed Non-public Issuance of A Shares in accordance with the proposals as approved by the Shareholders, the Company's Articles of Association, the relevant laws, regulations, and regulatory documents, any changes in market and policies and the specific circumstances at the time of issue, including but not limited to the number of A Shares to be issued, subscription price, target subscribers, and any other matters relating to the Revised Proposed Non-public Issuance of A Shares;
- (vii) authorise the Board to conduct the amendment on other matters in relation to the Revised Proposed Non-public Issuance of A Shares;
- (viii) authorise the Board to adjust the priority of and amount of investment into different projects should the gross proceeds raised be less than the proposed



## LETTER FROM THE BOARD

total amount to be invested from the proceeds in the projects; and to formulate and implement proposals in relation to the use of proceeds in accordance to the requirements of relevant authorities and the actual operational conditions of the Company within the scope of the Shareholder's resolutions;

- (ix) authorise the Board, the Company's legal representative, and any person authorised by the Company's legal representative to handle the registration, lock-up and listing of the A Shares with the Shanghai Stock Exchange and the China Securities Depository and Clearing Co., Ltd upon completion of the Revised Proposed Non-public Issuance of A Shares; and
- (x) authorise the Board to handle all other matters in connection with the Revised Proposed Non-public Issuance of A Shares;

The aforementioned authorisation in (i) to (vii) shall be valid for 12 months from the date of the approval by the Shareholders. The authorisation mentioned in (viii) to (x) shall be valid for the duration of the relevant matter.

The proposal in relation to the extension of the validity period of the authorisation to the Board to handle relevant matters in connection with the Revised Proposed Non-public Issuance of A Shares will be submitted by way of ordinary resolution for the Independent Shareholders' consideration and approval at the EGM, the A Shares Class Meeting, and the H Shares Class Meeting.

### **10. Proposal in relation to the Specific Mandate**

The Company will issue the A Shares under the Revised Proposed Non-public Issuance of A Shares pursuant to the Specific Mandate to be sought from the Independent Shareholders at the EGM and the Class Meetings.

In connection therewith, the Board proposes to seek the approval from the Independent Shareholders at the EGM and the Class Meetings for granting the Specific Mandate to the Board to issue a maximum of 232,240,000 A Shares at an issue price of not lower than the Benchmark Price to not more than 35 specific target subscribers, including BSAM, under the Revised Proposed Non-public Issuance of A Shares.

The A Shares to be issued under the Revised Proposed Non-public Issuance of A Shares (assuming fully issued) represents (i) approximately 30.69% of the existing issued A Shares and 20.00% of the existing total issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 23.48% of the enlarged issued A Shares and approximately 16.67% of the enlarged total issued share capital of the Company upon completion of the Revised Proposed Non-public Issuance of A Shares.

The proposal in relation to the Specific Mandate will be submitted by way of special resolution for the Independent Shareholders' consideration and approval at the EGM, the A Shares Class Meeting, and the H Shares Class Meeting.

## LETTER FROM THE BOARD

### III. CONNECTED TRANSACTION IN RELATION TO THE REVISED PROPOSED SUBSCRIPTION OF A SHARES BY BSAM

As part of the Revised Proposed Non-public Issuance of A Shares, on 29 May 2020, the Company and BSAM entered into the Supplemental Agreement of the BSAM Subscription Agreement, pursuant to which BSAM has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue, not less than 40% of the A Shares to be issued under the Revised Proposed Non-public Issuance of A Shares which in any case shall not be more than 133,000,000 A Shares and BSAM will not directly and indirectly in aggregate hold 47.30% or more of the enlarged total issued share capital of the Company upon completion of the Revised Proposed Non-public Issuance of A Shares.

#### 1. Major terms of the BSAM Revised Subscription

**Date:** 29 May 2020

**Parties:** (1) The Company, as the issuer; and  
(2) BSAM, as the subscriber.

**Subscription price and pricing principles:** The Pricing Benchmark Date of the Revised Proposed Non-public Issuance of A Shares is the first day of the offering period of the Revised Proposed Non-public Issuance of A Shares.

The issue price shall not be lower than (i) the Benchmark Price, being 80% of the Average Trading Price (being the average trading price of the A Shares during the 20 trading days immediately preceding the Pricing Benchmark Date (exclusive of such date), which is calculated by dividing the total trading amount of the A Shares during the 20 trading days immediately preceding the Pricing Benchmark Date by the total trading volume of the A Shares during the said 20 trading days); and (ii) the net asset value per share attributable to the shareholders of ordinary shares of the Company as set out at the latest audited consolidated financial statements of the Company.

## LETTER FROM THE BOARD

Given the net asset value per share attributable to the shareholders of ordinary shares of the Company as at the Latest Practicable Date as set out in the 2019 annual audited consolidated financial statements of the Company is RMB2.84, on such basis it is expected that the minimum issue price would, subject to the approval of SASAC and CSRC, be at least RMB2.84.

The issue price will be adjusted accordingly if there occurs any ex-right or ex-dividend event (such as distribution of dividend, bonus issue, or capitalisation of capital reserves) between the Pricing Benchmark Date and the Issue Date.

The adjustment mechanism is as follows:

### **(1) Adjustment to the issue price**

If there are any ex-right and ex-dividend issues such as cash dividend distribution, bonus issue, capitalization issue, new shares issue or allocation during the period from the Pricing Benchmark Date to the issue date, the price of shares of the Company will be changed accordingly and the price under this issuance will be treated as ex-right and ex-dividend.

Assuming  $P_0$  is the pre-adjustment issue price,  $N$  is the number of bonus shares or converted shares for each share,  $K$  is the number of new shares issued or allocated for each share,  $A$  is the price per share for new share issuance or allocation,  $D$  is the amount of dividend per share, and  $P_1$  is the post-adjustment issue price:

- (a) In the case of distribution of dividend,  
 $P_1 = P_0 - D$
- (b) In the case of grant of bonus share, or conversion of capital reserve into share capital:  $P_1 = P_0 / (1 + N)$
- (c) In the case of issue of new shares or allotment of shares:  $P_1 = (P_0 + A * K) / (1 + K)$

## LETTER FROM THE BOARD

In the case of both (a), (b) and (c):  $P1 = (P0 - D + A * K) / (1 + K + N)$ .

Shares under the Revised Proposed Non-Public Issuance of A Shares will be issued and the final issue price will be determined by the Board of the Company in accordance with the authorization granted at the EGM and the Class Meetings, upon negotiation with the sponsor (the lead underwriter) and the obtaining of approvals from CSRC for this issue, having regard to the auction price offered by the target subscribers.

### **(2) Adjustment to number of shares to be issued**

The number of shares to be issued under the Revised Proposed Non-Public Issuance of A Shares shall be calculated based on the total proceeds from the issuance divided by the issue price, and in accordance with the Issuance Regulatory Q&A — Regulations on Guiding and Regulating Financing Activities of Listed Companies (Revised), the number of shares to be issued under this issuance shall not exceed 20% of the total share capital of the Company before the issuance, i.e. 232,240,000.00 shares (inclusive).

In the event of ex-right issues including bonus issue and capital conversion between the date of announcement of Board meeting resolution in relation to the Revised Proposed Non-public Issuance of A Shares and the issue date, the number of shares to be issued will be adjusted accordingly.

The adjustment formula is as follows:

If  $M0$  represents the number of shares to be issued before adjustment;  $M1$  represents the number of shares to be issued after adjustment; and  $N$  represents the number of bonus shares and/or capitalization per share during the period from the Pricing Benchmark Date to the first day of the issuance, the number of shares to be issued after adjustment  $M1 = M0 \times (1 + N)$ .

## LETTER FROM THE BOARD

The number of shares to be issued in the Revised Proposed Non-public Issuance of A Shares shall be subject to the approval document regarding this issuance from CSRC. To the extent of the above, the final number of shares under this issuance shall be determined through negotiation by the Board of the Company in accordance with the authorization granted at the EGM and the Class Meetings, the relevant requirements of CSRC and actual condition at the time of issuance, with the sponsor (the lead underwriter).

The final issue price will be determined by the Board or other authorised persons, in accordance with the authorisation granted at the EGM, the A Shares Class Meeting, the H Shares Class Meeting, with the sponsor (the lead underwriter) after the Company has obtained approvals from CSRC for the Revised Proposed Non-public Issuance of A Shares, having regard to the price offered by the target subscribers.

BSAM will not participate in the market bidding process but has undertaken to accept the market bidding results and subscribe for the A Shares to be issued under this non-public issue at the same price as other specific investors. If none of the target subscribers offer to subscribe any of the A-Shares under the Revised Proposed Non-public Issuance of A-Shares, then the issue price will not be incurred by way of bidding, and BSAM will continue to participate in the subscription. On the basis that the issue price shall not be less than 80% of the average transaction price of the shares of the Company in the 20 trading days prior to the Pricing Benchmark Date and shall not be lower than the amount of the latest audited net asset value per Share attributable to the shareholders of ordinary shares of the parent company, the issue price will be determined after negotiations between the Board and the sponsor (the lead underwriter).

## LETTER FROM THE BOARD

**Number of A Shares to be issued:**

Pursuant to the Supplemental Agreement of the BSAM Subscription Agreement, BSAM intends to subscribe for not less than 40% of the A Shares to be issued under the Revised Proposed Non-public Issuance of A Shares in cash, which in any case shall not be more than 133,000,000 A Shares and BSAM will not directly and indirectly in aggregate hold 47.30% or more of the enlarged total issued share capital of the Company upon completion of the Revised Proposed Non-public Issuance of A Shares.

The number of A Shares to be issued under the Revised Proposed Non-public Issuance of A Shares and the number of A Shares to be subscribed by BSAM will be adjusted accordingly if there occurs any changes in the securities market and the Board has not terminated the Supplemental Agreement of the BSAM Subscription Agreement.

If the gross proceeds to be raised in the Revised Proposed Non-public Issuance of A Shares is to be reduced as required by a change in policy or by the approval letters, the number of A Shares to be subscribed by BSAM will be reduced accordingly.

The total proceeds (including issuance expenditure) of the Revised Proposed Non-public Issuance of A Shares of the Company will not exceed RMB2,390,000,000 which is an amount determined with reference to the Company's estimated funding need towards the investment in the development of the Huizhou Phase II Project, the Jinsha Project, the Pingyang Phase II Project, Shishou Project, the Yongjia Phase II Project, and to repay bank loans of the Company. For details, please refer to the section under "II. REVISED PROPOSED NON-PUBLIC ISSUANCE OF A SHARES — 1. Details of the Revised Proposed Non-public Issuance of A Shares — Use of proceeds" above. The number of shares to be issued under the Revised Proposed Non-public Issuance of A Shares shall be calculated based on the total proceeds from the issuance divided by the issue price, and in accordance with the Issuance Regulatory Q&A — Regulations on Guiding and Regulating Financing Activities of Listed Companies (Revised), the number of shares to be issued shall not exceed 20% of the total issued share capital of the Company before the issuance, i.e. 232,240,000.00 shares (inclusive).

## LETTER FROM THE BOARD

If total proceeds from the Revised Proposed Non-public Issuance of A Shares is required to be reduced, the number of shares to be issued shall be subject to adjustment based on the proceeds after reduction and the actual issue price. To the extent of the number of shares to be issued above, BSAM will, based on the adjusted issue amount, adjust the number of shares to be subscribed appropriately according to the actual situation of the issue and market and under the principle that “the number of shares Party B subscribed from Party A shall not be below 40% of A shares actually issued under this non-public issue and no more than of 133,000,000 shares, and the total shareholding of Party B directly and indirectly in Party A upon the non-public issue will be below 47.30%” as agreed in the Supplemental Agreement of the BSAM Subscription Agreement entered into with the Company. The final number of shares subscribed by BSAM will be determined by signing a supplementary agreement between BSAM and the Company after the issue price is fixed.

**Lock-up period:**

BSAM shall not transfer the A Shares subscribed under the Revised Proposed Non-public Issuance of A Shares within 18 months from the date of completion of the Revised Proposed Non-public Issuance of A Shares. The additional shares held due to bonus shares and increased share capital are also locked-up in accordance with the lock-up period mentioned above.

**Conditions precedent and effective date:**

The Supplemental Agreement of the BSAM Subscription Agreement is conditional upon:

- (1) the approval by the Board of the Supplemental Agreement of the BSAM Subscription Agreement;
- (2) the approval by the Board of the Revised Proposed Non-public Issuance of A Shares;

## LETTER FROM THE BOARD

- (3) the approval at the EGM and the Class Meetings of the Revised Proposed Non-public Issuance of A Shares, the Supplemental Agreement of the BSAM Subscription Agreement, and any relevant resolutions; and
- (4) the approval by CSRC of the Revised Proposed Non-public Issuance of A Shares.

### **2. Information on the Parties To The Supplemental Agreement of the BSAM Subscription Agreement**

The Company is incorporated in the PRC with limited liability and its issued H Shares and A Shares are listed on the Main Board of the Hong Kong Stock Exchange and the Shanghai Stock Exchange, respectively. The Company is mainly engaged in waste incineration power generation business, and the investment, construction, operation, maintenance, and technical consulting in relation to waste-to-energy plants in the PRC treating municipal solid waste using waste incineration technology.

BSAM is a state-owned company established in the PRC and is wholly-owned by the Beijing Municipal Government. BSAM principally engages in the asset management, project investment and investment management.

### **3. Proposal in relation to the connected transaction and the execution of the Supplemental Agreement of the BSAM Subscription Agreement**

As at the Latest Practicable Date, BSAM is a Controlling Shareholder of the Company and therefore a connected person of the Company.

The proposal in relation to the connected transaction and the execution of the Supplemental Agreement of the BSAM Subscription Agreement will be submitted by way of special resolution for the Independent Shareholders' consideration and approval at the EGM, the A Shares Class Meeting, and the H Shares Class Meeting.



## LETTER FROM THE BOARD

### IV. REASONS FOR AND BENEFITS OF THE REVISED PROPOSED NON-PUBLIC ISSUANCE OF A SHARES AND THE ENTERING INTO THE SUPPLEMENTAL AGREEMENT OF THE BSAM SUBSCRIPTION AGREEMENT

The Board considers that in view of the promulgation of the “Decision on Amending the Administrative Measures on Securities Issuance of Listed Companies” (《關於修改〈上市公司證券發行管理辦法〉的決定》) and the “Decision on Amending the Implementation Rules for the Non-public Issue of Shares by Listed Companies” (《關於修改〈上市公司非公開發行股票實施細則〉的決定》) (collectively, the “**new PRC regulations**”), the Revised Proposed Non-public Issuance of A Shares is conducive for the Company to enhance its capital strength, improve the financial situation of the Company, enhance the Company’s financing capabilities in the future, increase the risk prevention capacity of the Company, allow the Company to increase the investment into the constructions of incineration plants, which further increases the waste incineration capacity of the Company, market share, service area coverage and influence, enhancing the core competitiveness of the Company’s main business. The details are as follows:

#### A. Reasons for the Revised Proposed Non-public Issuance of A Shares

##### (1) There is a large net outflow of business activities and investment activities

According to the first quarterly report of 2020 of the Company, as at the end of March 2020, the cash at bank and on hand of the Company was RMB147,188,631.49, which was mainly from short-term loans and long-term loans, in addition to those from operating activities.

In 2017 to 2019 and January to March 2020, net cash flow from operating activities was RMB-223,585,200, RMB-222,716,700, RMB-48,189,535.55 and RMB12,634,490.11, respectively, representing a large net outflow; net cash flow from investment activities was RMB-374,645,300, RMB-1,412,357,000, RMB-2,264,810,466.39 and RMB-411,096,566.99, respectively; and net cash flow from financing activities was RMB737,035,100, RMB1,600,328,100 and RMB2,030,794,380.17 and RMB581,546,373.66, respectively.

## LETTER FROM THE BOARD

- (2) In the past three years, the overall cash flow from operating activities continued to be a net outflow, which was mainly due to the large-scale construction of build-operate-transfer (BOT) projects and the delay in the renewable energy subsidies, the increase in the first quarter of 2020 was mainly due to the relatively reduced construction expenditure as the result of the epidemic. At the same time, there was a large investment demand and a big net cash outflow from investment activities. The Company mainly relies on borrowing-based fund-raising activities to maintain cash flow from daily operations. As at the end of March 2020, the Company's balance of short-term loans, balance of long-term loans and long-term loans due within one year amounted to RMB2,816,742,528.99, RMB5,336,987,142.01 and RMB733,652,497.64 respectively. The Company's repayment pressure is large in the future, so it is necessary to carry out equity financing. Finance costs are heavy

As the rapid development of the Company, the demand for funds has grown rapidly. The Company mainly raises funds through bank loans and other means. As at the end of March 2020, the Company's total assets under the consolidated statements amounted to RMB14,279,502,778.28, the size of total liabilities was RMB10,673,372,093.86, and the gearing ratio reached 74.75%. The finance costs from January to March 2020 was RMB93,622,027.02, accounting for 21.62% of the operating income, which is heavy. At present, the Company's gearing ratio is relatively high and above the debt levels of the industry over the same period. The higher gearing ratio affects the Company's debt financing ability and also leads to higher borrowing costs, which exposes the Company to certain financial risks.

- (3) **The Company has a large number of projects under construction and projects under preparation, and the future capital expenditure is larger**

The waste-to-energy industry requires a large amount of investment in the early stage. The capital investment in a waste-to-energy plant with the daily treatment capacity of 1,000 tons is RMB400 million to RMB600 million. At the same time, the investment recovery cycle of waste-to-energy projects is relatively long, generally 8-12 years, and it is a capital-intensive industry.

As at 31 March 2020, in respect of the waste-to-energy sector, the Company had 21 projects under operation, 8 projects under construction and 14 projects under preparation. The capital expenditures required for investment and construction of projects under construction and preparation in the future will be large. To further improve the Company's waste treatment capacity, increase market share, expand the Company's business coverage and influence, and improve the Company performance, the Company is required to raise proceeds through the Revised Proposed Non-public Issuance of A Shares to increase investment in construction and operation of waste-to-energy projects, so as to further consolidate the advantages of the Company's principal businesses and enhance the core competitiveness of the Company's principal businesses.

## LETTER FROM THE BOARD

### **B. Considerations for financing size of the Revised Proposed Non-public Issuance of A Shares**

- (1) To expand the Company's scale and improve the Company's performance, it is necessary for the Company to increase investment in construction of waste incineration power generation projects. As a part of the development strategy of the Company, Huizhou Phase II Project, Jinsha Project, Pingyang Phase II Project, Shishou Project and Yongjia Phase II Project are projects under construction and projects under preparation of the Company. These projects have completed the procedures for approval of the National Development and Reform Commission and environmental protection evaluation, and are expected to generate better economic benefits, which will help expand the scale of the Company and improve the Company's operating performance, and is in line with the conditions for the investment project of the Revised Proposed Non-public Issuance of A Shares.
- (2) As at the end of March 2020, the Company's gearing ratio under the consolidated statements was 74.75%, above the debt levels of the industry over the same period. The finance costs from January to March 2020 amounted to RMB93,622,027.02, accounting for 21.62% of the operating income, which is heavy. In order to optimize the Company's asset-liability structure, reduce finance costs and financing costs, and control financial risks, the Company plans to repay bank loans in an aggregate amount of RMB540 million with a portion of the raised funds.

For detail of size and use of proceeds, please refer to the use of proceeds as set out under "II. REVISED PROPOSED NON-PUBLIC ISSUANCE OF A SHARES — 1. Details of the Revised Proposed Non-public Issuance of A Shares" above.

Entering into the Supplemental Agreement of the BSAM Subscription Agreement ensures the successful completion of the Revised Proposed Non-public Issuance of A Shares, which is mainly reflected in:

- (1) The Company has built up investors' interests in advance by signing the Supplemental Agreement of the BSAM Subscription Agreement with BSAM, which provides certain guarantees for the number of shares and size of proceeds for the Revised Proposed Non-public Issuance of A Shares.
- (2) BSAM, as the Controlling Shareholder of the Company, subscribed for shares under the Revised Proposed Non-public Issuance of A Shares, highlighting its confidence in the prospects and future development of the Company, which is conducive to boosting market sentiment and transmitting positive signals to other investors; BSAM's participation in the subscription provides financial support for the Company's future development, which will help to further improve the Company's operating performance and attract other investors to subscribe shares under the Revised Proposed Non-public Issuance of A Shares.

## LETTER FROM THE BOARD

The Company proposes to issue A Shares only as this is more conducive for increasing the rights and interest of each Share, thus protecting the interest of the Shareholders as a whole. As at the Latest Practicable Date, A Shares and H Shares of the Company were closed at a price of RMB9.58 per share and HK\$2.87 per share. There is a large price difference between the two markets. As the Company issued 756,840,208 A shares and 404,359,792 H shares, upon completion of the issuance, the A Share price may be diluted but is expected to remain higher than H share price; if the non-public issuance of A Shares and H Shares are implemented at the same time, the H Share price will also be diluted.

Therefore, the Company proposes to issue A Shares only as this has less impact on holders of H Shares and is more conducive for protecting earnings per share of holders of H Shares. In addition, the projects funded with the proceeds from the Revised Proposed Non-public Issuance of A Shares have been fully investigated and discussed, and are in line with the national industrial policy and the Company's overall strategic development direction. With the completion of the projects and the realization of benefits, the Company's profitability and operating results are expected to be improved. Before receipt of the proceeds from this issue, in order to implement the proceeds funded projects as soon as possible, the Company will proactively allocate resources and implement the preparatory work for the proceeds funded projects in advance as well as first make investment with its self-raised funds depending on the progress of the proceeds funded projects; after receipt of the proceeds from this Issue, the Company expects to accelerate the construction of the proceeds-funded projects, striving to complete the proceeds-funded projects and achieve the expected benefits as soon as possible, to increase return to Shareholders in the following years, which will help improve the Company's earnings per share in the future and protect the interests of shareholders.

In light of the above, the Board (including the independent non-executive Directors) believes that, although the Revised Proposed Non-public Issuance of A Shares and the Supplemental Agreement of the BSAM Subscription Agreement are not in the ordinary and usual course of business of the Group, the terms of the Revised Proposed Non-public Issuance of A Shares and the Supplemental Agreement of the BSAM Subscription Agreement are fair and reasonable and on normal commercial terms. The Revised Proposed Non-public Issuance of A Shares and entering into the Supplemental Agreement of the BSAM Subscription Agreement is in the interests of the Company and the Shareholders as a whole.

### **V. IMPLICATIONS UNDER THE LISTING RULES**

As at the Latest Practicable Date, BSAM is a Controlling Shareholder of the Company and therefore a connected person of the Company. Accordingly, the BSAM Revised Subscription constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the announcement, reporting, and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr Zhi Jun, Mr Cheng Suning, non-executive Directors of the Company, are employees of BSAM or entities under the BSAM group, and, have therefore abstained from voting on the relevant Board resolutions approving the Revised Proposed Non-public Issuance of A Shares and the BSAM Revised Subscription. Save as

## LETTER FROM THE BOARD

aforementioned, none of the other Directors have a material interest in the Revised Proposed Non-public Issuance of A Shares and the BSAM Revised Subscription and hence no other Director has abstained from voting on such Board resolutions.

### VI. EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, the total issued share capital of the Company is 1,161,200,000 Shares, which comprises 756,840,208 A Shares and 404,359,792 H Shares.

The shareholding structure of the Company (i) as at the Latest Practicable Date and (ii) immediately after completion of the Revised Proposed Non-public Issuance of A Shares (assuming that (i) BSAM subscribes for 133,000,000 A Shares at the Benchmark Price, (ii) the other target subscribers subscribe for 99,240,000 A Shares at the Benchmark Price, and (iii) there is no change in the total issued share capital of the Company since the Latest Practicable Date save for the issue of the A Shares pursuant to the Revised Proposed Non-public Issuance of A Shares) is as set out below:

Name of Shareholder	Class of shares	Shareholding as of the Latest Practicable Date			Shareholding immediately after completion of the Revised Proposed Non-public Issuance of A Shares		
		<i>Approximate percentage of the issued A shares</i>	<i>Approximate percentage of the total issued share capital (%)</i>	<i>Approximate percentage of the issued A shares</i>	<i>Approximate percentage of the total issued share capital (%)</i>	<i>Approximate percentage of the issued A shares</i>	<i>Approximate percentage of the total issued share capital (%)</i>
BSAM and its wholly owned subsidiary <sup>1</sup>	A	501,189,618	66.2213	43.1614	634,189,618	64.1191	45.5125
	H	24,859,792	-	2.1409	24,859,792	-	1.7841
<b>Sub-total</b>		<b>526,049,410</b>	<b>-</b>	<b>45.3022</b>	<b>659,049,410</b>	<b>-</b>	<b>47.2966</b>
Public A Shareholders	A	255,650,590	33.78	22.0161	354,890,590	35.8809	25.4687
Public H Shareholders	H	379,500,000	-	32.6817	379,500,000	-	27.2348
<b>Total</b>		<b>1,161,200,000</b>	<b>100</b>	<b>100</b>	<b>1,393,440,000</b>	<b>100</b>	<b>100</b>

<sup>1</sup> BSAM directly holds 501,189,618 A Shares, and holds 24,859,792 H Shares through Beijing State-owned Assets Management (Hong Kong) Company Limited, a wholly-owned subsidiary of BSAM. BSAM holds 526,049,410 Shares in aggregate, representing approximately 45.3022% in equity interest in the Company, and is a Controlling Shareholder of the Company.

## LETTER FROM THE BOARD

### VII. FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company has not conducted any equity fund-raising activities during the 12 months immediately preceding the Latest Practicable Date.

### VIII. PROPOSED PROVISION OF GUARANTEE IN RESPECT OF FIXED ASSET LOANS TO SUBSIDIARIES

In order to meet the construction funding needs of the domestic waste incineration power generation projects of the subsidiaries controlled by the Company, Laizhou Haikang Environmental Protection Energy Co., Ltd.\* (萊州海康環保能源有限公司) and Shuozhou Lvdong Nanshan Environmental Energy Co., Ltd.\* (朔州綠動南山環境能源有限公司), the Company intends to provide joint and several liability guarantee for a fixed asset loan which do not exceed RMB400 million and RMB450 million respectively.

Further details are set out in Appendix VI to this circular.

### IX. EGM AND CLASS MEETINGS

The EGM will be convened to consider and, if thought fit, approve, amongst other things, the Revised Proposed Non-public Issuance of A Shares and the BSAM Revised Subscription.

The Class Meetings will be convened to consider and, if thought fit, approve, amongst other things, the Revised Proposed Non-public Issuance of A Shares and the BSAM Revised Subscription.

The Revised Proposed Non-public Issuance of A Shares, the BSAM Revised Subscription, and the Specific Mandate will be proposed by way of special resolutions at the EGM and the Class Meetings to be approved by the Independent Shareholders. The vote will be conducted by way of poll.

A notice convening the EGM to be held at 2:00 p.m. and a notice convening the H Shares Class Meeting to be held immediately after the A Shares Class Meeting respectively on Monday, 29 June 2020 at 3/F Complex of Beijing Dynagreen Environment Co., Ltd.\* (北京綠色動力環保有限公司), Cailin Road, Yujiawu Township, Tongzhou District, Beijing, are set out on pages 68 to 71 and pages 72 to 75 of this circular, respectively.

Whether or not you intend to attend the EGM and/or the H Shares Class Meeting, you are requested to complete and return the proxy forms in accordance with the instructions printed thereon. The proxy forms should be returned to the H share registrar of the Company, Tricor Investor Services Limited (Address: Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong), as soon as possible and in any event not less than 24 hours before the time appointed for the EGM and/or the H Shares Class Meeting or any adjournment thereof.

\* For identification purposes only

## LETTER FROM THE BOARD

Completion and return of the proxy forms will not preclude you from attending and voting in person at the EGM and the H Shares Class meeting or at any adjourned thereof should you wish, but in such event the instrument appointing a proxy shall be deemed to be revoked.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of the Shareholders should be taken at a general meeting of the Company by poll except where the Chairman, in good faith, decides to allow a resolution which relates purely to procedural or administrative matter to be voted on by a show of hands. An announcement of the poll result will be made by the Company after the EGM and the H Shares Class Meeting in the manner prescribed under Rule 13.39(5) of the Listing Rules.

BSAM and its associates (including BSAMHK) will be required to abstain from voting on the resolutions to be proposed at the EGM and/or the Class Meetings in relation to the Revised Proposed Non-public Issuance of A Shares and the BSAM Revised Subscription. Save as aforementioned, to the best of the Directors' knowledge, information, and belief, having made all reasonable enquiries, no other Shareholder has a material interest in the Revised Proposed Non-public Issuance of A Shares and therefore no other Shareholder is required to abstain from voting at the EGM and/or the Class Meetings.

### **X. RECOMMENDATION**

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 39 to 40 of this circular, containing its recommendation in respect of the BSAM Revised Subscription and (ii) the letter from Somerley to the Independent Board Committee and the Independent Shareholders set out on pages 41 to 67 of this circular, containing its recommendation in respect of the Supplemental Agreement of the BSAM Subscription Agreement. The Independent Board Committee, after considering the advice from Somerley, is of the view that the BSAM Revised Subscription, though not in the ordinary and usual course of business of the Company, are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of all the resolutions to be proposed at the EGM and the Class Meetings to approve the Revised Proposal Non-public Issuance of A Shares and the BSAM Revised Subscription.



**LETTER FROM THE BOARD**

**XI. ADDITIONAL INFORMATION**

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,  
By order of the Board  
**Dynagreen Environmental Protection Group Co., Ltd.\***  
**Zhi Jun**  
*Chairman*

\* *For identification purposes only*





綠色動力  
DYNAGREEN

綠色動力環保集團股份有限公司

**Dynagreen Environmental Protection Group Co., Ltd.\***

*(a joint stock limited liability company incorporated in the People's Republic of China)*

**(Stock Code: 1330)**

11 June 2020

*To the Independent Shareholders,*

Dear Sir or Madam,

**CONNECTED TRANSACTION IN RELATION TO  
THE REVISED PROPOSED SUBSCRIPTION OF A SHARES BY BSAM**

We refer to the circular of the Company dated 11 June 2020 (the “Circular”), of which this letter forms part. Unless otherwise defined, capitalized terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the BSAM Revised Subscription, details of which are set out in the “Letter from the Board” in the Circular. Somerley Capital Limited has been appointed as the Independent Financial Adviser with our approval to advise the Independent Board Committee and the Independent Shareholders in this regard.

We wish to draw your attention to the “Letter from the Board” set out on pages 6 to 38 of the Circular, the “Letter from Somerley” set out on pages 41 to 67 of the Circular, and the additional information set out in the appendices of the Circular.

Having taken into account, among other things, the principal factors and reasons considered by, and the advice of, the Independent Financial Adviser as set out in the “Letter from Somerley” in the Circular, we concur with the view of the Independent Financial Adviser and consider that the BSAM Revised Subscription, though not in the

\* For identification purposes only

**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

ordinary and usual course of business of the Company, is in the interests of the Company and the Shareholders as a whole, and the terms of the BSAM Revised Subscription are on normal commercial terms, and are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we recommend you vote in favour of the resolutions to be proposed at the EGM and the Class Meetings for approving the BSAM Revised Subscription.

Yours faithfully,

For and on behalf of the Independent Board Committee

**Mr. OU Yuezhou**

**Ms. FU Jie**

**Mr. XIE Lanjun**

*Independent non-executive Directors*

## LETTER FROM SOMERLEY

*Set out below is the letter of advice from Somerley to the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Agreement of the BSAM Subscription Agreement and the transaction contemplated thereunder, which has been prepared for the purpose of inclusion in this circular.*



**SOMERLEY CAPITAL LIMITED**  
20th Floor  
China Building  
29 Queen's Road Central Hong Kong

11 June 2020

To: *The Independent Board Committee and the Independent Shareholders of  
Dynagreen Environmental Protection Group Co., Ltd.*

Dear Sirs,

### **CONNECTED TRANSACTION IN RELATION TO THE REVISED PROPOSED SUBSCRIPTION FOR A SHARES BY BSAM**

#### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Supplemental Agreement of the BSAM Subscription Agreement and the transaction contemplated thereunder. Details of the BSAM Revised Subscription are set out in the circular issued by the Company to the Shareholders dated 11 June 2020 (the "**Circular**"), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 29 May 2020, the Board has approved the Revised Proposed Non-public Issuance of A Shares (the "**Issue**"), pursuant to which the Company proposes to issue a maximum of 232,240,000 A Shares to not more than 35 specific target subscribers, including BSAM, which is expected to raise gross proceeds of up to RMB2,390,000,000.

As part of the Revised Proposed Non-public Issuance of A Shares, on 29 May 2020, the Company and BSAM entered into the Supplemental Agreement of the BSAM Subscription Agreement, pursuant to which BSAM has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue, not less than 40% of the A Shares to be issued under the Revised Proposed Non-public Issuance of A Shares, which in any case shall not be more than 133,000,000 A Shares issued under the Revised Proposed Non-public Issuance of A Shares and BSAM will not directly and indirectly in aggregate hold 47.30% or more of the enlarged total issued share capital of the Company upon completion of the Revised Proposed Non-public Issuance of A Shares.

## LETTER FROM SOMERLEY

BSAM is the Controlling Shareholder holding approximately 45.30% of the total issued share capital of the Company, including both A Shares and H Shares, as at the Latest Practicable Date. It is therefore a connected person of the Company under Chapter 14A of the Listing Rules. As such, the BSAM Revised Subscription constitutes a connected transaction for the Company and is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Ou Yuezhou, Ms. Fu Jie and Mr. Xie Lanjun, has been established to advise the Independent Shareholders on the terms of the BSAM Revised Subscription and to make a recommendation as to voting. We, Somerley Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

During the past two years, we have on one occasion acted as an independent financial adviser to the Company in relation to the proposed subscription of A shares by BSAM pursuant to the BSAM Subscription Agreement (as disclosed in the Company's circular dated 25 November 2019). The past engagement was limited to providing independent advisory service to the Company pursuant to the Listing Rules, for which we received normal professional fee relevant to this type of engagement. Accordingly, we do not consider the past engagement would affect our independence to act as the independent financial adviser to the Company under the current engagement.

We are not associated with the Company, BSAM or their respective core connected persons, close associates or associates (all as defined in the Listing Rules) and accordingly are considered eligible to give independent advice on the above matters. Apart from normal professional fee payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, BSAM or their respective core connected persons, close associates or associates.

In formulating our opinion, we have reviewed, among other things, the proposal in relation to the Revised Proposed Non-public Issuance of A Shares, the Supplemental Agreement, the first quarter report of the Company for the three months ended 31 March 2020, the annual reports of the Company for the years ended 31 December 2019, 2018 and 2017 (the "**Annual Reports**"), the announcement of the Company on unaudited operating data for the three months ended 31 March 2020 and the information as set out in the Circular. We have also discussed with the management of the Group regarding the use of proceeds raised from the Revised Proposed Non-public Issuance of A Shares.

We have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Group and have assumed that they are true, accurate and complete. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to believe that any material information has been withheld from us, or to doubt the truth or accuracy of the information provided. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view. We have not, however, conducted any

## LETTER FROM SOMERLEY

independent investigation into the business and affairs of the Group, nor have we carried out any independent verification of the information supplied.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation, we have considered the principal factors and reasons set out below:

#### 1. Information of the Group

##### (a) *Business*

The Company is incorporated in the PRC with limited liability. Its H Shares (stock code: 1330) have been listed on the Main Board of the Hong Kong Stock Exchange since 2014 and its A Shares (stock code: 601330) have been listed on the Shanghai Stock Exchange since 2018.

The Company is mainly engaged in waste incineration power generation business, and the investment, construction, operation, maintenance, and technical consulting in relation to waste-to-energy plants in the PRC treating municipal solid waste using waste incineration technology.

##### (b) *Financial performance*

Set out in the table below is a summary of the Group's financial performance for the three months ended 31 March 2020 and 2019 and the years ended 31 December 2019, 2018 and 2017 (the "Review Period").

	For the three months		For the year ended 31 December		
	ended 31 March				
	2020	2019	2019	2018	2017
	(RMB	(RMB	(RMB	(RMB	(RMB
	million)	million)	million)	million)	million)
				(Restated)	(Restated)
Revenue	433	351	1,752	1,140	824
Gross profit	238	177	946	671	497
Net profit attributable to the shareholders of the Company	94	95	417	366	240

*Note:* Figures shown in the table above are subject to rounding adjustments.

## LETTER FROM SOMERLEY

As shown above, revenue of the Group recorded an increase from approximately RMB824 million for the year ended 31 December 2017 to approximately RMB1,752 million for the year ended 31 December 2019, representing a compound annual growth rate (“CAGR”) of approximately 45.8%. The revenue growth was mainly attributable to the increased number of projects under operation and two additional projects commenced operation in August 2018. In particular, the Group treated approximately 7.2 million tons of waste for the year ended 31 December 2019 with 2,113 million kWh of electricity generated as compared to approximately 3.7 million tons of waste for the year ended 31 December 2017 with 1,008 million kWh of electricity generated, representing CAGRs of approximately 39.5% and approximately 44.8%, respectively. Accordingly, net profit attributable to the shareholders of the Company increased from approximately RMB240 million for the year ended 31 December 2017 to approximately RMB417 million for the year ended 31 December 2019, representing a CAGR of approximately 31.8%. Revenue of the Group for the three months ended 31 March 2020 was approximately RMB433 million, representing an increase of approximately RMB82 million or approximately 23.4% compared with that for the three months ended 31 March 2019. Net profit attributable to the shareholders of the Company for the three months ended 31 March 2020 was approximately RMB94 million, representing a decrease of approximately 0.1% compared with that for the three months ended 31 March 2019.

### (c) *Financial position*

Set out below is a summary of the financial position of the Group as at 31 March 2020, 31 December 2019, 31 December 2018 and 1 January 2018.

	As at 31 March 2020 <i>(RMB million)</i>	As at 31 December 2019 <i>(RMB million)</i>	As at 31 December 2018 <i>(RMB million)</i> (Restated)	As at 1 January 2018 <i>(RMB million)</i> (Restated)
<b>ASSETS</b>				
<b>Current assets</b>				
Cash at bank and on hand	617	432	711	694
Accounts receivable	440	452	232	138
Contract assets	443	396	155	62
Long-term receivables due within one year	87	88	72	60
Others	255	259	276	149
	1,842	1,627	1,446	1,103

## LETTER FROM SOMERLEY

	As at 31 March 2020 <i>(RMB million)</i>	As at 31 December 2019 <i>(RMB million)</i>	As at 31 December 2018 <i>(RMB million)</i> (Restated)	As at 1 January 2018 <i>(RMB million)</i> (Restated)
<b>Non-current assets</b>				
Long-term receivables	4,564	4,467	3,836	2,851
Intangible assets	6,663	6,453	4,411	2,251
Deferred income tax assets	203	203	181	144
Others	1,008	920	815	515
	12,438	12,043	9,243	5,761
Total assets	14,280	13,670	10,689	6,864
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Short-term loans	2,817	2,433	854	310
Accounts payable	1,100	1,213	901	480
Other payables	116	150	370	51
Others	829	849	665	456
	4,862	4,645	2,790	1,297
Net current liabilities	3,020	3,018	1,344	194
<b>Non-current liabilities</b>				
Long-term loans	5,337	5,057	4,391	2,914
Long-term payables	295	297	305	320
Others	179	175	131	48
	5,811	5,529	4,827	3,283
<b>EQUITY</b>				
Total equity attributable to the shareholders of the Company	3,390	3,296	2,996	2,282
Non-controlling interests	217	200	77	3
	3,607	3,496	3,072	2,285

*Note:* Figures shown in the table above are subject to rounding adjustments.

## LETTER FROM SOMERLEY

As at 31 March 2020, total assets of the Group were approximately RMB14,280 million, representing an increase of approximately 4.5% from that as at 31 December 2019. The Group had a significant portion of (i) long-term receivables which accounted for approximately 32.0% of the total assets as at 31 March 2020, represented the receivables from the Group's Build-Operate-Transfer projects, Build-Transfer projects and performance bond; and (ii) intangible assets which accounted for approximately 46.7% of the total assets as at 31 March 2020, represented primarily the concession rights in relation to the Group's Build-Operate-Transfer projects and Build-Transfer projects. Cash at bank and on hand amounted to approximately RMB617 million as at 31 March 2020.

The Group's operation was largely financed by bank loans and Shareholders' equity. As at 31 March 2020, the long-term loans and short-term loans amounted to approximately RMB5,337 million and RMB2,817 million respectively. The gearing ratio, calculated as total liabilities divided by total assets, was approximately 74.7% as at 31 March 2020 and it had been steadily increasing from approximately 66.7% as at 31 December 2017. Throughout the Review Period, the Group maintained a net current liability position and such position had deteriorated notably from approximately RMB194 million (current ratio of approximately 0.85 times) as at 31 December 2017 to approximately RMB3,020 million (current ratio of approximately 0.38 times) as at 31 March 2020.

Net asset value ("NAV") attributable to the shareholders of the Company was approximately RMB3,390 million as at 31 March 2020, representing an increase of approximately 2.9% from that as at 31 December 2019. The NAV per Share was approximately RMB2.92 as at 31 March 2020, calculated by dividing the NAV attributable to the Shareholders of approximately RMB3,390 million by the number of Shares in issue as at the Latest Practicable Date, representing an increase of approximately 2.9% from that as at 31 December 2019.

### **2. Information of BSAM**

BSAM is a state-owned company established in the PRC and is wholly-owned by the Beijing Municipal Government. BSAM principally engages in the asset management, project investment and investment management.

### **3. Reasons for and benefits of the Proposed Non-public Issuance of A Shares and the BSAM Revised Subscription**

#### ***(a) Reasons for and benefits of the Proposed Non-public Issuance of A Shares and the BSAM Revised Subscription***

As set out in the letter from the Board contained in the Circular, the Directors believe that, due to the promulgation of new PRC regulations, the Revised Proposed Non-public Issuance of A Shares and the entering into of the Supplemental Agreement is conducive for the Company to enhance its capital strength, improve the financial situation of the Company, enhance the Company's financing capabilities in the future, increase the risk prevention capacity of the Company,



## LETTER FROM SOMERLEY

allow the Company to increase the investment into the constructions of incineration plants, which further increases the waste incineration capacity of the Company, market share, service area coverage and influence, enhancing the core competitiveness of the Company's main business. The details are as follows:

*(i) There is a large net cash outflow of business activities and investment activities*

According to the first quarterly report of 2020 of the Company, as at the end of March 2020, the cash at bank and on hand of the Company was RMB617.1 million, which was mainly from short-term loans and long-term loans, in addition to those from operating activities.

In 2017 to 2019, the net cash outflow in operating activities were approximately RMB223.6 million, RMB222.7 million and RMB48.2 million, respectively, representing a large net outflow despite the improvement in cash flow conditions by the end of first quarter in 2020 of approximately RMB12.6 million; net cash outflow in investment activities from 2017 to 2019 and the first quarter of 2020 were approximately RMB374.6 million, RMB1,412.4 million, RMB2,264.8 million and RMB411.1 million, respectively; and net cash inflow from financing activities from 2017 to 2019 and the first quarter of 2020 were approximately RMB737.0 million, RMB1,600.3 million, RMB2,030.8 million and RMB581.5 million, respectively.

In the past three years, the cash flow from operating activities continued to be a net outflow, which was mainly due to the large-scale construction of build-operate-transfer (BOT) projects and the delay in the renewable energy subsidies. At the same time, there was a large investment demand and a big net cash outflow from investment activities. The Company mainly relies on borrowing-based fund-raising activities to maintain cash flow from daily operations. As at the end of March 2020, the Company's balance of short-term loans, balance of long-term loans and long-term loans due within one year amounted to approximately RMB2,816.7 million, RMB5,337.0 million, and RMB733.7 million respectively. The Company's repayment pressure is large in the future, so it is necessary to carry out equity financing.

*(ii) Finance costs are heavy*

As the Company develops rapidly, the demand for funds has grown significantly. The Company mainly raises funds through bank loans and other means. As of the end of March 2020, the Company's total assets under the consolidated statements amounted to RMB14,279.5 million, the size of total liabilities was RMB10,673.4 million, and the gearing ratio reached 74.75%. The finance costs from January to March 2020 was RMB93.6 million, accounting for 21.62% of the operating income, which is heavy. As at 31 December 2019, the gearing ratio of industry ranged from approximately 38.76% to

## LETTER FROM SOMERLEY

approximately 75.26% with an average of approximately 61.20%<sup>1</sup>. At present, the Company's gearing ratio is relatively high and above the average gearing ratio of the industry as stated above. The higher gearing ratio affects the Company's debt financing ability and also leads to higher borrowing costs, which exposes the Company to certain financial risks.

*(iii) The Company has large a number of projects under construction and projects under preparation, and the future capital expenditure is larger*

The waste-to-energy industry requires a large amount of investment in the early stage. The capital investment in a waste-to-energy plant with the daily treatment capacity of 1,000 tons is RMB400 million to RMB600 million. At the same time, the investment recovery cycle of waste-to-energy projects is relatively long, generally 8-12 years, and it is a capital-intensive industry.

As at 31 December 2019, in respect of the waste-to-energy sector, the Company had 21 projects under operation, 8 projects under construction and 14 projects under preparation. The capital expenditures required for investment and construction of projects under construction and preparation in the future will be large. To further improve the Company's waste treatment capacity, increase market share, expand the Company's business coverage and influence, and improve the Company performance, the Company is required to raise proceeds through the Revised Proposed Non-public Issuance of A Shares to increase investment in construction and operation of waste-to-energy projects, so as to further consolidate the advantages of the Company's principal businesses and enhance the core competitiveness of the Company's principal businesses.

For detail of size and use of proceeds from the Revised Proposed Non-public Issuance of A Shares, please refer to the use of proceeds as set out in "1. Details of the Revised Proposed Non-public Issuance of A Shares" under "II. REVISED PROPOSED NON-PUBLIC ISSUANCE OF A SHARES" in the letter from the Board contained in the Circular.

In addition, the projects funded with the proceeds from the Revised Proposed Non-public Issuance of A Shares of the Company have been fully investigated and discussed, and are in line with the national industrial policy and the Company's overall strategic development direction. With the completion of the projects and the realisation of benefits, the Company's profitability and operating results are expected to be improved. Before receipt of the proceeds from this Issue, in order to implement the proceeds funded projects as soon as possible, the Company will

<sup>1</sup> The gearing ratio of the industry was referred to the gearing ratios of nine companies engaging in similar business as that of the Company listed in either the Shanghai Stock Exchange, the Shenzhen stock exchange or the Hong Kong Stock Exchange. The nine listed companies are: Canvest Environmental Protection Group Company Limited (1381 HK), Beijing Enterprises Environment Group Limited (0371 HK), China Everbright International Limited (0257 HK), Zhejiang Weiming Environment Projection Co., Ltd. (603568 SH), Wangneng Environment Co., Ltd. (002034 SZ), Shanghai Environment Group Co., Ltd. (601200 SH), Grandblue Environment Co., Ltd. (600323 SH), China Tianying Inc. (000035 SZ) and the Company.

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proactively allocate resources and implement the preparatory work for the proceeds funded projects in advance as well as first make investment with its self-raised funds depending on the progress of the proceeds funded projects; after receipt of the proceeds from this Issue, the Company expects to accelerate the construction of the proceeds funded projects, striving to complete the proceeds funded projects and achieve the expected benefits as soon as possible, to increase return to Shareholders in the following years, which will help improve the Company's earnings per share in the future and protect the interests of shareholders.

***(b) Considerations for financing size of Revised Proposed Non-public Issuance of A Shares***

To expand the Company's scale and improve the Company's performance, it is necessary for the Company to increase investment in construction of waste incineration power generation projects. As a part of the development strategy of the Company, Huizhou Phase II Project, Jinsha Project, Pingyang Phase II Project, Shishou Project and Yongjia Phase II Project are projects under construction and projects under preparation of the Company. These projects have completed the procedures for approval of the National Development and Reform Commission and environmental protection evaluation, and are expected to generate better economic benefits, which will help expand the scale of the Company and improve the Company's operating performance, and is in line with the conditions for the investment projects of the Proposed Non-public Issuance of A Shares.

As at the end of March 2020, the Company's gearing ratio under the consolidated statements was 74.75%, above the debt levels of the industry over the same period. The finance costs from January to March 2020 amounted to RMB93.6 million, accounting for 21.62% of the operating income, which is heavy. In order to optimise the Company's asset-liability structure, reduce finance costs and financing costs, and control financial risks, the Company plans to repay bank loans in an aggregate amount of RMB540 million with a portion of the raised funds.

As noted above, the Group possessed cash and cash equivalents of approximately RMB617 million as at 31 March 2020, which we were advised by the management of the Group that the cash of the Group was substantially committed to support its daily operation and business expansions. Furthermore, the net current liabilities of the Group illustrated a notable upward trend during the Review Period and increased from approximately RMB194 million as at 1 January 2018 to approximately RMB3,020 million as at 31 March 2020. The current ratio of the Group as at 31 March 2020 was merely 0.38 times.

In view of the above in this section, it is considered that the total proceeds of the Revised Proposed Non-public Issuance of A Shares of not more than RMB2,390 million is essential to the Group's continuous expansion and it is also the Company's intention to improve its financial position and liquidity through the Revised Proposed Non-public Issuance of A Shares. In particular, the net proceeds from the Revised Proposed

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Non-public Issuance of A Shares will be applied to the repayment of bank loan, which will reduce the Company's burden on interest costs and improve its gearing ratio, and development of 5 out of the 8 aforementioned waste incineration projects which have the additional waste incineration treatment capacity and installed capacity of approximately 4,700 tons per day and 109MW respectively, representing increases of approximately 23.49% and 27.77% respectively. In addition, the BSAM Revised Subscription also demonstrates the confidence BSAM places in the Company and its support to the development of the Company's business, which is conducive to enhancing the market image of the Company.

Overall, having considered: (i) the cash needed to sustain the Group's existing operation and investment projects; (ii) the existing low liquidity of the Group; and (iii) the intention to develop new incineration plants, it is considered reasonable to obtain additional funding to finance the Group's future development and to optimise the financial position for a more financially stable and healthy long-term growth of the Group.

#### **4. Financing alternatives**

As advised by the management of the Group, apart from the Revised Proposed Non-public Issuance of A Shares, they have also considered various fund raising alternatives.

As disclosed in the Annual Reports and mentioned above, the Group's gearing ratio, being the total liabilities divided by the total assets, and current ratio were approximately 74.75% and 0.38 times respectively as at 31 March 2020, both of which had demonstrated material deterioration during the Review Period. As such, the Directors considered that, after taking into account of the existing gearing level and liquidity position, debt financing would not be a viable option as debt financing by bank loan and other borrowing methods would usually incur higher interest expense and it would further worsen the gearing level and the liquidity position as compared to the Revised Proposed Non-public Issuance of A Shares.

Since the listing of the A Share on the Shanghai Stock Exchange, it had been trading at a significant premium over the price of the H Shares trading on the Hong Kong Stock Exchange. In addition, the average trading price of the H Shares during the 20 consecutive trading days immediately preceding the date of the Announcement was approximately HK\$2.88 per H Share (equivalent to approximately RMB2.59 per H Share), representing a discount of 72.04% to that of the A Shares of approximately RMB9.55 during the same period. Assuming that the Company were to conduct fund raising of RMB2,390 million by issuance of new H Shares following a similar pricing mechanism of not lower than 80% of the Average Trading Price, the number of H Shares required to be issued would be much higher and would result in a much more significant dilution effect to the shareholding of the existing Shareholders, in which the Directors considered to be impracticable and unfavourable to the Independent Shareholders. Accordingly, other equity financing methods, such as rights issue, which would extend the participation of the fund raising exercise to all Company's existing shareholders (including both holders of the A Shares and the H Shares) shall be impractical as it would not be feasible to apply

## LETTER FROM SOMERLEY

the same issue price to all Shareholders in view of the significant premium of the price of the A Shares over the price of the H Shares (for instance, the closing prices of A Shares and H Shares were RMB9.58 per A share and HK\$2.87 per H share respectively as at the Latest Practicable Date).

In addition, as advised by the management of the Company, the Group mainly operates in the PRC with most of the transactions denominated in RMB, so it will be in the interest of the Company to issue A Shares to obtain the funding directly in RMB. In case if the Company conducts fund raising activities by way of issuance of new H Shares in Hong Kong, the Company may be required to convert the Hong Kong dollars raised from such issue to RMB, as well as to go through additional procedures and approvals as required under Notice of the State Council on Issues Concerning Foreign Exchange Administration of Overseas Listing (2014) issued by the State Administration of Foreign Exchange of the PRC (“SAFE”) which include, but not limited to, the registration and application with SAFE within 15 business days upon completion of such issue and set-up of a bank account for the conversion and transfer of such fund raised overseas to the PRC in RMB. Having considered the above, the management of the Company is of the view that fund raising by way of issuance of new H Shares may result in additional foreign exchange risk to the Company.

Having considered (i) the deteriorating gearing level and liquidity position of the Group; (ii) the trading discount between the H Shares and the A Shares of the Company; (iii) the potential more significant dilution impact to the shareholding of the Independent Shareholders if the Company conducts fund raising by issuance of the H Shares; and (iv) the Company uses primarily RMB in its daily operation, we concur with the management of the Group that the Proposed Non-public Issuance of A Shares is acceptable.

### **5. Principal terms of the Revised Proposed Non-public Issuance of A Shares**

#### *(a) Class and par value of shares to be issued*

A Shares with a par value of RMB1.00 each.

#### *(b) Method and time of issuance*

The Revised Proposed Non-public Issuance of A Shares will be carried out by way of non-public issuance to not more than 35 specific target subscribers, including BSAM. The Company will choose the appropriate opportunity to issue the A Shares to specific target subscribers within 12 months after obtaining the approval from CSRC. If there are any changes in the relevant laws and regulations, administrative regulations, or regulatory documents of CSRC, the Company will adjust the Revised Proposed Non-public Issuance of A Shares accordingly.

The resolution regarding the Revised Proposed Non-public Issuance of A Shares shall be valid for 12 months from the date of the passing of such resolutions at the EGM, the A Shares Class Meeting and the H Shares Class Meeting. If after obtaining the approval from CSRC the issue date falls on a date subsequent to the validity period, the Company will seek another resolution from the Shareholders to extend such validity period.

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*(c) Target subscribers*

The target subscribers for the Revised Proposed Non-public Issuance of A Shares will not be more than 35 specific target subscribers (including BSAM). The target subscribers include securities investment fund management companies, securities companies, insurance institutional investors, trust investment companies, finance companies, qualified foreign institutional investors and other institutional or individual investors in compliance with the requirements of CSRC. The specific target subscribers will be determined by the Board with the authorization at the general meeting. Securities investment fund management companies, securities companies, qualified foreign institutional investors and RMB qualified foreign institutional investors, which subscribe for the A Shares with two or more of the products managed by them, shall each be taken as one single subscriber. Trust investment companies may only subscribe for the A Shares with their own funds.

The final list of subscribers, other than BSAM, will be determined by the Board or other authorised persons in accordance with the authorisation granted at the EGM, the A Shares Class Meeting and the H Shares Class Meeting, with the sponsor (the lead underwriter) after the Company has obtained approvals from CSRC for the Revised Proposed Non-public Issuance of A Shares, having regard to the price offered by the target subscribers.

All the target subscribers will subscribe for A Shares under the Revised Proposed Non-public Issuance of A Shares in cash.

*(d) Number of A Shares to be issued*

A maximum of 232,240,000 A Shares will be issued under the Revised Proposed Non-public Issuance of A Shares, which represents:

- (i) approximately 30.69% of the existing issued A Shares and approximately 20.00% of the existing total issued share capital of the Company as at the date of the Latest Practicable Date; and
- (ii) approximately 23.48% of the enlarged issued A Shares and approximately 16.67% of the enlarged total issued share capital of the Company upon completion of the Revised Proposed Non-public Issuance of A Shares,

out of which BSAM intends to subscribe for not less than 40% of the A Shares to be issued under the Revised Proposed Non-public Issuance of A Shares in cash which in any case shall not be more than 133,000,000 A Shares and BSAM will not directly and indirectly in aggregate hold 47.3% or more of the enlarged total issued share capital of the Company upon completion of the Revised Proposed Non-public Issuance of A Shares.



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The number of A Shares to be issued will be adjusted accordingly if there occurs any ex-right or ex-dividend event (such as distribution of dividend, bonus issue, or capitalisation of capital reserves) between the Pricing Benchmark Date and the Issue Date.

Subject to the above, the final number of A Shares to be issued will be determined by the Board or other authorised persons in accordance with the authorisation granted at the EGM, the A Shares Class Meeting, and the H Shares Class Meeting, with the sponsor (the lead underwriter) having regard to the actual subscription status.

*(e) Lock-up period*

BSAM shall not transfer the A Shares subscribed for under the Revised Proposed Non-public Issuance of A Shares within 18 months from the date of completion of the Revised Proposed Non-public Issuance of A Shares.

All other target subscribers shall not transfer the A Shares subscribed for under the Revised Proposed Non-public Issuance of A Shares within 6 months from the date of completion of the Proposed Non-public Issuance of A Shares.

*(f) Pricing Benchmark Date, issue price, and pricing principles*

*Pricing Benchmark Date*

The Pricing Benchmark Date of the Revised Proposed Non-public Issuance of A Shares is the first day of the offering period of the Revised Proposed Non-public Issuance of A Shares.

*Basis for determining the issue price*

The issue price shall not be lower than (i) the Benchmark Price, being 80% of the Average Trading Price (being the average trading price of the A Shares during the 20 trading days immediately preceding the Pricing Benchmark Date (exclusive of such date), which is calculated by dividing the total trading amount of the A Shares during the 20 trading days immediately preceding the Pricing Benchmark Date by the total trading volume of the A Shares during the said 20 trading days); and (ii) the net asset value per share attributable to the shareholders of ordinary shares of the Company as set out at the latest audited consolidated financial statements of the Company (together, the "**Pricing Conditions**"). The pricing principles were determined mainly based on and with reference to the relevant rules and regulations of the PRC, details of which are set out in the letter from the Board contained in the Circular.

The issue price will be adjusted accordingly if there occurs any ex-right or ex-dividend event (such as distribution of dividend, bonus issue, or capitalisation of capital reserves) between the Pricing Benchmark Date and

## LETTER FROM SOMERLEY

the Issue Date. For details of the specific adjustment mechanism, please refer to the letter from the Board contained in the Circular.

The final issue price will be determined by the Board of the Company in accordance with the authorisation granted at the EGM and the Class Meetings, upon negotiation with the sponsor (the lead underwriter) and the obtaining of approvals from CSRC for the Proposed Non-public Issuance of A Shares, having regard to the auction price offered by the target subscribers upon negotiation.

Assuming the Pricing Benchmark Date is the Latest Practicable Date, accordingly, the Benchmark Price shall be approximately RMB9.60 per A Share (the “**Indicative Issue Price**”), which represents:

	H Shares		A Shares	
	Average closing price of the H Shares	Premium of Indicative Issue Price over the average closing price (Note 1)	Average closing price of the A Shares	Premium/ (Discount) of Indicative Issue Price over/to the average closing price
Last 5 trading days	HK\$2.82	278.3%	RMB9.62	(0.2)%
Last 10 trading days	HK\$2.81	279.6%	RMB9.46	1.5%
Last 30 trading days	HK\$2.95	261.6%	RMB9.51	0.9%
Last 90 trading days	HK\$3.08	246.3%	RMB9.96	(3.6)%
Last 180 trading days	HK\$3.16	237.6%	RMB10.54	(8.9)%
Latest Practicable Date	HK\$2.87	271.7%	RMB9.58	0.2%
NAV per Share (Note 2)		RMB2.92		Premium 228.8%

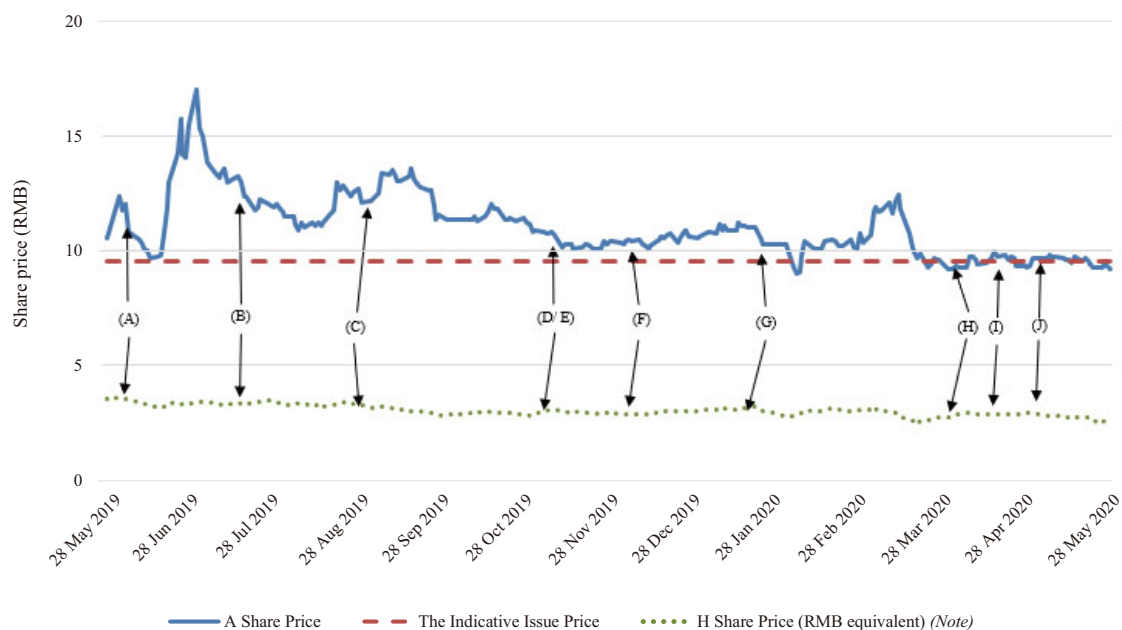
*Notes:*

1. H Share prices were converted into RMB based on RMB:HK\$ = 0.9:1.
2. The NAV per Share is calculated based on total equity attributable to Shareholders of approximately RMB3,390 million as at 31 March 2020 divided by a total of 1,161.2 million Shares issued.



## LETTER FROM SOMERLEY

Set out in the chart below is the daily closing prices of the Shares on the Hong Kong Stock Exchange and the Shanghai Stock Exchange for the period from 29 May 2019, being approximately one year prior to the date of the BSAM Subscription Agreement, up to the date of the Supplemental Agreement (the “Trading Review Period”). The Share price performance during the Trading Review Period is illustrated as follows:



Source: Bloomberg and websites of Shanghai Stock Exchange and the Hong Kong Stock Exchange

Note: For illustrative purpose, the exchange rate used to calculate the RMB equivalent of the H Share price is HK\$1.00:RMB0.90.

## LETTER FROM SOMERLEY

As set out in the discussion below, the Company announced a number of developments during the Trading Review Period, which are considered to be important in shaping the historical Share price:

	<b>Date</b>	<b>Details of event</b>
(A)	5 June 2019	Announcement poll results of the annual general meeting for the year 2018
(B)	15 July 2019	Announcement on unaudited operating data for the half year ended 30 June 2019
(C)	28 August 2019	Announcement of interim results for the year 2019
(D)	30 October 2019	Announcement of the third quarter report for the nine months ended 30 September 2019
(E)	30 October 2019	Announcement of (1) Proposed Non-public Issuance of A Shares; (2) connected transaction in relation to the proposed subscription of A shares by BSAM; and (3) specific mandate
(F)	28 November 2019	Successful bid of a new project
(G)	13 January 2020	Announcement on unaudited operating data for the three months ended 31 December 2019 and the year ended 31 December 2019
(H)	29 March 2020	Announcement of the annual results for the year ended 31 December 2019
(I)	14 April 2020	Announcement on unaudited operating data for the three months ended 31 March 2020
(J)	29 April 2020	Announcement of the first quarter report of 2020

During the Trading Review Period, the closing price of the A Shares were ranged from RMB8.98 to RMB17.06 with an average and a median of RMB11.07 and RMB10.77 respectively. Out of a total of 245 trading days during the Trading Review Period, there were approximately 215 trading days when the price of the A Shares closed above the Indicative Issue Price.

## LETTER FROM SOMERLEY

As for the H Shares, during the Trading Review Period, the closing prices of the H Shares were ranged from HK\$2.61 to HK\$3.95 with an average and a median of HK\$3.32 and HK\$3.28 respectively. The Indicative Issue Price was substantially higher than closing prices of the H Shares throughout the Trading Review Period.

*(g) Use of proceeds*

The gross proceeds to be raised from the Proposed Non-public Issuance of A Shares will be no more than RMB2,390,000,000, which is an amount determined with reference to the Company's estimated funding need towards the investment in the development of the Huizhou Phase II Project, the Jinsha Project, the Pingyang Phase II Project, Shishou Project, the Yongjia Phase II Project, and to repay bank loans of the Company.

After deducting issuance expenses, the proceeds are intended to be applied towards investment in the development of the Huizhou Phase II Project, the Jinsha Project, the Pingyang Phase II Project, Shishou Project, the Yongjia Phase II Project, and to repay bank loans of the Company, details of which are set out in the letter from the Board contained in the Circular.

Prior to completion of the Revised Proposed Non-public Issuance of A Shares, the Company will invest into the abovementioned projects according to their progress, and will subsequently substitute and replace the investment with proceeds according to the procedures as governed by the relevant rules after the proceeds have been raised.

If the actual amount of proceeds raised (after deduction of issuance expenses) is not sufficient to satisfy the needs of the above projects, the shortfall will be covered by the Company through self-raised funds.

*(h) Place of listing of the A Shares to be issued*

The Company will apply to the Shanghai Stock Exchange for the listing of, and permission to deal in, the A Shares to be issued under the Revised Proposed Non-public Issuance of A Shares. The A Shares to be issued under the Revised Proposed Non-public Issuance of A Shares can be traded on the Shanghai Stock Exchange upon the expiration of the lock-up period.

*(i) Distribution of profits*

Upon completion of the Revised Proposed Non-public Issuance of A Shares, both existing and new Shareholders will be entitled to share in the Company's cumulative undistributed profits retained prior to the Revised Proposed Non-public Issuance of A Shares.

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*(j) Validity period of the resolution*

The resolution regarding the Revised Proposed Non-public Issuance of A Shares shall be valid for 12 months from the date of the passing of such resolutions at the EGM, the A Shares Class Meeting and the H Shares Class Meeting.

*(k) Rights of the A Shares to be issued*

The A Shares to be issued under the Revised Proposed Non-public Issuance of A Shares, when fully paid and issued, will rank *pari passu* in all respects amongst themselves and with the A Shares in issue at the time of the issuance of such A Shares.

Further details of the Revised Proposed Non-public Issuance of A Shares are set out in Appendix I to the Circular.

### **6. Principal terms of the Supplemental Agreement**

*(a) Date*

29 May 2020

*(b) Parties*

- (i) The Company, as the issuer; and
- (ii) BSAM, as the subscriber.

*(c) Subscription price and pricing principles*

Same as the pricing principles of the issue price in relation to the Revised Proposed Non-public Issuance of A Shares as summarised above.

BSAM will not participate in the market bidding process but has undertaken to accept the market bidding results and subscribe for the A Shares to be issued under this Issue at the same price as other specific investors. If none of the target subscribers offer to subscribe any of the A-Shares under the Revised Proposed Non-public Issuance of A-Shares, then the issue price will not be incurred by way of bidding, and BSAM will continue to participate in the subscription. On the basis that the issue price shall not be less than 80% of the average transaction price of the shares of the Company in the twenty trading days prior to the Pricing Benchmark Date and shall not be lower than the amount of the latest audited net asset value per Share attributable to the shareholders of ordinary shares of the parent company, the issue price will be determined after negotiations between the Board and the sponsor (the lead underwriter).

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*(d) Number of A Shares to be issued*

BSAM intends to subscribe for not less 40% of the A Shares to be issued under the Revised Proposed Non-public Issuance of A Shares in cash, which in any case shall not be more than 133,000,000 A Shares and BSAM will not directly and indirectly in aggregate hold 47.3% or more of the enlarged total issued share capital of the Company upon completion of the Proposed Non-public Issuance of A Shares.

The major considerations of the Board for the number of shares to be subscribed by BSAM are as follows:

- (1) The Controlling Shareholder and the actual controller of the Company is BSAM. Upon completion of the Revised Proposed Non-public Issuance of A Shares, BSAM remains the Controlling Shareholder of the Company. The shareholding of BSAM in the Company will not change significantly upon the Revised Proposed Non-public Issuance of A Shares;
- (2) As the Controlling Shareholder and the actual controller of the Company, the subscription of shares under the Revised Proposed Non-public Issuance of A Shares by BSAM is conducive to boosting market confidence and transmitting positive signals to other investors to subscribe for shares under the Revised Proposed Non-public Issuance of A Shares; and
- (3) Before the Revised Proposed Non-public Issuance of A Shares, BSAM held directly and indirectly an aggregate of 45.30% shares of the Company; it was proposed that BSAM to subscribe for no less than 40% and no more than 133,000,000 A shares to be issued under the Proposed Non-public Issuance of A Shares. Upon completion of the Issue, the percentage of total shares of the Company held by BSAM to the total issued share capital of the Company is expected to be below 47.30%. Assuming the number of A shares in the Revised Proposed Non-public Issuance of A Shares to be subscribed by BSAM is 133,000,000 shares, the shareholding of BSAM in the Company will be approximately 47.2966% upon completion, which represents an increase of no more than 2% and does not trigger the code implications under Rule 26 of the Codes on Takeover, Merger and Shares Repurchase of the Securities and Future Commission of Hong Kong.

As noted from the above, the BSAM Revised Subscription demonstrates BSAM's confidence to support the Company's development and BSAM shall remain as the Controlling Shareholder of the Company, we consider the basis for determining the number of A Shares to be issued to BSAM reasonable.

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*(e) Lock-up period*

BSAM shall not transfer the A Shares subscribed under the Proposed Non-public Issuance of A Shares within 18 months from the date of completion of the Proposed Non-public Issuance of A Shares.

*(f) Conditions precedent and effective date*

The Supplemental Agreement is conditional upon:

- (i) the approval by the Board of the Supplemental Agreement;
- (ii) the approval by the Board of the Revised Proposed Non-public Issuance of A Shares;
- (iii) the approval at the EGM and the Class Meetings of the Revised Proposed Non-public Issuance of A Shares, the Supplemental Agreement, and any relevant resolutions; and
- (iv) the approval by CSRC of the Revised Proposed Non-public Issuance of A Shares.

Further details of the Supplemental Agreement are set out in letter from the Board as contained in the Circular.

### 7. Comparable Transactions

As mentioned above, the issue price of the Revised Proposed Non-public Issuance of A Shares was not fixed as at the date of the Supplemental Agreement, which relies on the Pricing Conditions to govern the criteria for setting the issue price of the Proposed Non-public Issuance of A Shares. In light of this, we have discussed with the management of the Company and understood that the pricing principles are in compliance with the Decision on Amending Implementing Rules on Non-Public Issuance of Shares by Listed Companies (《關於修改〈上市公司非公開發行股票實施細則〉的決定》) (the “**CSRC Decision**”) published by CSRC and the Issuance Regulatory Questions and Answers — Regulatory Requirements regarding Guiding and Regulating Listed Companies’ Financing Activities (《發行監管問答—關於引導規範上市公司融資行為的監管要求》) (the “**Implementing Rules**”) published by the CSRC on 14 February 2020) and the management of the Company acknowledged that the pricing principles are in compliance with the regulations of the PRC.

## LETTER FROM SOMERLEY

In light of the above, to assess the fairness and reasonableness of terms of the Proposed Non-public Issuance of A Shares, we have compared the terms of the Revised Proposed Non-public Issuance of A Shares against those of similar non-public issuance of A shares proposed by companies listed on both (i) the Shanghai Stock Exchange or the Shenzhen stock exchange; and (ii) the Hong Kong Stock Exchange (the “**Comparable Transactions**”) from 14 February 2020 and up to the Latest Practicable Date (the “**Selected Period**”), which, in our opinion, is sufficient to establish a reasonable and meaningful sample size of non-public issuance of A shares reflecting the recent market practice and sentiment. To point out, the Implementing Rules had lowered the lowest discount of issue price of non-public issuance of A shares from 90% to 80% on 14 February 2020. Therefore, we consider the Selected Period to be fair and reasonable as it reflects the latest market practice since the implementation of the new rules. We are also of the view that the Comparable Transactions to be an exhaustive list of relevant non-public issuance of A shares based on the said criteria above. Set out below is a summary comparing the principal terms of the Revised Proposed Non-public Issuance of A Shares and the Comparable Transactions as set out in the relevant circulars.

Company name (Stock code)	Date of circular in relation to the proposal/ the latest revised proposal	Basis of determination of the issue price	Lock-up period	Number of shares to be issued under the proposal as a percentage of the existing total issued share capital (Note 2)
The Company (1330)	11 June 2020	(i) Not less than 80% of the average trading price of A shares for the 20 trading days preceding the pricing benchmark date; and (ii) the latest audited net assets per share attributable to ordinary shareholders before the issuance of A shares, whichever is higher.	18 months for BSAM and 6 months for other subscribers	20.00%
		The Benchmark Price will be adjusted accordingly if there occurs any ex-right or ex-dividend event (such as distribution of dividend, bonus issue, or capitalisation of capital reserves) between the Pricing Benchmark Date and the Issue Date		
Red Star Macalline Group Corporation Ltd. (1528) (“RSM”)	4 June 2020	Not less than 80% of the average trading price of A shares for the 20 trading days preceding the pricing benchmark date	6 months	25.72%

## LETTER FROM SOMERLEY

Company name (Stock code)	Date of circular in relation to the proposal/ the latest revised proposal	Basis of determination of the issue price	Lock-up period	Number of shares to be issued under the proposal as a percentage of the existing total issued share capital (Note 2)
Central China Securities Co., Ltd (1375) ("CCS")	20 May 2020 (Note 3)	Same as the Company	36 months for subscribers holding 5% or more and 6 months for subscriber holding less than 5%	20.0%
CSC Financial Co., Ltd. (6066) ("CSC")	17 April 2020 (Note 4)	Same as the Company	48 months for subscribers holding 5% or more and 6 months for subscriber holding less than 5%	16.7%
Lanzhou Zhuangyuan Pasture Co., Ltd. (1533)	6 April 2020	Not less than 80% of the average trading price of A shares for the 20 trading days preceding the pricing benchmark date	Same as RSM	22.55%
Haitong Securities Co. Ltd. (6837) ("HSC")	25 March 2020 (Note 5)	Same as the Company	48 months for subscribers holding 5% or more, 18 months for subscriber who are strategic investor(s) introduced by the board holding less than 5%, and 6 months for other subscribers	14.07%

*Source: Circulars and announcements published in respect of the Comparable Transactions by the respective companies*

*Notes:*

1. The Comparable Transactions have excluded the shares issues which (i) were used to satisfy consideration for acquisition of assets; (ii) involved issuance of shares to directors and employees as share incentives; and (iii) involved issuance of shares for initial public offering, since the pricing basis of the such share issues are considered to be different from that of the Revised Proposed Non-public Issuance of A Shares. Also, the Comparable Transactions have excluded issues under general mandate without specific terms.
2. Number of shares to be issued under the proposal as a percentage of the existing total issued share capital refers to the figures shown in the respective circular of the Comparable Transactions.
3. On 11 June 2019, the original proposed non-public issuance of A shares of CCS had been approved. On 20 May 2020, CCS proposed to amend, among others, the issue price determination basis and lock-up period of the proposed non-public issuance of A shares as approved in June 2019.



## LETTER FROM SOMERLEY

4. On 21 May 2019, the original proposed non-public issuance of A shares of CSC had been approved. On 20 February 2020, CSC announced to extend the validity period of the non-public issuance of A shares for a further period of 12 months. On 17 April 2020, CSC proposed to amend, among others, the issue price determination basis of the proposed non-public issuance of A shares as approved in May 2019.
5. On 21 June 2018, the original proposed non-public issuance of A shares of HSC had been approved. On 25 March 2020, HSC proposed to amend, among others, the issue price determination basis and lock-up period of the proposed non-public issuance of A shares as approved in June 2018.

Given three out of five of the Comparable Transactions contain a lock-up period of 36 months to 48 months for subscribers holding 5% or more, we have further reviewed the terms of similar non-public issuance of A shares announced by 13 companies listed on the Shanghai Stock Exchange or the Shenzhen stock exchange (the “**A Shares Market Transactions**”) from 22 May 2020 to the Latest Practicable Date (i.e. approximately 2 weeks prior to the Latest Practicable Date). The 13 A Shares Market Transactions, in our opinion, are sufficient to establish a meaningful population to assess the fairness and reasonableness of the lock-up period of the Revised Proposed Non-public Issuance of A Shares. We noted that: (i) 5 of the A Shares Market Transactions contained a lock-up period of 18 months for subscribers holding 5% equity interest or above of the respective companies and strategic investors; (ii) 2 of the A Shares Market Transactions contained a lock-up period of 36 months for subscribers holding 5% equity interest or above of the respective companies; and (iii) 6 of the A Shares Market Transactions did not have subscribers holding 5% equity interest or more of the respective companies. Having considered the above, we are of the view that a lock-up period of 18 months (i.e. the lock-up period for BSAM under the Revised Proposed Non-public Issuance of A Shares) is not uncommon.

As set out above, issue price of all Comparable Transactions had not been fixed at times when the relevant proposal were approved but, instead, they were governed by similar pricing principles which do not materially differ from the Pricing Conditions by making reference to the 80% of the average trading price of A shares for the 20 trading days preceding the pricing benchmark date or the NAV per share in general. Furthermore, all of the above Comparable Transactions imposed a lock-up restriction of a range from 6 months to 48 months on target subscribers to the respective non-public issuance of A shares and all of the A Shares Market Transactions imposed a lock-up restriction of a range from 18 months to 36 months on subscribers holding 5% equity interest or more and strategic investors. In view of the above, the principal terms of the Revised Proposed Non-public Issuance of A Shares are considered in line with the general market terms.

**8. Financial effects of the Revised Proposed Non-public Issuance of A Shares on the Group**

*(a) Earnings*

With reference to Appendix III to the Circular – The dilution of current returns due to the Non-public Issuance of A Shares and the Remedial Measures (revised), the earnings per Share is expected to decrease as the number of the issued Shares increases. However, immediate financial burden will also be alleviated as certain bank loans of the Company shall be repaid. Nevertheless, Shareholders are reminded that the actual impact of the Revised Proposed Non-public Issuance of A Share on the Company's earning will also be dependent on the actual financial performance of and the potential earnings contribution from the relevant projects in the long run.

*(b) NAV*

Following the completion of the Revised Proposed Non-public Issuance of A Shares, net proceeds from the Revised Proposed Non-public Issuance of A Shares will cause the Company's assets to increase and, accordingly, there will be a positive impact on the NAV of the Group. Furthermore, the NAV per Share will also be enhanced if the issue price is higher than the current NAV per Share of approximately RMB2.92 and, in contrast, NAV per Share will be lowered if the issue price is lower than the current NAV per Share of approximately RMB2.92.

*(c) Liquidity*

As at 31 March 2020, the Group had cash and bank balances of approximately RMB617 million and net current liabilities of approximately RMB3,020 million. As advised by the management of the Group, part of the net proceeds from the Revised Proposed Non-public Issuance of A Shares will be used for repayment of bank loans classified in current liabilities, it is expected to improve the net current liability position of the Group.

*(d) Gearing*

As at 31 March 2020, the Group's gearing ratio, being total liabilities divided by total assets, was approximately 74.75%. Upon the completion of the Proposed Non-public Issuance of A Shares, the net proceeds from the Revised Proposed Non-public Issuance of A Shares will be invested into the projects and will be used for repayment of bank loans. Therefore, total assets of the Group are expected to increase and the total liabilities of the Group are anticipated to decrease and, accordingly, the gearing ratio is expected to decrease.

## LETTER FROM SOMERLEY

### 9. Potential dilution effect on the shareholdings of the Independent Shareholders

As set out in the letter from the Board contained in the Circular, the maximum number of A Shares to be issued under the Revised Proposed Non-public Issuance of A Shares will not be more than 232,240,000 A Shares. In addition, pursuant to the Supplemental Agreement, BSAM intends to subscribe for not less than 40% of the A Shares to be issued under the Revised Proposed Non-public Issuance of A Shares in cash which in any case shall not be more than 133,000,000 A Shares and BSAM will not directly and indirectly in aggregate hold 47.3% or more of the enlarged total issued share capital of the Company upon completion of the Revised Proposed Non-public Issuance of A Shares. Accordingly, other target subscribers may subscribe for up to a maximum of 139,344,000 A Shares.

Set out below is the shareholding structure of the Company as at the Latest Practicable Date and immediately after completion of the Revised Proposed Non-public Issuance of A Shares assuming that (i) BSAM subscribes for 133,000,000 A Shares; and (ii) the other target subscribers subscribe for 99,240,000 A Shares:

Name of Shareholder	Class of shares	Shareholding as of the Latest Practicable Date		Shareholding immediately after completion of the Revised Proposed Non-public Issuance of A Shares			
		<i>Approximate percentage of the issued A</i>		<i>Approximate percentage of the issued A</i>		<i>Approximate percentage of the total</i>	
		<i>Number of shares</i>	<i>Share capital (%)</i>	<i>issued share capital (%)</i>	<i>Number of shares</i>	<i>Share capital (%)</i>	<i>issued share capital (%)</i>
BSAM and its wholly-owned subsidiary <sup>2</sup>	A	501,189,618	66.2213	43.1614	634,189,618	64.1191	45.5125
	H	24,859,792	-	2.1409	24,859,792	-	1.7841
<b>Sub-total</b>		<b>526,049,410</b>	<b>-</b>	<b>45.3023</b>	<b>659,049,410</b>	<b>-</b>	<b>47.2966</b>
Public A Shareholders	A	255,650,590	33.7787	22.0161	354,890,590	35.8809	25.4687
Public H Shareholders	H	379,500,000	-	32.6817	379,500,000	-	27.2348
<b>Total</b>		<b>1,161,200,000</b>	<b>100</b>	<b>100</b>	<b>1,393,440,000</b>	<b>100</b>	<b>100</b>

Notes:

- Percentage figures as shown in the table above are subject to rounding adjustments.
- BSAM directly holds 501,189,618 A Shares, and holds 24,859,792 H Shares through BSAMHK, a wholly-owned subsidiary of BSAM. BSAM holds 526,049,410 Shares in aggregate, representing 45.3022% in equity interest in the Company, and is the Controlling Shareholder of the Company.

## LETTER FROM SOMERLEY

As shown in the table above, the shareholding of the existing H Share and A Share public Shareholders will decrease from approximately 32.6817% and 22.0161% to approximately 27.2348% and 18.3467% (i.e. excluding the other target subscribers to the Revised Proposed Non-public Issuance of A Shares), respectively, immediately after completion of the Revised Proposed Non-public Issuance of A Shares, representing a dilutions of approximately 5.4469% and 3.6694% to the H Share and A Share public Shareholders respectively. Although the shareholding interest of the Independent Shareholders will be diluted, having taken into account, among others, (i) BSAM and its wholly-owned subsidiary already have the majority control of the Company and shall remain as the single largest Shareholder; (ii) the potential benefits to be brought forth by the completion of the Revised Proposed Non-public Issuance of A Shares as mentioned in the section headed "Reasons for and benefits of the Proposed Non-public Issuance of A Shares and the BSAM Revised Subscription"; (iii) the fairness and reasonableness of the principal terms of the Revised Proposed Non-public Issuance of A Shares; and (iv) the positive financial effects of the Revised Proposed Non-public Issuance of A Shares on the Group, we are of the opinion that the dilution effect on shareholding of the Independent Shareholders to be acceptable.

### DISCUSSION AND ANALYSIS

The Company operates a capital-intensive business involving investment, construction, operation, maintenance of waste incineration plants and technical consulting in relation to waste-to-energy plants in the PRC. The current low liquidity position and high gearing ratio arouse genuine need of additional funding in order to maintain the Company's plan to continue its business expansion through investing in and development of various waste incineration plants in the PRC. The management of the Group has reviewed various financing alternatives apart from the Revised Proposed Non-public Issuance of the A Shares. Fund raising by other equity financing methods were greatly limited by the persisted trading discount of the H Shares to A Shares and fund raising through issuance of the H Shares will impose an even greater dilution effect to the shareholding interest of the Independent Shareholders when compared to the issuance of the A Shares. Debt financing will inevitably lead to additional financial burden to the Group, which is the least preferred in view of the Company's current financial condition. The Revised Proposed Non-public Issuance of A Shares, on the other hand, is expected to replenish capital without having significant finance costs and comparatively less dilutive effect on existing shareholding structure.

In addition, the BSAM Revised Subscription, together with the 18 months and 6 months lock-up periods restrictions imposed to BSAM and other target subscribers respectively also demonstrate their confidence in the Company's future development which is conducive to enhancing the market image of the Company.

## LETTER FROM SOMERLEY

The issue price to the Revised Proposed Non-public Issuance of A Shares, similar to those of the Comparable Transactions, is not fixed and will be determined subsequently according to the Benchmark Price which is based on the Average Trading Price referencing to the first day of the offering period of the Revised Proposed Non-public Issuance of A Shares. The lock-up period imposed to the target subscribers, including BSAM, under the Revised Proposed Non-public Issuance of A Shares may be slightly different from, but is considered to be in line to those of similar transactions in general. In view of the above, the terms of the Revised Proposed Non-public Issuance of A Shares are in line with the general market terms of similar transactions.

The financial effects of the Revised Proposed Non-public Issuance of A Shares are expected to be generally positive by improving the NAV, net current liability level and gearing ratio.

The shareholding of the existing public H Share Shareholders and A Share Shareholders will decrease from approximately 32.6817% and 22.0161% to approximately 27.2348% and 18.3467%, respectively, immediately after completion of the Revised Proposed Non-public Issuance of A Shares. In view of the positive factors highlighted, we are of the opinion that the dilution effect on shareholding of the existing Independent Shareholders to be acceptable.

### OPINION AND RECOMMENDATION

Having considered the above principal factors and reasons, we consider that the BSAM Subscription, though not in the ordinary and usual course of business of the Group, is in the interests of the Company and the Shareholders as a whole and the terms of the BSAM Revised Subscription are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

We therefore advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM and the Class Meetings to approve the BSAM Revised Subscription.

Yours faithfully,  
for and on behalf of  
**SOMERLEY CAPITAL LIMITED**  
**Danny Cheng**  
*Director*

*Mr. Danny Cheng is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Somerley Capital Limited, who is licensed under the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over 15 years' of experience in the corporate finance industry.*

## NOTICE OF THE EGM



綠色動力  
DYNAGREEN

綠色動力環保集團股份有限公司

**Dynagreen Environmental Protection Group Co., Ltd.\***

*(a joint stock limited liability company incorporated in the People's Republic of China)*

**(Stock Code: 1330)**

### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the extraordinary general meeting (the “EGM”) of Dynagreen Environmental Protection Group Co., Ltd.\* (the “**Company**”) will be held at 3/F., Complex of Beijing Dynagreen Environment Co., Ltd.\* (北京綠色動力環保有限公司), Cailin Road, Yujiawu Township, Tongzhou District, Beijing, the PRC at 2:00 p.m. on Monday, 29 June 2020 for the purposes of considering and, if thought fit, passing (with or without modifications) the following resolutions.

#### ORDINARY RESOLUTIONS

1. To consider and approve the satisfaction of the criteria for the non-public issuance of A shares by the Company.
2. To consider and approve the “Dilution of Current Returns Due to the Non-public Issuance of A Shares and the Remedial Measures (Revised)”.
3. To consider and approve the report on the utilisation of the previously raised funds of the Company.
4. To consider and approve the “Shareholder’s Return Plan for the Next Three Years (2020–2022)”.
5. To consider and approve the extension of the validity period of the authorisation to the Board to handle all matters in connection with the Revised Proposed Non-public Issuance of A Shares.
6. To consider and approve the provision of guarantees in respect of the fixed asset loans applied by the subsidiaries.

\* For identification purposes only

## NOTICE OF THE EGM

### SPECIAL RESOLUTIONS

7. To consider and approve the proposals concerning the Revised Proposed Non-public Issuance of A Shares:
  - 7.1. class and par value of shares to be issued;
  - 7.2. method and time of issuance;
  - 7.3. target subscribers and the subscription method;
  - 7.4. Pricing Benchmark Date and issue price;
  - 7.5. number of A Shares to be issued;
  - 7.6. amount and use of proceeds;
  - 7.7. lock-up period;
  - 7.8. place of listing of the A Shares to be issued;
  - 7.9. arrangement of accrued undistributed profit of the Company prior to the Revised Proposed Non-public Issuance of A Shares; and
  - 7.10. validity period of resolution.
8. To consider and approve the "Proposal in respect of the Non-public Issuance of A Shares (Revised)".
9. To consider and approve the "Feasibility Report on the Use of Proceeds from the Non-public Issuance of Shares (Revised)".
10. To consider and approve the connected transaction with BSAM and the execution of the Supplemental Agreement of the BSAM Subscription Agreement.

## NOTICE OF THE EGM

11. To consider and approve the Specific Mandate:

“**THAT** the Board be and is hereby granted a specific mandate to issue not more than 232,240,000 A Shares at an issue price of not less than the Benchmark Price (subject to adjustments) to not more than 35 specific target subscribers, including BSAM, under the Revised Proposed Non-public Issuance of A Shares (including the issue of such number of A Shares to BSAM pursuant to the Supplemental Agreement of the BSAM Subscription Agreement)”.

By Order of the Board  
**Dynagreen Environmental Protection Group Co., Ltd.\***  
**Zhi Jun**  
*Chairman*

Beijing, the PRC  
11 June 2020

*Notes:*

**1. Shareholders' circular**

For details, please refer to the circular of the Company dated 11 June 2020. Unless otherwise defined, the capitalised terms used herein shall have the meanings defined in the circular of the Company dated 11 June 2020.

**2. Persons who are entitled to attend the EGM**

Holders of the H Shares and A Shares whose names appear on the register of holders of H Shares and register of holders of A Shares of the Company respectively, on Friday, 19 June 2020 (“**Eligible Shareholders**”) or their representatives are entitled to attend the EGM and the Class Meetings after completion of the required registration procedures in accordance with Note 4 “Registration procedures for attending the EGM”. Holders of A Shares shall receive a notice separately.

**3. Proxy**

- 3.1. A member eligible to attend and vote at the EGM may appoint one or more proxies in writing to attend and vote on his behalf. A proxy need not be a shareholder of the Company.
- 3.2. The instrument appointing a proxy must be signed by the appointor or his attorney duly authorised in writing. If that instrument is signed by an attorney of the appointor, the power of attorney authorising that attorney to sign or other document of authorisation must be notarised.
- 3.3. To be valid, the completed form of proxy and notarised power of attorney must be delivered to the place of business of the Company or the Company's H Share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 24 hours before the time designated for holding the EGM. Completion and delivery of the form of proxy will not preclude you from attending and voting at the EGM if you so wish.
- 3.4. A shareholder or his proxy may exercise the right to vote by poll.



## NOTICE OF THE EGM

### 4. Registration procedures for attending the EGM

- 4.1. For the purpose of ascertaining holders of H Shares who are entitled to attend and vote at the EGM and H Shares Class Meeting, holders of H Shares shall lodge their share certificates accompanied with the transfer documents to the H Share Registrar of the Company, Tricor Investor Services Limited (address: Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong) before 4:30 p.m. (Hong Kong time) on Friday, 19 June 2020, being the last share registration date.
- 4.2. A shareholder or his proxy shall produce proof of identity when attending the EGM. If a shareholder is a legal person, its legal representative or other person authorised by the board of directors or other governing body of such shareholder may attend the EGM by providing a copy of the resolution of the board of directors or other governing body of such shareholder appointing such person to attend the meeting.
- 4.3. Shareholders intending to attend the EGM shall lodge the reply slip and the related documents indicating their intention to attend the EGM with the Company on or before Friday, 19 June 2020.
- 4.4. Shareholders may lodge the reply slip with the Company in person, by post, or by fax to the Company or the Company's H Share registrar.

### 5. Miscellaneous

- 5.1. The EGM will not last for more than half a day. Shareholders who attend the meeting in person or by proxy shall bear their own travelling and accommodation expenses.
- 5.2. The address of the Company's H Share registrar, Tricor Investor Services Limited, is:  
Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong
- 5.3. The address of the registered office of the Company is:  
  
2nd Floor, Jiuzhou Electronic Building, 007 Keji South 12th Street, Nanshan District, Shenzhen,  
The People's Republic of China  
Post Code: 518057  
Telephone No.: (+86) 755 3363 1256  
Fax No.: (+86) 755 3363 1220

## NOTICE OF THE H SHARES CLASS MEETING



綠色動力  
DYNAGREEN

綠色動力環保集團股份有限公司

**Dynagreen Environmental Protection Group Co., Ltd.\***

*(a joint stock limited liability company incorporated in the People's Republic of China)*

**(Stock Code: 1330)**

### NOTICE OF H SHARES CLASS MEETING

NOTICE IS HEREBY GIVEN that the class meeting of H shareholders (the “H Shares Class Meeting”) of Dynagreen Environmental Protection Group Co., Ltd.\* (the “Company”) will be held at 3/F., Complex of Beijing Dynagreen Environment Co., Ltd.\* (北京綠色動力環保有限公司), Cailin Road, Yujiawu Township, Tongzhou District, Beijing, the PRC on Monday, 29 June 2020 immediately following the conclusion of the extraordinary general meeting and the class meeting of A shareholders of the Company to be convened and held on the same date and at the same place for the purposes of considering and, if thought fit, passing (with or without modifications) the following resolutions.

#### SPECIAL RESOLUTIONS

1. To consider and approve the proposals concerning the Revised Proposed Non-public Issuance of A Shares:
  - 1.1. class and par value of shares to be issued;
  - 1.2. method and time of issuance;
  - 1.3. target subscribers and the subscription method;
  - 1.4. Pricing Benchmark Date and issue price;
  - 1.5. number of A Shares to be issued;
  - 1.6. amount and use of proceeds;

\* For identification purposes only

## NOTICE OF THE H SHARES CLASS MEETING

- 1.7. lock-up period;
  - 1.8. place of listing of the A Shares to be issued;
  - 1.9. arrangement of accrued undistributed profit of the Company prior to the Revised Proposed Non-public Issuance of A Shares; and
  - 1.10. validity period of resolution.
2. To consider and approve the “Proposal in respect of the Non-public Issuance of A Shares (Revised)”.
  3. To consider and approve the connected transaction and the execution of the Supplemental Agreement of the BSAM Subscription Agreement.
  4. To consider and approve the Specific Mandate:

“**THAT** the Board be and is hereby granted a specific mandate to issue not more than 232,240,000 A Shares at an issue price of not less than the Benchmark Price (subject to adjustments) to not more than 35 specific target subscribers, including BSAM, under the Revised Proposed Non-public Issuance of A Shares (including the issue of such number of A Shares to BSAM pursuant to the Supplemental Agreement of the BSAM Subscription Agreement)”.

### ORDINARY RESOLUTION

5. To consider and approve the extension of the validity period of the authorisation to the Board to handle all matters in connection with the Revised Proposed Non-public Issuance of A Shares.

By Order of the Board  
**Dynagreen Environmental Protection Group Co., Ltd.**  
**Zhi Jun**  
*Chairman*

Beijing, the PRC  
11 June 2020

## NOTICE OF THE H SHARES CLASS MEETING

*Notes:*

### **1. Shareholders' circular**

For details, please refer to the circular of the Company dated 11 June 2020. Unless otherwise defined, the capitalised terms used herein shall have the meanings defined in the circular of the Company dated 11 June 2020.

### **2. Persons who are entitled to attend the H Shares Class Meeting**

Holders of the H Shares whose names appear on the register of holders of H Shares of the Company on Friday, 19 June 2020 ("**Eligible Shareholders**") or their representatives are entitled to attend the H Shares Class Meeting after completion of the required registration procedures in accordance with Note 4 "Registration procedures for attending the H Shares Class Meeting".

### **3. Proxy**

3.1. A member eligible to attend and vote at the H Shares Class Meeting may appoint one or more proxies in writing to attend and vote on his behalf. A proxy need not be a shareholder of the Company.

3.2. The instrument appointing a proxy must be signed by the appointor or his attorney duly authorised in writing. If that instrument is signed by an attorney of the appointor, the power of attorney authorising that attorney to sign or other document of authorisation must be notarised.

3.3. To be valid, the completed form of proxy and notarised power of attorney must be delivered to the place of business of the Company or the Company's H Share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 24 hours before the time designated for holding the H Shares Class Meeting. Completion and delivery of the form of proxy will not preclude you from attending and voting at the H Shares Class Meeting if you so wish.

3.4. A shareholder or his proxy may exercise the right to vote by poll.

### **4. Registration procedures for attending the H Shares Class Meeting**

4.1. For the purpose of ascertaining holders of H Shares who are entitled to attend and vote at the EGM and H Shares Class Meeting, holders of H Shares shall lodge their share certificates accompanied with the transfer documents to the H Share Registrar of the Company, Tricor Investor Services Limited (address: Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong) before 4:30 p.m. (Hong Kong time) on Friday, 19 June 2020, being the last share registration date.

4.2. A shareholder or his proxy shall produce proof of identity when attending the H Shares Class Meeting. If a shareholder is a legal person, its legal representative or other person authorised by the board of directors or other governing body of such shareholder may attend the H Shares Class Meeting by providing a copy of the resolution of the board of directors or other governing body of such shareholder appointing such person to attend the meeting.

4.3. Shareholders intending to attend the H Shares Class Meeting shall lodge the reply slip and the related documents indicating their intention to attend the H Shares Class Meeting with the Company on or before Friday, 19 June 2020.

4.4. Shareholders may lodge the reply slip with the Company in person, by post, or by fax to the Company or the Company's H Share registrar.

## NOTICE OF THE H SHARES CLASS MEETING

### 5. Miscellaneous

- 5.1. The H Shares Class Meeting will not last for more than half a day. Shareholders who attend the meeting in person or by proxy shall bear their own travelling and accommodation expenses.
- 5.2. The address of the Company's H Share registrar, Tricor Investor Services Limited, is:  
Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong
- 5.3. The address of the registered office of the Company is:

2nd Floor, Jiuzhou Electronic Building,  
007 Keji South 12th Street,  
Nanshan District, Shenzhen,  
The People's Republic of China  
Post Code: 518057  
Telephone No.: (+86) 755 3363 1256  
Fax No.: (+86) 755 3363 1220

*This English version is for reference only. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese version shall prevail.*

#### COMPANY STATEMENT

1. The Company and all members of the Board warrant the truthfulness, accuracy and completeness of the contents of this announcement and jointly and severally accept responsibility for any false representations or misleading statements contained in or material omissions from this announcement.
2. Upon completion of this Non-public Issue of shares, the changes in the operation and income shall be borne by the Company at its own and the investment risks arising from this Non-public Issue of shares shall be assumed by the investors.
3. The proposal is the description of this Non-public Issue of shares by the Board of the Company, and any other statements to the contrary shall be misrepresentation.
4. The matters mentioned in the proposal do not represent the substantive judgment, confirmation or approval of the approval authorities on the matters relating to this Non-public Issue of shares, and the effectiveness and completion of the matters relating to this Non-public Issue of shares mentioned in the proposal shall be subject to the approval or verification of the relevant approval authorities.
5. Investors should consult their own stockbrokers, lawyers, professional accountants or other professional advisers if in doubt.

#### SPECIAL REMINDERS

1. This Non-public Issue of A Shares is in compliance with the Company Law, the Securities Law, the Measures for Administration of Issuance of Securities by Listed Companies (as amended in 2020) (《上市公司證券發行管理辦法》(2020年修訂)), and the Detailed Rules for the Implementation of Non-public issue of Listed Companies (as amended in 2020) (《上市公司非公開發行股票實施細則》(2020年修訂)) and other laws, administrative regulations, departmental rules and normative documents. The Company satisfies various conditions on non-public issue of shares.
2. The proposal on non-public issue of A Shares has been considered and approved at the fifteenth meeting of the third session of the Board of the Company, the first extraordinary general meeting for the year 2019, the first class meeting for holders of A shares for the year 2019 and the first class meeting for holders of H shares for the year 2019. The amendment matters related to this Non-public Issue of A Shares have been considered and approved at the twenty-first meeting of the third session of the Board of the Company and are still subject to the filing to the state-owned assets supervision and administration authorities and the consideration and approval at the Company's class meeting for holders of A Shares, class meeting for holders of H shares and general meeting. In addition, according to the provisions of the Company Law, the Securities Law, the Measures for Administration of Issuance

of Securities by Listed Companies (as amended in 2020) and other relevant PRC laws, regulations and normative documents, this Non-public Issue of A Shares is subject to approval by the CSRC.

3. The target subscribers of this Non-public Issue of A Shares are not more than 35 specific investors including BSAM, the controlling shareholder of the Company. In particular, the proposed subscription proportion of BSAM shall not be less than 40% of the actual number of shares issued under this Non-public Issue of A Shares, and the number of shares to be subscribed for will not exceed 133,000,000. Upon completion of the Non-public Issue, the aggregate shareholding proportion held directly and indirectly by BSAM in our Company will not reach 47.30%, while the remaining shares shall be subscribed for by target subscribers in cash. The final number of shares to be subscribed for by BSAM shall be determined under the supplemental agreement to be entered into between BSAM and the Company after determination of the issue price. BSAM will not participate in the market bidding process, but has undertaken to accept the market bidding results and subscribe for the A Shares to be issued under this Non-public Issue at the same price as other specific investors. If the issue price is not incurred by way of bidding, BSAM will continue to participate in the subscription. On the basis that the issue price shall not be less than 80% of the average transaction price of the shares of the Company in the 20 trading days prior to the Pricing Benchmark Date and shall not be lower than the amount of the latest audited net asset value per Share attributable to the shareholders of ordinary shares of parent company, the issue price will be determined after negotiations between the Board and the lead underwriter.

Other target subscribers other than BSAM include: no more than 34 specific subscribers including securities investment fund management companies, securities companies, trust investment companies, finance companies, insurance institutional investors, qualified foreign institutional investors, individual investors or other legal investment organizations in compliance with the requirements of the CSRC. Securities investment fund management companies, securities companies, qualified foreign institutional investors and RMB qualified foreign institutional investor, which subscribe for the shares with two or more of the products managed by them, shall be deemed as one single target subscriber. Trust investment companies can only subscribe for the shares with their own funds.

Within the above scope, after the Company obtains the approval document for this issue from the CSRC, the Board shall, within the scope of authorization at the general meeting, determine other target subscribers other than BSAM through negotiation with the Sponsor (Lead Underwriter) based on the bidding results in accordance with the Detailed Rules for the Implementation of Non-public Issue of Shares by Listed Companies (as amended in 2020) (《上市公司非公开发售股票实施细则》(2020年修订)). In case of any new provisions on target subscribers of shares issued in a non-public way under relevant laws, regulations and normative documents, the Company shall make adjustments according to the new provisions. All target subscribers shall subscribe for the shares under this Non-public Issue in cash.

4. In accordance with the Detailed Rules for the Implementation of Non-public Issue of Shares by Listed Companies (as amended in 2020) (《上市公司非公开发售股票实施细则》(2020年修订)), the Pricing Benchmark Date for this Non-public Issue of shares is the first day of the issue period. The issue price of shares for this Non-public Issuance shall neither be less than 80% of the average trading price of shares in the 20 trading days prior to the Pricing Benchmark Date (exclusive of such date) nor be less than the latest audited net asset per share attributable to ordinary shareholders of parent company.

Average trading price of shares in the 20 trading days before the Pricing Benchmark Date = total trading amount of shares in the 20 trading days before the Pricing Benchmark Date / total trading volume of shares in the 20 trading days before the Pricing Benchmark Date.

In the event of ex-dividend and ex-right of the Company's shares during the period from the Pricing Benchmark Date to the date of issue, the issue price shall be adjusted accordingly. The issuance of shares will be made by way of bidding. The final issue price will be determined by the Board of the Company with the authorization at the general meeting through negotiation with the Sponsor (the Lead Underwriter) based on the application and quotation of target subscribers in accordance with the Detailed Rules for the Implementation of Non-public Issue of Shares by Listed Companies (as amended in 2020) after obtaining the approval document for this Non-public Issue from the CSRC. BSAM will not participate in the market bidding process, but has undertaken to accept the market bidding results and subscribe for the A Shares to be issued under this Non-public Issue at the same price as other specific investors. If the issue price is not incurred by way of bidding, BSAM will continue to participate in the subscription. On the basis that the issue price shall not be less than 80% of the average transaction price of the shares of the Company in the 20 trading days prior to the Pricing Benchmark Date and shall not be lower than the amount of the latest audited net asset value per Share attributable to the shareholders of ordinary shares of parent company, the issue price will be determined after negotiations between the Board and the lead underwriter.

5. The total number of shares issued in this Non-public Issue shall not exceed 20% of the total share capital prior to the issue, i.e. 232,240,000 shares (inclusive), which is subject to the approval document for this Non-public Issue from the CSRC. Within the above scope, the final number of shares to be issued shall be determined by the Board of the Company with the authorization at the general meeting through negotiation with the Sponsor (Lead Underwriter) in accordance with the relevant requirements of the CSRC and the actual conditions at issue.

In the event of ex-right and ex-dividend of the Company's shares during the period from the date of announcement on resolutions in relation to this Issue as approved at the Board meeting to the issue date, the number of shares under this Issue will be adjusted accordingly.



6. The total proceeds of this Non-public Issue of shares will not exceed RMB2,390.00 million and will be used for investment in construction of Huizhou Phase II Project, Jinsha Project, Pingyang Phase II Project, Shishou Project and Yongjia Phase II Project and repayment of bank loans after deducting issue expenses.
7. The resolution in relation to this Non-public Issue of shares is valid for 12 months from the date of consideration and approval at the general meeting of the Company.
8. Upon completion of this Non-public Issue, the controlling shareholder and the actual controller of the Company will remain unchanged, and will not result in the eligibility of the Company's shareholding distribution for listing.
9. In accordance with relevant provisions under the Guidelines No. 3 on the Supervision and Administration of Listed Companies (CSRC Announcement [2013] No. 43) (《上市公司監管指引第3號—上市公司現金分紅》(證監會公告[2013]43號)) and the Notice on Further Implementation of Relevant Matters Concerning Cash Dividend Distribution of Listed Companies (Zheng Jian Fa [2012] No. 37) (《關於進一步落實上市公司現金分紅有關事項的通知》(證監發[2012]37號)) of the CSRC, the details of the profit distribution policy of the Company, the cash dividends for the next three years of the Company, and the future shareholders' return plan of the Company are set out in "Section VII Profit Distribution Policy and the Implementation Thereof" under the Proposal and investors are advised to pay attention thereto.
10. In accordance with relevant provisions under the Opinions on Further Strengthening the Protection of Small and Medium Investors' Legitimate Interests in the Capital Markets (Guo Ban Fa [2013] No. 110) (《關於進一步加強資本市場中小投資者合法權益保護工作的意見》(國辦發[2013]110號)) of the General Office of the State Council, the Guiding Opinions on Matters Concerning the Dilution of Current Return by Initial Public Offering, Refinancing and Material Asset Restructuring (CSRC Announcement [2015] No. 31) (《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》(證監會公告[2015]31號)) of the CSRC and other documents, the Company has carefully analyzed the impact of this Issue on the dilution of current return, and will take various measures to ensure effective use of proceeds, effective prevention of the risk of dilution of current return and improve the future ability to generate return. For details, please refer to the "Section VIII Impact of the Dilution of Current Return by This Issue on the Major Financial Indicators of the Company and the Measures to be Taken by the Company" under the Proposal.

The remedial measures for the returns prepared by the Company do not represent guarantee for the future profit of the Company and investors shall not make investment decisions based thereon. Investors should be aware that the Company is not liable for compensation for the losses caused by the investment decisions made by investors based thereon.

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## SECTIONS I DEFINITIONS

*In the Proposal, unless otherwise stated, the following terms shall have the following meanings:*

Issuer, the Company, Dynagreen	Dynagreen Environmental Protection Group Co., Ltd.
BSAM	Beijing State-owned Assets Management Co., Ltd.
Articles of Association	Articles of Association of Dynagreen Environmental Protection Group Co., Ltd.
Company Law	the Company Law of the People's Republic of China
Securities Law	the Securities Law of the People's Republic of China
Listing Rules	the Rules governing the Listing of Stocks on the Shanghai Stock Exchange
State Council	the State Council of the People's Republic of China
CSRC	China Securities Regulatory Commission
SSE	Shanghai Stock Exchange
NDRC	the National Development and Reform Commission of the People's Republic of China
Beijing SASAC	the State-owned Assets Supervision and Administration Commission of Beijing Municipal People's Government
General Meeting	the general meeting of the Issuer
Board	the board of directors of the Issuer
Supervisory Committee	the Supervisory Committee of the Issuer
H Share(s)	the shares with a par value denominated in RMB, which are approved by the Hong Kong Stock Exchange for listing and are subscribed for and traded in Hong Kong dollars
A Share(s)	the ordinary shares listed in the PRC, which are subscribed for and traded in RMB

CITIC Securities, Sponsor, Lead Underwriter	CITIC Securities Company Limited, the sponsor and lead underwriter of the Issuer for the issue
Issuer's Lawyer	Beijing Kangda Law Firm
Auditor, Reporting Accountant, KPMG Huazhen	KPMG Huazhen LLP
Reporting Period, the Recent Three Years and the Recent Period	2017, 2018, 2019 and January to March 2020
Beginning of the Reporting Period	1 January 2017
End of the Reporting Period	31 March 2020
End of Each Reporting Period	31 December 2017, 31 December 2018, 31 December 2019 and 31 March 2020
RMB, RMB0'000	Renminbi, Renminbi ten thousand
Issue, this Issue, this Non-public Issue	this non-public issue of A Shares by Dynagreen Environmental Protection Group Co., Ltd.
Board Meeting Convening Date	the Board Meeting convening date on which the proposal in relation to the Non-public Issue is to be considered
General Meeting Convening Date	the General Meeting convening date on which the proposal in relation to the Non-public Issue is to be considered
the Proposal	the Proposal in relation to non-public issue of A Shares (revised) of Dynagreen Environmental Protection Group Co., Ltd.
Pricing Benchmark Date	the first day of the issue period of this Non-public Issue of A Shares
Huizhou Phase II Project	the municipal solid waste-to-energy PPP project (Phase II) in Huiyang Environmental Park in Guangdong Province

Jinsha Project	the municipal waste-to-energy project in Jinsha County, Guizhou
Pingyang Phase II Project	phase II of expansion of waste-to-energy power plant PPP project in Pingyang County, Zhejiang
Shishou Project	the municipal waste-to-energy project in Shishou City, Hubei
Yongjia Phase II Project	the municipal waste-to-energy plant upgrading and reconstruction project in Yongjia County, Zhejiang
BOT	Build-Operate-Transfer; BOT is a business model in which the owner authorizes the contracting enterprise to finance, design, build, operate, and maintain the infrastructure through a franchise agreement. The contracting enterprise can charge the user during the franchise period to offset its investment, operation and maintenance costs and obtain reasonable returns. Upon expiry of the franchise period, the relevant facilities will be returned to the owner
Renewable Energy	recyclable energy, including solar energy, hydropower, wind power, biomass energy, wave energy, tidal energy, ocean thermal energy, etc.
Solid Waste	domestic waste, industrial solid waste and agricultural solid waste. According to the treatment method, solid waste can be divided into medical waste, construction waste, industrial waste and domestic waste
domestic waste	daily domestic waste, clean-keeping waste, commercial waste and municipal waste, the main components of which include coal ash, kitchen waste, peel, plastic, defoliation, plants, wood, glass, ceramics, leather, and paper, as well as a small amount of batteries, pharmaceutical packaging material of aluminum foil, SP composite film, rubber, etc.

Not in My Back Yard	Determined and sometimes highly emotional collective opposition or resistance from residents or local entities due to their worries about the negative impacts on health, environment, and valuation of assets brought about by the construction of the projects (such as garbage dump, nuclear power plants and other neighboring facilities) near the residences
Waste Incineration	the combustibles in waste react with oxygen in the incinerator, and the incineration can oxidize and decompose the combustible solid waste to achieve the purpose of removing toxicity, recycling energy and obtaining by-products
waste-to-energy	high-temperature incineration of waste with high calorific value, in which the heat energy generated is converted into high-temperature steam which drives the turbine and the generator to generate electricity
KWH	energy measurement unit. One kilowatt hour is equal to the power generated by a 1kW generator at the rated power in one hour
MWH	energy measurement unit. 1 MWH=1,000 KWH

*Note:* Any discrepancy between the total amount in the Proposal and the sum of the listed values is caused by rounding.



**SECTION II OVERVIEW OF THE ISSUE****I. BASIC INFORMATION ON THE ISSUER**

<b>Chinese name:</b>	綠色動力環保集團股份有限公司
<b>English name:</b>	Dynagreen Environmental Protection Group Co., Ltd.
<b>Legal representative:</b>	Zhi Jun
<b>Date of establishment:</b>	29 March 2000 (entire transformation into a joint stock limited liability company on 23 April 2012)
<b>Registered address:</b>	2nd Floor, Northeastern Wing, Jiuzhou Electronic Building, 007 Keji South 12th Street, Nanshan District, Shenzhen
<b>Registered capital:</b>	RMB1,161.20 million
<b>Principal businesses:</b>	investment, construction and operation of waste-to-energy projects
<b>Scope of business:</b>	engaged in technological research in environmental protection industries including waste-incineration, and the design, development and systematic integration of relevant equipment, as well as management of waste treatment projects, operation management and the provision of technological services and associated technological consultation (for operations subject to licenses or certain qualifications, relevant regulations and requirements have been complied with).

**II. BACKGROUND AND PURPOSE OF THIS NON-PUBLIC ISSUE****(I) Background of This Non-public Issue****1. Support the construction of ecological civilization to realize the grand goal of a beautiful China**

With the convening of the 19th National Congress of the Communist Party of China and the National Conference on Ecological Environmental Protection, “pollution prevention and control” was included as one of the three critical battles in building a well-off society in the PRC. President Xi Jinping pointed out that the construction of ecological civilization is a fundamental plan for the sustainable development of the Chinese nation and we must resolutely engage in the battle against pollution and promote the

construction of China's ecological civilization to a new level. The report of the 19th National Congress of the Communist Party of China clearly stated that it is necessary to speed up the reform of the ecological civilization system and build a beautiful China to basically realize the fundamental improvement of the ecological environment and the grand goal of a beautiful China in 2020 to 2035. However, with the development of industry and agriculture and the acceleration of urbanization, the problem of domestic waste treatment has become an important challenge against the construction of ecological civilization and an obstacle that must be overcome in building a beautiful China.

At present, the construction of ecological civilization in China is in a critical period with multiple pressure, and progress will have to be made through difficulties. It has entered the critical period of providing more high-quality ecological products to meet the growing needs of the people for a beautiful ecological environment, as well as a window period of having the condition and ability to address prominent problems of the ecological environment. Promoting the development of the waste-to-energy industry is one of the important means to solve the problem of domestic waste in China, fully realize wastes recycling, and build a beautiful China.

## **2. National industrial policy strongly supports the rapid development of the domestic waste treatment industry**

As China's municipal domestic waste treatment system is still in the development stage, a large number of municipal domestic wastes have not been collected, removed and managed through detoxification, resulting in a large scale of waste accumulation. The environmental problems that China faces are becoming more and more serious. The government departments have fully recognized the importance and urgency of strengthening the municipal solid waste treatment, and have continuously increased investment and introduced a series of industrial support policies for the domestic waste treatment industry.

In December 2016, the NDRC and the Ministry of Housing and Urban-Rural Development issued the "13th Five-Year" Plan for National Construction Plan for Municipal Waste Detoxification Treatment Facilities (《「十三五」全國城鎮生活垃圾無害化處理設施建設規劃》) (the "13th Five-Year Waste Treatment Facilities Construction Plan"), proposing that, during the "13th Five-Year" period, the total investment in construction of detoxification treatment facilities for municipal domestic waste is approximately RMB251.8 billion, including investment of RMB169.9 billion in detoxification treatment facilities; it is planned that, by the end of 2020, the detoxification treatment rate of domestic waste will be significantly improved, and the detoxification treatment rate of municipal domestic waste of municipalities, cities with independent planning status and provincial capitals will reach 100%; Waste Incineration will gradually become the mainstream solid waste treatment

method, and municipalities, cities with independent planning status and provincial capitals will realize “zero landfilling” of raw garbage.

On 5 June 2019, the executive meeting of the State Council approved the Law of the People’s Republic of China on Prevention of Solid Waste Pollution (Revised) (《中華人民共和國固體廢物污染環境防治法(修訂草案)》) which provides a legal guarantee for the implementation of urban and rural garbage sorting. On 6 June 2019, the Ministry of Housing and Urban-Rural Development issued the Notice on Implementation of Domestic Waste Sorting in Nationwide Cities of Prefecture Level and Above (《關於在全國地級及以上城市全面開展生活垃圾分類工作的通知》), requiring that: the nationwide cities of prefecture level and above shall fully launch solid waste sorting from 2019. By 2025, the nationwide cities of prefecture level and above shall have basically established a domestic waste sorting and treatment system.

The introduction of relevant policies and regulations for the domestic waste treatment industry, especially the investment and construction of the detoxification treatment facilities for domestic waste and the rapid implementation of the waste sorting policy, is conducive to further improving the detoxification treatment capacity of domestic waste and has an important influence on the development of the waste-to-energy industry and the enhancement of the technical level and income size of the industry.

### **3. Economic growth and enhancement of urbanization rate promote the continued prosperity of the waste-to-energy industry**

The rapid development of China’s economic construction and the rapid increase in urbanization rate drive the continued increase in the demand for domestic waste treatment. By the end of 2019, China’s population reached 1,400.05 million, representing an increase of 85.57 million from the end of 2006; China’s urbanization rate of total population reached 60.60%, representing an increase of approximately 12.26 percentage points as compared with the end of 2009. The rapid growth of urban population has led to a sharp increase in waste production. As at the end of 2018, China’s domestic waste removal volume reached 228 million tons, representing an increase of 47.70% since 2008, and the situation of garbage siege was becoming increasingly serious (source: Wind).

With the advancement of urbanization, the urban population has increased, and the demand for waste treatment is rising. At the same time, Waste Incineration has continuously replaced landfill as the mainstream way of waste treatment everywhere due to the advantages of reduction, recycling and detoxification. According to the 13th Five-Year Waste Treatment Facilities Construction Plan, it is estimated that, by 2020, the Waste Incineration capacity will account for 53.69% of the total detoxification treatment capacity. The development of China’s waste-to-energy industry is expected to continue to prosper in the future, and there is still a large market space.

**(II) Purpose of this Issue****1. Waste-to-energy is a capital-intensive industry, and fund raising is conducive to the rapid development of the Company**

Waste-to-energy requires a large amount of investment in the early stage. The capital investment in a waste-to-energy plant with the daily treatment capacity of 1,000 tons is RMB400 million to RMB600 million. At the same time, the investment recovery cycle of waste-to-energy projects is relatively long, generally 8-12 years, and it is a capital-intensive industry. Due to the capital intensiveness of waste-to-energy projects, participants in the industry need to have sufficient capital strength and financing capacity to satisfy large capital and cost expenditures. Therefore, financial strength is one of the key factors for waste-to-energy enterprises to achieve rapid development and maintain their leading position in the industry.

As at 31 March 2020, in respect of the municipal waste-to-energy sector, the Company had 21 projects under operation, 8 projects under construction and 14 projects under preparation. The waste treatment capacity of the projects under operation reached 20,010 tons/day, the installed capacity was 392.5MW. In order to ensure the sustainable development of the Company, it is necessary to continuously increase investment. Therefore, to raise proceeds through this Non-public Issue of shares to increase investment in construction of waste-to-energy projects and repay bank loans will help further improve the Company's waste treatment capacity, increase market share, and expand the Company's business coverage and influence, to improve the Company results. This Non-public Issue is the specific implementation of the Company's established development strategy, which is conducive to further consolidating the advantages of the Company's principal businesses and enhancing the Company's core competitiveness, which is of great significance for the realization of the Company's sustainable development.

**2. Reduce the Company's gearing ratio to enhance the risk resistance capacity**

With the rapid development of the Company, the size of the Company's liabilities has also gradually expanded. As at 31 March 2020, the Company's total assets under the consolidated statements amounted to RMB14,279,502,800, the size of total liabilities was RMB10,673,372,100, and the gearing ratio reached 74.75%.

At present, the Company's gearing ratio is relatively high. This Non-public Issue will help strengthen the Company's capital strength and optimize the capital structure, which will reduce the gearing ratio, reduce financial expenses, and improve the Company's financial position, enhances the risk-prevention capability of the Company, and it helps strengthen the Company's subsequent financing capabilities. On the one hand, it conforms to the national "structural de-leverage" policy requirements and, on the other hand, it can enhance the Company's profitability and operational stability, provide financial support for the continued growth of the Company's businesses, and provide a strong guarantee for the Company's sustainable development.

### III. TARGET SUBSCRIBERS AND THEIR RELATIONSHIP WITH THE COMPANY

The target subscribers of this Non-public Issue of A Shares are not more than 35 specific investors including BSAM, the controlling shareholder of the Company. In particular, the proposed subscription proportion of BSAM shall not be less than 40% of the actual number of shares issued under this Non-public Issue of A Shares, and the number of shares to be subscribed for will not exceed 133,000,000. Upon completion of the Non-public Issue, the aggregate shareholding proportion held directly and indirectly by BSAM in our Company will not reach 47.30%, while the remaining shares shall be subscribed for by target subscribers in cash. The final number of shares to be subscribed for by BSAM shall be determined under the supplemental agreement to be entered into between BSAM and the Company after determination of the issue price. BSAM will not participate in the market bidding process, but has undertaken to accept the market bidding results and subscribe for the A Shares to be issued under this Non-public Issue at the same price as other specific investors. If the issue price is not incurred by way of bidding, BSAM will continue to participate in the subscription. On the basis that the issue price shall not be less than 80% of the average transaction price of the shares of the Company in the 20 trading days prior to the Pricing Benchmark Date and shall not be lower than the amount of the latest audited net asset value per Share attributable to the shareholders of ordinary shares of parent company, the issue price will be determined after negotiations between the Board and the lead underwriter.

Other target subscribers other than BSAM include: securities investment fund management companies, securities companies, trust investment companies, finance companies, insurance institutional investors, qualified foreign institutional investors, individual investors or other legal investment organizations in compliance with the conditions of the CSRC or other qualified investors. The specific target subscribers will be determined by the Board of the Company with the authorization at the general meeting. Securities investment fund management companies, securities companies, qualified foreign institutional investors and RMB qualified foreign institutional investor, which subscribe for the shares with two or more of the products managed by them, shall be deemed as one single target subscriber. Trust investment companies can only subscribe for the shares with their own funds.

As at the announcement date of the Proposal, except for BSAM, the controlling shareholder of the Company, other target subscribers have not yet been determined.

**IV. SUMMARY OF THE PROPOSAL ON THIS NON-PUBLIC ISSUE****(I) Class and par value of the shares to be issued**

The shares under this Issue are domestically-listed and RMB denominated ordinary shares (A Shares) with a par value of RMB1.00 each.

**(II) Method and time of issue**

This Issue will be made in a non-public way. The Company will issue shares to the specific subscribers at due time within twelve months after the approval of the CSRC and the target subscribers are required to subscribe for shares in cash. In case of new provisions thereon under national laws and regulations, the Company will make adjustments in accordance with the new provisions.

**(III) Target subscriber and subscription method**

The target subscribers of this Issue are not more than 35 specific investors including BSAM, the controlling shareholder of the Company. In particular, the proposed subscription proportion of BSAM shall not be less than 40% of the actual number of shares issued under this Non-public Issue of A Shares, and the number of shares to be subscribed for will not exceed 133,000,000. Upon completion of the Non-public Issue, the aggregate shareholding proportion held directly and indirectly by BSAM in our Company will not reach 47.30%, while the remaining shares shall be subscribed for by target subscribers in cash. The final number of shares to be subscribed for by BSAM shall be determined under the supplemental agreement to be entered into between BSAM and the Company after determination of the issue price. BSAM will not participate in the market bidding process, but has undertaken to accept the market bidding results and subscribe for the A Shares to be issued under this Non-public Issue at the same price as other specific investors. If the issue price is not incurred by way of bidding, BSAM will continue to participate in the subscription. On the basis that the issue price shall not be less than 80% of the average transaction price of the shares of the Company in the 20 trading days prior to the Pricing Benchmark Date and shall not be lower than the amount of the latest audited net asset value per Share attributable to the shareholders of ordinary shares of parent company, the issue price will be determined after negotiations between the Board and the lead underwriter.

Other target subscribers other than BSAM include: securities investment fund management companies, securities companies, trust investment companies, finance companies, insurance institutional investors, qualified foreign institutional investors, individual investors or other legal investment organizations in compliance with the conditions of the CSRC or other qualified investors. The specific target subscribers will be determined by the Board of the Company with the authorization at the general meeting. Securities investment fund management companies, securities companies, qualified foreign institutional investors and RMB qualified foreign institutional investor, which subscribe for the shares with two or



more of the products managed by them, shall be deemed as one single target subscriber. Trust investment companies can only subscribe for the shares with their own funds.

Within the above scope, after the Company obtains the approval document for this issue from the CSRC, the Board shall, within the scope of authorization at the general meeting, determine other target subscribers other than BSAM through negotiation with the Sponsor (Lead Underwriter) based on the bidding results in accordance with the Detailed Rules for the Implementation of Non-public Issue of Shares by Listed Companies (as amended in 2020) (《上市公司非公开发行股票实施细则》(2020年修订)). In case of any new provisions on target subscribers of shares issued in a non-public way under relevant laws, regulations and normative documents, the Company shall make adjustments according to the new provisions. All target subscribers shall subscribe for the shares under this Non-public Issue in cash.

#### **(IV) Pricing Benchmark Date and issue price**

The Pricing Benchmark Date for this Issue is the first day of the issue period. The issue price of this Non-public Issue shall neither be less than 80% of the average trading price of shares in the 20 trading days (excluding the Pricing Benchmark Date) prior to the Pricing Benchmark Date nor be less than the latest audited net asset per share attributable to ordinary shareholders of parent company.

Average trading price of shares in the 20 trading days before the Pricing Benchmark Date = total trading amount of shares in the 20 trading days before the Pricing Benchmark Date/total trading volume of shares in the 20 trading days before the Pricing Benchmark Date.

The issue price will be adjusted accordingly if there occurs any ex-right or ex-dividend event between the Pricing Benchmark Date and the date of issue. This Issue of shares will be made by way of bidding. The final issue price will be determined by the Board of the Company with the authorization at the general meeting through negotiation with the Sponsor (Lead Underwriter) based on the application and quotation of target subscribers and in accordance with the requirements under the Detailed Rules for the Implementation of Non-public issue of Listed Companies (as amended in 2020) after obtaining the approval document for this Non-public Issue from the CSRC. BSAM will not participate in the market bidding process, but has undertaken to accept the market bidding results and subscribe for the A Shares to be issued under this Non-public Issue at the same price as other specific investors. If the issue price is not incurred by way of bidding, BSAM will continue to participate in the subscription. On the basis that the issue price shall not be less than 80% of the average transaction price of the shares of the Company in the 20 trading days prior to the Pricing Benchmark Date and shall not be lower than the amount of the latest audited net asset value per Share attributable to the shareholders of ordinary shares of parent company, the issue price will be determined after negotiations between the Board and the lead underwriter.

**(V) Number of shares to be issued**

The total number of shares issued in this Issue shall not exceed 20% of the total share capital prior to the issue, i.e. 232,240,000 shares (inclusive), which is subject to the approval document for this Issue from the CSRC. Within the above scope, the final number of shares to be issued shall be determined by the Board of the Company with the authorization at the general meeting through negotiation with the Sponsor (Lead Underwriter) in accordance with the relevant requirements of the CSRC and the actual conditions at issue.

The number of shares under this Issue will be adjusted accordingly if there occurs any ex-right or ex-dividend event between the Pricing Benchmark Date and the date of issue.

**(VI) Size and use of proceeds**

The total proceeds of this Issue (including issue expenses) will not exceed RMB2,390.00 million. The net proceeds after deducting the issue expenses will be used for the following projects:

No.	Project name	Proceeds	
		Total investment (RMB0'000)	intended to be used (RMB0'000)
1	Huizhou Phase II Project	111,345.00	60,000.00
2	Jinsha Project	45,205.00	38,000.00
3	Pingyang Phase II Project	35,063.55	30,000.00
4	Shishou Project	36,262.00	29,000.00
5	Yongjia Phase II Project	36,177.06	28,000.00
6	Repayment of bank loans	—	54,000.00
<b>Total</b>		<b>264,052.61</b>	<b>239,000.00</b>

Prior to the receipt of the proceeds from this Non-public Issue, the Company will first make investment with its self-raised funds depending on the progress of the proceeds funded projects, and will replace such funds according to the relevant specified procedures after the receipt of the proceeds.

If the actual amount of proceeds (after deducting the issue expenses) is less than the amount of proceeds to be invested in the abovementioned projects, the Company will, within the scope of ultimately determined proceeds funded projects, adjust and ultimately decide the specific proceeds funded projects, priority, and specific amount of investment in each project taking into account the Company's



operation and the construction progress of projects. The insufficient funds that cannot be covered by the proceeds will be raised by the Company itself.

**(VII) Lock-up period**

The shares subscribed for by BSAM shall not be transferred within 18 months from the date of the end of this Issue, and the shares subscribed for by other target subscribers shall not be transferred within 6 months from the date of completion of this Issue. After the end of the lock-up period, the transfer shall be subject to the relevant provisions of the CSRC and the SSE.

**(VIII) Place of listing**

After the expiration of the lock-up period of this Issue, the shares under this Issue will be listed for trading on the SSE.

**(IX) Arrangement for retained undistributed profits**

After the completion of this Issue, the new and existing shareholders of the Company shall be jointly entitled to the undistributed profits before this Issue.

**(X) Validity period of resolution on this Non-public Issue of shares**

The resolution on this Non-public Issue will be valid for 12 months from the date on which the resolution is considered and approved at the general meeting of the Company.

**V. WHETHER THIS ISSUE CONSTITUTES A CONNECTED TRANSACTION**

The proposed subscription proportion of BSAM, the controlling shareholder and actual controller of the Company, shall not be less than 40% of the actual number of shares issued under this Non-public Issue of A Shares, and the number of shares to be subscribed for will not exceed 133,000,000. Upon completion of the Non-public Issue, the aggregate shareholding proportion held directly and indirectly by BSAM in our Company will not reach 47.30%. In accordance with the Listing Rules and the Guidelines for the Implementation of Connected Transactions by Companies Listed on the Shanghai Stock Exchange (《上海證券交易所上市公司關聯交易實施指引》), this transaction constitutes a connected transaction and is subject to consideration and approval at the class meeting for holders of A Shares, class meeting for holders of H shares and general meeting of the Company. When the relevant proposal is considered at the Board meeting, the connected directors shall abstain from voting thereon. When the relevant proposal is submitted to the class meeting for holders of A Shares, class meeting for holders of H shares and general meeting of the Company for consideration, the connected shareholders shall also abstain from voting thereon.

**VI. WHETHER THIS ISSUE WILL CAUSE A CHANGE IN THE RIGHT OF CONTROL OF THE COMPANY**

As at the announcement date of the Proposal, the controlling shareholder and actual controller of the Company is BSAM which directly holds 43.16% shares of the Company and indirectly holds 2.14% shares of the Company through its wholly-owned subsidiary Beijing State-Owned Assets Management (Hong Kong) Company Limited. As a result, BSAM holds a total of 45.30% shares of the Company.

The total number of shares issued in this Non-public Issue of A Shares shall not exceed 232,240,000 shares (inclusive) and the proposed subscription proportion of BSAM shall not be less than 40% of the actual number of shares issued under this Non-public Issue of A Shares, and the number of shares to be subscribed for will not exceed 133,000,000. Upon completion of this Issue, the proportion of the total shares held by BSAM in the Company to the total share capital of the Company is expected to be less than 44.42% and will not reach 47.30%, and remains the controlling shareholder and actual controller of the Company. Therefore, this Non-public Issue will not result in a change in the right of control of the Company.

**VII. APPROVAL OF THE PROPOSED ISSUE FROM THE RELEVANT COMPETENT AUTHORITIES AND APPROVAL PROCEDURES**

The proposal on non-public issue of A Shares has been considered and approved at the fifteenth meeting of the third session of the Board of the Company, the first extraordinary general meeting for the year 2019, the first class meeting for holders of A shares for the year 2019 and the first class meeting for holders of H shares for the year 2019. The amendment matters related to this Non-public Issue of A Shares have been considered and approved at the twenty-first meeting of the third session of the Board of the Company and are still subject to the filing to the state-owned assets supervision and administration authorities and the consideration and approval at the class meeting for holders of A Shares, class meeting for holders of H shares and general meeting of the Company. In addition, according to the provisions of relevant PRC laws, regulations and regulatory documents including the Company Law, the Securities Law and the Measures for Administration of Issuance of Securities by Listed Companies (as amended in 2020) (《上市公司證券發行管理辦法》(2020年修訂)), this Non-public Issue of A Shares is subject to approval by the CSRC.

Upon obtaining the approval of the CSRC, the Company will apply to the SSE and China Securities Depository and Clearing Co., Ltd. (Shanghai Branch) for completing the issue and listing of shares and all reporting and approval procedures of this Non-public Issue.

### SECTION III OVERVIEW OF BSAM AND SUMMARY OF THE CONDITIONAL AGREEMENT ON SUBSCRIPTION OF SHARES ISSUED IN A NON-PUBLIC WAY

On 30 October 2019, the target subscriber determined at the fifteenth meeting of the third session of the Board of the Company was BSAM, the controlling shareholder of the Company. Other specific target subscribers will be determined following the principle of price priority in accordance with relevant provisions of the Detailed Rules for the Implementation of Non-public issue of Listed Companies (as amended in 2020) (《上市公司非公開發行股票實施細則》(2020年修訂)) and the subscription and quotation of investors after obtaining the approval for this Non-public Issue of A Shares from the CSRC. The overview of BSAM and the agreement on subscription of shares issued in a non-public way containing effectiveness conditions are summarized as follows:

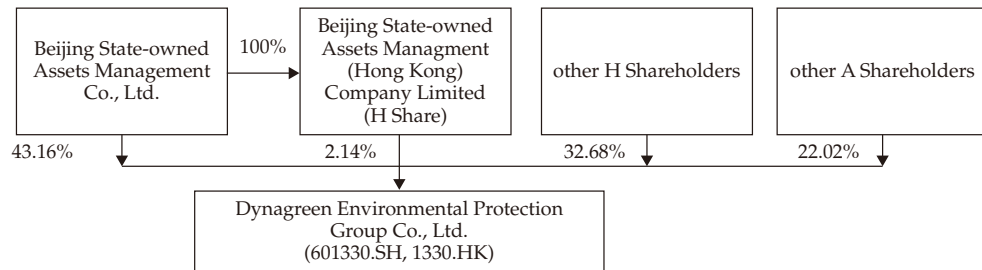
#### I. OVERVIEW OF BSAM

##### (I) Basic information

Company name:	Beijing State-owned Assets Management Co., Ltd.
Legal representative:	Yue Peng
Registered capital:	RMB10,000.00 million
Date of establishment:	4 September 1992
Social unified credit code:	911100004005921645
Registered address:	16/F, Tower B, Fu Kai Building, 19 Finance Street, Xicheng District, Beijing
Company type:	limited liability company (wholly state-owned)
Business scope:	asset management; project investment; investment management. (Enterprises independently select operation projects and carry out operating activities in accordance with laws; for projects subject to approval according to the law, the operation activities shall only be carried out within the approved scope upon the approval of the relevant authorities; enterprise shall not engage in operating activities prohibited or restricted by industrial policies issued by the municipality.)

**(II) Equity control relationship between the Company and BSAM**

The controlling shareholder and actual controller of the Company is BSAM. As at the announcement date of the Proposal, the shareholding structure between BSAM and the Company is as follows:



*Note:* BSAM directly holds 43.16% shares of Dynagreen and indirectly holds 2.14% shares of Dynagreen through its wholly-owned subsidiary Beijing State-Owned Assets Management (Hong Kong) Company Limited. As a result, BSAM holds a total of 45.30% shares of Dynagreen.

**(III) Principal businesses of BSAM**

BSAM is a large state-owned investment holding company authorized by the Beijing Municipal People's Government to specialize in capital operations. It operates and manages important state-owned assets in Beijing. BSAM has accumulated rich experience in investment management of major projects such as urban function development, medium and long-term equity investment, PE and venture capital, and has formed a standardized process of investment, management and exit, and a complete investment business chain and value chain. The core operating model of BSAM follows the policy of "investment-cultivation-maturity-exit-reinvestment". BSAM will choose to consider exiting from certain investment projects at due course to realize investment income.

**(IV) Summary financial statements of BSAM for the Last Three Years and the Last Period**

*Unit: RMB0'000*

Item	31 March 2020	31 December 2019	31 December 2018	31 December 2017
Total assets	14,301,689.22	14,710,376.46	13,016,641.06	12,673,161.77
Total liabilities	9,216,681.07	9,703,140.82	8,421,041.36	8,201,396.67
Total owner's equity	<u>5,085,008.15</u>	<u>5,007,235.64</u>	<u>4,595,599.70</u>	<u>4,471,765.11</u>

Item	January– March			
	2020	2019	2018	2017
Total operating revenue	283,413.46	2,194,332.65	2,018,019.20	1,632,300.70
Total profit	74,723.78	396,576.15	381,609.28	366,599.66
Net profit	<u>69,268.00</u>	<u>285,984.93</u>	<u>289,937.43</u>	<u>274,212.72</u>

*Source:* The annual audit reports for 2017-2019 and 2020 first quarter financial report of BSAM (unaudited).

**(V) Penalties and litigations against BSAM and its directors, supervisors and senior management in the last five years**

BSAM and its directors, supervisors and senior management (or main person in charge) were not imposed any administrative or criminal penalties or involved in any major civil litigation or arbitration related to economic disputes in the last five years.

**(VI) Horizontal competition or potential horizontal competition upon completion of this Non-public Issue of A Shares**

Upon completion of this Non-public Issue of A Shares, there will be no horizontal competition or potential horizontal competition between the businesses the Company and BSAM and other enterprises controlled by BSAM.

**(VII) Connected transaction after this Non-public Issue of A Shares**

The connected transactions between BSAM and the Company are mainly daily connected transactions, i.e., provisions of relevant services and products, guarantees and loans to the Company by BSAM and its connected parties. The connected transactions between the Company and BSAM have been fully disclosed in the Company's periodic reports and temporary announcements. The connected transactions are all due to the needs of business development and are fair behaviors conducted in line with the principle of market equity according to actual conditions. There is no deviation from comparable market prices and the necessary procedures have been completed. The connected transactions do not affect the independence of the Company's operations or prejudice the interests of the Company and minority shareholders.

The proposed subscription for the shares under this Non-public Issue of the Company by BSAM constitutes a connected transaction with the Company. In this regard, the Company will strictly perform the obligation of information disclosure and consideration procedures for connected transactions in strict accordance with the laws and regulations as well as the Company's regulations and rules on connected transactions and other provisions, following the principle of justice, fairness and openness, to maintain the independence of the Company and safeguard the interests of the Company and other shareholders.

**(VIII) Major transactions between the target subscribers and their controlling shareholder and actual controller and the Company in the 24 months prior to the announcement of the Proposal on this Non-public Issue of A Shares**

Details of the major connected transactions between the Company and the controlling shareholder and the actual controller of BSAM in 24 months prior to the disclosure of the Proposal on this Non-public Issue of A Shares are set out in the periodic reports, temporary announcements and other information disclosure documents disclosed by the Company on the official website of the SSE.

**II. SUMMARY OF THE CONDITIONAL AGREEMENT ON SUBSCRIPTION OF SHARES ISSUED IN A NON-PUBLIC WAY**

The main contents of the agreement on subscription of shares issued in a non-public way containing effectiveness conditions entered into between the Company and BSAM on 30 October 2019 are as follows:

**(I) Parties to the agreement**

Party A: Dynagreen Environmental Protection Group Co., Ltd.

Party B: Beijing State-owned Assets Management Co., Ltd.

**(II) Price and number of the subscription**

Both parties agree to use the pricing basis stipulated in the Measures for Administration of Issuance of Securities by Listed Companies (《上市公司證券發行管理辦法》), and the Detailed Rules for the Implementation of Non-public issue of Listed Companies (《上市公司非公開發行股票實施細則》) as the pricing basis for this Non-public Issue of shares. The Pricing Benchmark Date for this Non-public Issue is the first day of the issue period, and the issue price of this Non-public Issue shall neither be less than 90% of the average trading price of shares in the 20 trading days prior to the Pricing Benchmark Date nor be less than the latest audited net asset per share attributable to ordinary shareholders of parent company. Average trading price of shares in the 20 trading days before the Pricing Benchmark Date = total trading amount of shares in the 20 trading days before the Pricing Benchmark Date/total trading volume of shares in the 20 trading days before the Pricing Benchmark Date. The final issue price will be determined by the Board of Party A with the authorization at the general meeting through negotiation with the Sponsor (Lead Underwriter) based on the application and quotation of target subscribers after obtaining the approval document for this Non-public Issue from the CSRC. Party B will not participate in the market inquiry in relation to the pricing, but has undertaken to accept the market inquiry results and subscribe A shares issued under this Non-public Issue of A Shares at the same price as other specific investors.

The issue price will be adjusted accordingly if there occurs any ex-right or ex-dividend event between the Pricing Benchmark Date and the date of issue.

Both parties confirm that, after obtaining the approval of the CSRC for this Non-public Issue, the number of shares to be subscribed for by Party B from Party A shall neither be less than 40% actual number of shares issued under this Issue of A Shares, nor shall exceed 133,000,000 shares. Upon completion of the Non-public Issue, the aggregate shareholding proportion held directly and indirectly by Party B in Party A will not reach 47.30%, and the ultimate number of shares to be subscribed will be confirmed in the supplemental agreement to be entered into after the determination of the issue price.

Party B agrees that, in case of changes in the securities market, Party A may adjust the Pricing Benchmark Date, issue price, issue amount, and method of this Issue, and if Party A's board of directors does not terminate this agreement, Adjustments will be made accordingly to Party B's subscription price and subscription amount.

If the total amount of proceeds raised from this Non-public Issue is reduced due to regulatory policy changes or according to the requirements of the issue approval document, Party B agrees to make subscription at the amount that shall be subscribed for by Party B after the reduction in respect of subscription under the proposal on non-public issue as adjusted by Party A.

Party B shall pay the subscription funds for this Non-public Issue in cash.

**(III) Payment, capital verification and share registration**

Party B shall subscribe for the shares under this Non-public Issue conducted by Party A in accordance with the subscription price and subscription amount as determined in Article 3 in this agreement. After obtaining the approval document approved by the CSRC, Party A and the sponsor of this Non-public Issue will send the payment notice of share subscription (the "payment notice") in writing to Party B according to the issue proposal finally approved by the CSRC, Party B shall transfer the subscription funds to the account specially opened by the Sponsor (Lead Underwriter) for this Non-public Issue as required by the payment notice. The funds will be transferred to Party A's special deposit account for the proceeds after verifying the capital and deducting the relevant fees.

After receipt of the subscription funds for this Non-public Issue, Party A shall engage an accounting firm with qualifications for securities and futures business to conduct capital verification and, within 10 business days from the date of issue of the capital verification report, complete the procedures for registration of changes in shares with the depository and clearing corporation, amend the articles of association in a timely manner according to the conditions of this Non-public Issue and complete the procedures for industrial and commercial registration of changes, and Party B shall provide necessary assistance for this purpose.

Upon completion of this Non-public Issue, Party B and other shareholders of Party A shall share the retained undistributed profits of Party A before this Non-public Issue according to the then proportion of their respective shares held in Party A.

**(IV) Lock-up period**

Both parties agree and confirm that, the shares subscribed by Party B under the agreement shall be locked up for 36 months from the date of completing issuing shares under this Non-public Issue, and shall not be transferred or listed for circulation. Where there are stipulations otherwise provided by the CSRC and SSE, such provisions shall prevail.

Any increased shares arising from the bonus issue and capitalization conducted by Party A shall also be locked up according to the above lock-up period.



**(V) Liability for breach of contract**

After signing the agreement, except for force majeure, if any party fails to perform or fails to perform timely and properly any obligation hereunder or violate any statement, warranty or undertaking made hereunder, it shall be deemed as breach of contract. The default party shall assume the liability as follows:

- (1) where the agreement has specified the situation of liability for breach of contract, the relevant provision shall be applied;
- (2) for liability for breach of contract not specified in the agreement, the defaulting party shall indemnify the non-defaulting party in full for any loss suffered by, any liability of and/or any fees (including reasonable legal fees and travelling expenses, etc.) of the non-defaulting party arising from the breach of contract.

If any party does not perform or fails to perform promptly or properly any obligation ought to be performed under the agreement, which result in the failure of achieving the purpose of the agreement, the non-defaulting party shall be entitled to cancel the agreement. The defaulting party shall indemnify the non-defaulting party in full for the loss arising from the breach of contract.

If matters in relation to this Issue and this Non-public Issue under the agreement (1) fails to obtain the approval at the class meeting for holders of A Shares, class meeting for holders of H shares and general meeting of Party A; and/or (2) fail to obtain the approval and/or exemption from the CSRC and/or state-owned assets management authorities and/or other competent authorities (if necessary); and/or (3) are materially adjusted by Party A for matters including the Pricing Benchmark Date due to changes in the securities market, and if the board of directors of Party A unilaterally terminates the agreement, thus this Issue and this Non-public Issue cannot proceed, such circumstances shall not constitute the breach of contract by Party A.

**(VI) Effectiveness, dissolution and termination of the agreement**

The agreement shall be executed upon being signed and affixed with the official seal by the legal representatives or authorized representatives of both parties, and shall come into force upon the completion of all the following conditions:

- (1) The agreement shall be approved by the board of directors of Party A;
- (2) This Non-public Issue shall be approved by the board of directors of Party A;

- (3) This Non-public Issue shall be approved by the state-owned assets supervision and administration authorities;
- (4) This Non-public Issue, the subscription agreement and all the resolutions related and incidental thereto shall be approved at the class meeting for holders of A Shares, class meeting for holders of H shares and general meeting of Party A;
- (5) This Non-public Issue of Party A shall be approved by the CSRC.

Any amendments to the agreement shall be made in writing through negotiation by both parties and shall come into effect after being signed by both parties or their authorized representatives.

Except as otherwise provided in the agreement, the parties may terminate the agreement in writing through negotiation.

The agreement shall be terminated from the date of any of the following events:

- (1) The obligations of both parties under the agreement have been fully fulfilled;
- (2) Both parties to the agreement agree to terminate the agreement;
- (3) If Party A makes major adjustments to matters including the Pricing Benchmark Date due to the changes in the securities market, the board of directors of Party A has the right to terminate the agreement unilaterally;
- (4) According to the actual situation and relevant laws and regulations, Party A believes that this Non-public Issue has not been able to achieve the issue purpose, and has taken the initiative to withdraw the application materials from the CSRC or the SSE;
- (5) Other circumstances in which the agreement shall be terminated in accordance with the relevant PRC laws.

### III. SUMMARY OF THE SUPPLEMENTAL AGREEMENT OF THE CONDITIONAL AGREEMENT ON SUBSCRIPTION OF SHARES ISSUED IN A NON-PUBLIC WAY

The main contents of the supplemental agreement of the agreement on subscription of shares issued in a non-public way containing effectiveness conditions entered into between the Company and BSAM on 29 May 2020 are as follows:

#### (I) Parties to the agreement

Party A: Dynagreen Environmental Protection Group Co., Ltd.

Party B: Beijing State-owned Assets Management Co., Ltd.

#### (II) Price and number of the subscription

Both parties agree to use the pricing basis stipulated in the Measures for Administration of Issuance of Securities by Listed Companies (《上市公司證券發行管理辦法》), and the Detailed Rules for the Implementation of Non-public issue of Listed Companies (《上市公司非公開發行股票實施細則》) as the pricing basis for this Non-public Issue of shares. The issue price of this Non-public Issue shall neither be less than 80% of the average trading price of shares in the 20 trading days prior to the Pricing Benchmark Date nor be less than the latest audited net asset per share attributable to ordinary shareholders of parent company. Average trading price of shares in the 20 trading days before the Pricing Benchmark Date = total trading amount of shares in the 20 trading days before the Pricing Benchmark Date/total trading volume of shares in the 20 trading days before the Pricing Benchmark Date. The final issue price will be determined by the Board of Party A with the authorization at the general meeting through negotiation with the Sponsor (Lead Underwriter) based on the application and quotation of target subscribers after obtaining the approval document for this Non-public Issue from the CSRC. Party B will not participate in the market inquiry in relation to the pricing, but has undertaken to accept the market inquiry results and subscribe A shares issued under this Non-public Issue of A Shares at the same price as other specific investors. If the issue price is not incurred by way of bidding, Party B will continue to participate in the subscription. On the basis that the issue price shall not be less than 80% of the average transaction price of the shares in the 20 trading days prior to the Pricing Benchmark Date and shall not be lower than the amount of the latest audited net asset value per Share attributable to the shareholders of ordinary shares of parent company, the issue price will be determined after negotiations between the board of Party A and the Sponsor (Lead Underwriter).

The issue price will be adjusted accordingly if there occurs any ex-right or ex-dividend event between the Pricing Benchmark Date and the date of issue.

Both parties confirm that, after obtaining the approval of the CSRC for this Non-public Issue, the number of shares to be subscribed for by Party B from Party A shall neither be less than 40% actual number of shares issued under this Non-public Issue of A Shares, nor shall exceed 133,000,000 shares. Upon completion of the Non-public Issue, the aggregate shareholding proportion held directly and indirectly by Party B in Party A will not reach 47.30%, and the ultimate number of shares to be subscribed will be confirmed in the supplemental agreement to be entered into after the determination of the issue price.

Party B agrees that, in case of changes in the securities market, Party A may adjust the Pricing Benchmark Date, issue price, issue amount, and method of this Issue, and if Party A's board of directors does not terminate this agreement, Adjustments will be made accordingly to Party B's subscription price and subscription amount.

If the total amount of proceeds raised from this Non-public Issue is reduced due to regulatory policy changes or according to the requirements of the issue approval document, Party B agrees to make subscription at the amount that shall be subscribed for by Party B after the reduction in respect of subscription under the proposal on non-public issue as adjusted by Party A.

Party B shall pay the subscription funds for this Non-public Issue in cash.

### **(III) Lock-up period**

Both parties agree and confirm that, the shares subscribed by Party B under the agreement shall be locked up for 18 months from the date of completing issuing shares under this Non-public Issue, and shall not be transferred or listed for circulation. Where there are stipulations otherwise provided by the CSRC and SSE, such provisions shall prevail.

Any increased shares arising from the bonus issue and capitalization conducted by Party A shall also be locked up according to the above lock-up period.

SECTION IV FEASIBILITY ANALYSIS OF THE BOARD OF  
DIRECTORS ON THE USE OF THE PROCEEDS

## I. PLAN ON THE USE OF PROCEEDS

The total proceeds of this Non-public Issue of A Shares will not exceed RMB2,390.00 million. The net proceeds after deducting the issue expenses will be used for investment in Huizhou Phase II Project, Jinsha Project, Pingyang Phase II Project, Shishou Project, Yongjia Phase II Project and repayment of bank loans. Details are as follows:

No.	Project name	Proceeds	
		Total investment (RMB0'000)	intended to be used (RMB0'000)
1	Huizhou Phase II Project	111,345.00	60,000.00
2	Jinsha Project	45,205.00	38,000.00
3	Pingyang Phase II Project	35,063.55	30,000.00
4	Shishou Project	36,262.00	29,000.00
5	Yongjia Phase II Project	36,177.06	28,000.00
6	Repayment of bank loans	—	54,000.00
<b>Total</b>		<b>264,052.61</b>	<b>239,000.00</b>

Prior to the receipt of the proceeds from this Non-public Issue, the Company will first make investment with its self-raised funds depending on the progress of the proceeds funded projects, and will replace such funds according to the relevant specified procedures after the receipt of the proceeds.

If the actual amount of proceeds (after deducting the issue expenses) is less than the amount of proceeds to be invested in the abovementioned projects, the Company will, within the scope of ultimately determined proceeds funded projects, adjust and ultimately decide the specific investment projects, priority, and specific amount of investment in each project taking into account the Company's operation and the construction progress of projects. The insufficient funds that cannot be covered by the proceeds will be raised by the Company itself.

**II. FEASIBILITY ANALYSIS ON THE PROCEEDS FUNDED PROJECTS****(I) Huizhou Phase II Project****1. Basic information on the project**

The Huizhou Phase II Project is located in Lan Zi Long Environmental Park, Shatian Town, Huiyang District, Huizhou City, Guangdong Province. The domestic waste incineration treatment capacity of the phase I of the project is 1,700 tons per day. The project adopts 2 ×850 tons / day grate waste incinerators and 1 ×40 MW steam turbine generator set; the construction of the phase II of the project with the incineration treatment scale of domestic waste of 1,700 tons per day is expected to commence based on waste supply when appropriate and the civil works and supporting works have been completed in the phase I. The total investment in the project is estimated to be RMB1,113.45 million, and it is proposed to use proceeds in an amount of RMB600.00 million.

**2. Background and necessity of the project construction**

Huiyang - Daya Bay area is adjacent to Shenzhen. In recent years, with the economic development of the Pearl River Delta and driven by the Shenzhen region, the Huiyang - Daya Bay area has developed rapidly, resulting in an increase in domestic waste production at a faster rate.

At present, the average amount of waste transported the environmental park is 1,435 tons per day on average, which is still gradually increasing and exceeds the construction expectation of the phase I of the project (the capacity of phase I of the project is 1,200 tons per day after completion and being put into operation), and the current incineration treatment scale cannot satisfy needs. The excess waste that is required to be transported to the landfill in the park for treatment occupies a large amount of storage capacity. The landfill is a fly ash landfill treatment site. According to the environmental impact assessment of the phase I of the project, the incineration fly ash must be safely treated in the park. If the excess domestic waste continues to enter the landfill for treatment, the future treatment space for incineration fly ash in the park will be further compressed, thus shortening the life of the environmental park. Therefore, in order to implement the relevant plan on detoxification treatment of domestic waste, protect the local ecological environment, and improve the efficiency of waste recycling, the construction of Huizhou Phase II Project is necessary.

**3. Investment estimates for the project**

The investment estimates for the project are as follows:

Name of engineering or expense	Total investment (RMB0'000)	Proportion in investment
Construction engineering	39,194.20	35.20%
Equipment purchase	33,244.24	29.86%
Installation engineering	10,695.75	9.61%
Initial working capital	329.66	0.30%
Interest during construction period	3,359.52	3.02%
Budgetary reserves	7,974.51	7.16%
Others	16,547.12	14.86%
<b>Total investment</b>	<b>111,345.00</b>	<b>100.00%</b>

**4. Analysis on economic benefits of the project**

According to the project feasibility study report, the financial internal rate of return (after tax) of investment in Huizhou Phase II Project is 6.18%, indicating good economic benefits.

**5. Project approval procedures and its fulfillment**

The Huizhou Phase II Project is operated with PPP model, and the approval procedures are fulfilled as follows:

## (1) Reply on the project proposal

In February 2019, Huizhou Municipal Development and Reform Bureau issued the Reply of Huizhou Municipal Development and Reform Bureau on Approval of the Phase II of the Municipal waste-to-energy PPP Project in Huiyang Environmental Park (Hui Fa Gai He Zhun [2019] No. 2) (《惠州市發展和改革局關於惠陽環境園生活垃圾焚燒二期PPP項目核准的批覆》(惠發改核准[2019]2號)) for the project.

## (2) Reply on the environmental impact assessment

In November 2018, Huizhou Environmental Protection Bureau issued the Reply on the Environmental Impact Report of the Phase II of the Municipal waste-to-energy PPP Project in Huiyang Environmental Park (Hui Shi Huan Jian [2018] No. 43) (《關於惠陽環境園生活垃圾焚燒二期PPP項目環境影響報告書的批覆》(惠市環建[2018]43號)) for the project.

## (3) Land management

The owner for the Huizhou Phase II Project has obtained the Preliminary Opinions on Construction Land of the Phase II of the Municipal waste-to-energy (PPP) Project in Huiyang Environmental Park (Hui Shi Guo Tu Zi Han [2018] No. 2031) (《關於惠陽環境園生活垃圾焚燒二期(PPP)項目用地的預審意見》(惠市國土資函[2018]2031號)) issued by Huizhou Land and Resources Bureau for the project.

Relevant provision under the Contract on the Phase II of the Municipal Waste-to-energy PPP Project in Huiyang Environmental Park (《惠陽環境園生活垃圾焚燒二期PPP項目合同》) entered into between the City Appearance and Environmental Health Administration of Huiyang District, Huizhou City and the project company: “5.1 Land use right - The Environmental Health Administration of Huiyang District shall proactively communicate and cooperate with relevant government authorities to ensure that the project company has the right to obtain the project land (the “Land Use Right”) for free at the beginning of the construction period and that the project company exclusively uses the land during the project cooperation period. For the avoidance of doubt, both parties made it clear that the project land use right shall not be transferred to the project company. The government only provides the land in its current status to the project company. The project company shall complete the land filling and leveling of the project land”. According to the above provision under the contract, for Huizhou Phase II Project, the Environmental Health Administration of Huiyang District, Huizhou City mainly provides the project company with the project land needed for the project construction project in accordance with the contract.

According to the Explanations on the Completion of Procedures for the Land for the Phase II of the Municipal Waste-to-energy PPP Project in Huiyang Environmental Park (《關於惠陽環境園生活垃圾焚燒發電二期項目土地手續辦理情況的說明》) issued by the Natural Resources Administration of Huiyang District, Huizhou City on 22 May 2020, the land for the Huizhou Phase II Project has been submitted for approval as one of the third batch of urban construction land of Huiyang District for 2019 and has been approved by the Document (Yue Fu Tu Shen (10) [2020] No. 6) for transfer into state-owned construction land. The administration is currently proceeding with relevant subsequent procedures for land use for the abovementioned project in accordance with established procedures.



In conclusion, the land use ownership certificate for the Huizhou Phase II Project is still in progress of application, and it is expected that there will be no obstacle against the acquisition of land and the implementation of the Huizhou Phase II Project as scheduled will not be affected.

(4) Safety approval

Pursuant to Article 29 of the Law of the People's Republic of China on Production Safety (Revised in 2014) (《中華人民共和國安全生產法(2014修正)》), "construction projects for mines and metal smelting and construction projects for production, storage, loading and unloading of dangerous goods shall be subject to safety evaluation in accordance with relevant national regulations". Therefore, the Huizhou Phase II Project is not required to go through safety evaluation procedures or obtain approval from safety management authorities.

(5) Energy management approval

According to Article 7 of the Measures for Implementation of Energy Conservation Examination of Fixed Assets Investment Projects of Guangdong Province (《廣東省固定資產投資項目節能審查實施辦法》), the projects with the annual comprehensive energy consumption of less than 1,000 tons of standard coal and the annual electricity consumption of less than 5 million kWh and those in the industry directory which are not required to be subject to separate energy conservation examination as stipulated by the state shall be constructed in accordance with relevant energy conservation standards and not be subject to separate energy conservation examination. Therefore, the Huizhou Phase II Project shall not be subject to energy conservation examination.

(6) Other government approval procedures

According to the Approval of the People's Government of Huiyang District, Huizhou City on the Implementation Plan and Tender Documents (Including PPP Contract) of the Phase II of the Municipal Waste-to-energy PPP Project in Huiyang Environmental Park (《惠州市惠陽區人民政府關於惠陽環境園生活垃圾焚燒二期項目實施方案、招標文件(含PPP合同)的批覆》) issued by the People's Government of Huiyang District, Huizhou City on 4 September 2017, the project was approved to be set up.

According to the Letter on Passing the Verification of Value for Money and Financial Affordability of the Phase II of the Municipal Waste-to-energy PPP Project in Huiyang Environmental Park (《關於〈惠陽環境園生活垃圾焚燒二期項目〉通過物有所值、財政承受能力驗證的函》) issued by the Finance Bureau of Huiyang District, Huizhou City on

10 August 2017, the project passed the appraisal of value for money and verification of financial affordability.

In accordance with the information published on the official website of China Public Private Partnerships Center, the Huizhou Phase II Project was included in the PPP project library by China Public Private Partnerships Center on 27 July 2018.

As the main regulation objects under relevant PPP project laws and regulations including the Notice on Issuance of the Interim Measures for Financial Administration of PPP Projects (Cai Jin [2016] No. 92) (《關於印發〈政府和社會資本合作項目財政管理暫行辦法〉的通知》) (財金[2016]92號) (the “Notice”) issued by the Ministry of Finance are government authorities at all levels instead of social capital, the relevant compete government authorities shall take the lead in inclusion of the Huizhou Phase II Project in the medium-term financial planning and budget of government.

According to the Contract on the Phase II of the Municipal Waste-to-energy PPP Project in Huiyang Environmental Park (《惠陽環境園生活垃圾焚燒二期PPP項目合同》) entered into between the City Appearance and Environmental Health Administration of Huiyang District, Huizhou City and the project company, the Huizhou Phase II Project shall be operated by the project company set up wholly with the contribution by the Issuer and does not involve government funding. The Huizhou Phase II Project is expected to be put into commercial operation in 2020 and will then incur financial expenditure due to payment of waste treatment fee by the government to the project company.

Pursuant to the Explanations issued by the Environmental Health Affairs Center of Huiyang District on 6 May 2020, as the construction of the Huizhou Phase II Project has not been completed and the government did not incur payment obligation before the official operation of the project, the project has not been included in the medium and long-term financial planning and budget, and shall be subject to approval by the People’s Congress of the district or its standing committee. The Environmental Health Affairs Center of Huiyang District is proactively advancing the inclusion of the Huizhou Phase II Project in the medium and long-term financial planning and budget as well as consideration and approval by the People’s Congress. There is no legal or procedure obstacle and there will be no adverse impact on the implementation of the Huizhou Phase II Project and the performance of the relevant franchise agreement.

**(II) Jinsha Project****1. Basic information on the project**

Jinsha Project is located in Jinsha County, Bijie City, Guizhou Province. The project's domestic waste incineration treatment capacity is 800 tons per day and adopts 2×400 tons/day grate waste incinerators, a 1×15 MW steam turbine and a 1×18MW generator, and is also equipped with flue gas and leachate treatment facilities, power access system engineering and production water supply engineering, etc. The total investment in the project is RMB452.05 million, and it is proposed to use proceeds in an amount of RMB380.00 million.

**2. Background and necessity of the project construction**

According to the data provided by the Jinsha County Urban Management Bureau, the amount of waste removal of the county is currently more than 110 tons per day, while the amount of waste to enter the waste treatment system from other township areas is estimated to be around 330 tons per day and there is still part of the waste which is not collected by the waste treatment system. It is preliminarily estimated that the waste production in the county is close to 450 tons per day. At present, the main waste treatment method in Jinsha County is landfilling, and there are Jinsha County landfill (140 tons/day) and Shatu Domestic Waste Landfill (90 tons/day). It is expected that Jinsha County landfill will be closed in 2020. Then, Shatu landfill plant will not be able to meet the waste collection and transportation needs of the county, and it is urgently needed to build other waste treatment facilities.

The “13th Five-Year” Plan for National Construction Plan for Municipal Waste Detoxification Treatment Facilities (《「十三五」全國城鎮生活垃圾無害化處理設施建設規劃》) encourages qualified areas to give priority to recycling treatment technologies including incineration and the “13th Five-Year” Plan on Energy Development (《能源發展「十三五」規劃》) also strongly advocates the development and utilization of clean energy. The use of Waste Incineration for treatment of domestic waste in Jinsha County is in line with the need to strengthen the treatment of municipal domestic waste in Guizhou Province.

The service of the project covers all areas of Jinsha County, Qianxi County and Baili Dujuan Management Area, including rural areas, which can effectively solve the problem of domestic waste pollution and resource recovery and greatly improve the urban and rural landscape and ecological environment. Jinsha Project is a good practice of the requirement of “to carry out remediation for rural living environment” under the “13th Five-Year” Plan and is of great importance for improving the local ecological environment and promoting regional economic development.

### 3. Investment estimates for the project

The investment estimates for the project are as follows:

Name of engineering or expense	Total investment (RMB0'000)	Proportion in investment
Construction engineering	12,789.73	28.29%
Equipment purchase	16,319.92	36.10%
Installation engineering	5,724.65	12.66%
Initial working capital	158.52	0.35%
Interest during construction period	1,350.53	2.99%
Budgetary reserves	2,080.76	4.60%
Other expenses	6,780.94	15.00%
<b>Total investment</b>	<b>45,205.05</b>	<b>100.00%</b>

### 4. Analysis on economic benefits of the project

According to the project feasibility study report, the financial internal rate of return (after tax) of investment in Jinsha Project is 5.83% and the payback period is 15.5 years, indicating good economic benefits.

### 5. Project approval procedures and its fulfillment

The operation model of the Jinsha Project is changed from PPP to BOO. The above change will not affect the effectiveness of the franchise of the Jinsha Project and will not cause the project to be terminated. Details of the implementation of the approval procedures for the project are as follows:

#### (1) Reply on the project proposal

In October 2018, Guizhou Provincial Development and Reform Commission issued the Reply of the Provincial Development and Reform Commission on Approval of the Municipal waste-to-energy Project in Jinsha County (Qian Fa Gai Huan Zi [2018] No. 1222) (《省發展改革委關於金沙縣生活垃圾焚燒發電項目核准的批覆》(黔發改環資[2018]1222號)) for the project.

## (2) Reply on the environmental impact assessment

In March 2018, the Environmental Protection Department of Guizhou Province issued the Reply of the Environmental Protection Department of Guizhou Province on the Environmental Impact Report of the Municipal waste-to-energy Project in Jinsha County (Qian Huan Shen [2018] No. 25) (《貴州省環境保護廳關於金沙縣生活垃圾焚燒發電項目環境影響報告書的批覆》(黔環審[2018]25號)) for the project.

## (3) Land management

In March 2018, the Land and Resources Department of Guizhou Province issued the Reply of the Provincial Land and Resources Department on the Pre-approval of the Land for the Municipal waste-to-energy Project in Jinsha County (Qian Guo Tu Zi Yu Shen Han [2018] No. 10) (《省國土資源廳關於金沙縣生活垃圾焚燒發電項目用地預審的覆函》(黔國土資預審函[2018]10號)) for the project.

Relevant provision under the Contract on Franchise Operation of the Domestic Waste Removal and Waste-to-energy Integration Services PPP Project in Jinsha County (《金沙縣生活垃圾清運焚燒發電一體化服務PPP項目特許經營合同》) entered into between the Urban Administration Bureau of Jinsha County and the project company: “7.1 Party B shall undertake to obtain the land use right of waste-to-energy power plant according to the bidding price of land bidding, auction and listing”. According to the above provision under the contract, the project land for the Jinsha Project shall be obtained by Jinsha Company by way of transfer.

On 15 October 2019, Jinsha Company and the Natural Resources Bureau of Jinsha County entered into the Contract on Transfer of the Use Right of State-owned Construction Land (《國有建設用地使用權出讓合同》) (Electronic Supervision No.: 5224242019B01215), pursuant to which Jinsha Company shall pay for the transfer of the use right of state-owned construction land in an amount of RMB14.6 million to the Natural Resources Bureau of Jinsha County in two instalments of RMB7.3 million each prior to 14 November 2019 and 15 October 2020, respectively. It is verified that as at the date of issuance of the reply report, Jinsha Company has made full payment for the land transfer in instalments according to the contract in September 2019, November 2019 and April 2020, respectively.

In accordance with the Guidance on Registration of Real Estate of Jinsha County (《金沙縣不動產登記辦事指南》) as published by the Real Estate Registration Center of Jinsha County, the following materials shall be submitted for initial registration of use right of state-owned construction land: 1. real estate registration application form; 2. identity certificate of applicant; 3. contract on transfer of use right of state-owned construction land; 4. vouchers on full payment for land transfer; 5. real estate ownership survey results; 6. tax payment receipt. At present, Jinsha Company is preparing the real estate ownership survey results and plans to submit the relevant application documents for the real estate certificate of the land for the Jinsha Project to the Real Estate Registration Center of Jinsha County immediately after obtaining the abovementioned real estate ownership survey results. Currently, the procedures for the project land are in normal progress, and it is expected that there is no legal obstacle against the acquisition of the project land and the implementation of the Jinsha Project as scheduled will not be affected accordingly.

### **(III) Pingyang Phase II Project**

#### **1. Basic information on the project**

Pingyang Phase II Project is located in Dongjiang Village, Aojiang Town, Pingyang County, Wenzhou City, Zhejiang Province. The project's domestic waste incineration treatment capacity is 750 tons per day and is equipped with a 1×7,500 tons/day mechanical grate incinerator and a 1x18MW steam turbine. It comprises the main plant, chimney, waste haulage gantry, complex building, circulating pump room and cooling tower, guard room, sewage treatment plant station, industrial and fire pool, water purification station and other supporting facilities. The total investment in the project is RMB350,635,500, and it is proposed to use proceeds in an amount of RMB300.00 million.

#### **2. Background and necessity of the project construction**

Pingyang County is under the jurisdiction of Wenzhou City, Zhejiang Province. It is along the coast in the south of Zhejiang Province. With the rapid growth of Pingyang County's economic construction and the continuous expansion of city size, the amount of urban domestic waste has increased year by year. The waste production in the whole area has increased rapidly and the situation is grim. In order to speed up the construction of environmental sanitation infrastructures in Pingyang County, implement the construction plan of solid waste facilities in Pingyang County, and realize the total discharge control of major pollutants, it is urgently needed to solve the problem of urban domestic waste treatment in Pingyang County.

Waste-to-energy is one of the most effective technical means for the detoxification treatment, reduction and resource recycling of municipal waste. The construction of this project is in line with the planning and industrial policy requirements of the State and Zhejiang Province, and can effectively alleviate the waste treatment problem in Pingyang County and gradually realize the detoxification treatment, reduction and resource recycling of domestic waste, to improve the local environmental, social and economic benefits. Therefore, the construction of the waste-to-energy project is necessary.

### 3. Investment estimates for the project

The investment estimates for the project are as follows:

Name of engineering or expense	Total investment (RMB0'000)	Proportion in investment
Construction engineering	9,306.89	26.54%
Equipment purchase	16,337.20	46.59%
Installation engineering	4,456.90	12.71%
Initial working capital	135.32	0.39%
Interest during construction period	1,040.70	2.97%
Budgetary reserves	987.02	2.81%
Others	2,799.52	7.98%
<b>Total investment</b>	<b>35,063.55</b>	<b>100.00%</b>

### 4. Analysis on economic benefits of the project

According to the project feasibility study report, the financial internal rate of return (after tax) of investment in Pingyang Phase II Project is 8.70% and the payback period (after tax) is 12.28 years, indicating good economic benefits.



## 5. Project approval procedures and its fulfillment

The Pingyang Phase II Project is operated with PPP model, and the approval procedures are fulfilled as follows:

### (1) Reply on the project proposal

In July 2018, the Development and Reform Bureau of Pingyang County issued the Reply on Approval of the Feasibility Study Report for the Phase II of Expansion of Waste-To-Energy Power Plant Project in Pingyang County (Ping Fa Gai Tou Zi [2018] No. 74) (《關於同意平陽縣垃圾焚燒發電廠二期擴建工程可行性研究報告的批覆》(平發改投資[2018]74號)) for the project.

### (2) Reply on the environmental impact assessment

In March 2018, the Environmental Protection Bureau of Wenzhou City issued the Letter on Approval of the Environmental Impact Report of the Phase II of Expansion of Waste-To-Energy Power Plant Project in Pingyang County (Wen Huan Jian [2018] No. 036) (《關於平陽縣垃圾焚燒發電廠二期擴建工程環境影響報告書審批意見的函》(溫環建[2018]036號)) for the project.

### (3) Land management

Relevant provision under the Contract on the Phase II of Expansion of Waste-to-energy Power Plant PPP Project in Pingyang County (《平陽縣垃圾焚燒發電廠二期擴建PPP項目合同》) entered into between the Comprehensive Administrative Law Enforcement Bureau of Pingyang County and the project company: “10.2.1 The project is an urban infrastructure project. The construction land is allowed to be allocated as it is ‘land for environmental protection facilities’ and in line with the Land Allocation List and meets the allocation conditions. The county government allocates land for project facilities to Party A or a government-designated agency, provides it to Party B for use, and issues relevant certification documents”. According to the above provision under the contract, the project land required for project construction of the Pingyang Phase II Project is mainly provided by the Comprehensive Administrative Law Enforcement Bureau of Pingyang County to the project company according to the contract.



The owner of Pingyang Phase II Project has legally obtained a land use right certificate (Zhe (2019) Pingyang County Real Estate Title No. 0014803).

(4) Safety approval

Pursuant to Article 29 of the Law of the People's Republic of China on Production Safety (Revised in 2014) (《中華人民共和國安全生產法(2014修正)》), "construction projects for mines and metal smelting and construction projects for production, storage, loading and unloading of dangerous goods shall be subject to safety evaluation in accordance with relevant national regulations". Therefore, the Pingyang Phase II Project is not required to go through safety evaluation procedures or obtain approval from safety management authorities.

(5) Energy management approval

According to Article 3 of the Administrative Measures for Energy Conservation Assessment and Examination of Fixed Assets Investment Projects of Zhejiang Province (《浙江省固定資產投資項目節能評估和審查管理辦法》), the fixed assets investment projects with the annual comprehensive energy consumption of 3,000 tons of standard coal and above or annual electricity consumption of 3 million kWh and above shall be subject to energy conservation examination. The energy conservation examination for industrial investment projects other than those as stipulated in the above article shall be determined by the government of the cities with districts and countries (cities, districts). The retrieval through public channels shows that Pingyang Municipal Government has not published provisions on energy conservation examination. Therefore, the Pingyang Phase II Project is not required to be subject to energy conservation examination.

(6) Other government approval procedures

In accordance with the Reply of the People's Government of Pingyang County on Approval of the Implementation Plan of the Phase II of Expansion of Waste-to-energy Power Plant PPP Project in Pingyang County (《平陽縣人民政府關於關於同意〈平陽縣垃圾焚燒發電廠二期擴建PPP項目實施方案〉的批覆》) issued by the People's Government of Pingyang County on 8 October 2018, the project was approved to be set up.

The Finance Bureau of Pingyang County issued the Opinions on Review of the Value for Money Appraisal Report of the Phase II of Expansion of Waste-to-energy Power Plant PPP Project in Pingyang County and the Financial Affordability Verification Report of the Phase II of Expansion of Waste-to-energy Power Plant PPP Project in Pingyang

County (《關於對〈平陽縣垃圾焚燒發電廠二期擴建PPP項目物有所值評價報告〉和〈平陽縣垃圾焚燒發電廠二期擴建PPP項目財政承受能力論證報告〉審核的意見》) on 25 July 2018, pursuant to which the project passed the value for money appraisal and financial affordability verification.

In accordance with the information published on the official website of China Public Private Partnerships Center, the Pingyang Phase II Project was included in the PPP project library by China Public Private Partnerships Center on 25 September 2018.

On 8 October 2018, the People's Government of Pingyang County issued the Reply of the People's Government of Pingyang County on Approval of the Implementation Plan of the Phase II of Expansion of Waste-to-energy Power Plant PPP Project in Pingyang County (Ping Zheng Fa [2018] No. 170) (《平陽縣人民政府關於同意〈平陽縣垃圾焚燒發電廠二期擴建PPP項目實施方案〉的批覆》) (平政發[2018]170號), pursuant to which the government financial expenditure responsibility of the Pingyang Phase II Project was approved to be included in the annual financial budget and medium-term financial planning of county-level government and the government's performance capacity throughout the life cycle of the project was guaranteed.

As at the announcement date of the proposal, the funds for purchase of services by the government in relation to the Pingyang Phase II Project have not been approved by the local People's Congress. In accordance with the Contract on the Phase II of Expansion of Waste-to-energy Power Plant PPP Project in Pingyang County (《平陽縣垃圾焚燒發電廠二期擴建PPP項目合同》) entered into between the Comprehensive Administrative Law Enforcement Bureau of Pingyang County and the project company, the construction period of the project is 2 years, and the project is expected to be completed and put into operation in 2021 and then the local government needs to pay the relevant waste treatment fee to the project company. At present, the project is still in the construction period. Before the project construction is completed and the project is put into operation, the government will not have a payment obligation. Therefore, it has not been considered by the People's Congress.

In light of the above, the Comprehensive Administrative Law Enforcement Bureau of Pingyang County has issued the Explanations: the government financial expenditure responsibility of the Pingyang Phase II Project has been included in the annual financial budget and medium-term financial planning of county-level government. The Comprehensive Administrative Law Enforcement Bureau of Pingyang County is proactively advancing relevant consideration and approval. There is no legal and procedure obstacle and there will be no adverse impact on the implementation of the Pingyang Phase II Project and the performance of the relevant franchise agreement.

**(IV) Shishou Project****1. Basic information on the project**

Shishou Project is located on the south side of Liunan Road, Guanjiapu Village, Nankou Town, Shishou City, Hubei Province. The project's domestic waste incineration treatment capacity is 700 tons per day and is equipped with 2×350 tons/day grate waste incinerators, a 1×18MW condensing steam turbine and a 1×18MW generator set. The total investment in the project is RMB362.62 million, and it is proposed to use proceeds in an amount of RMB290.00 million.

**2. Background and necessity of the project construction**

According to the Urban Master Planning of Shishou City (2014-2030) (《石首市城市總體規劃(2014-2030)》), it is expected that the resident population of Shishou City will be 670,300 by 2020, including 343,100 urban population, and the resident population of Shishou City will reach 753,300 by 2030, including 473,900 of urban population. As at the end of the planning period, the amount of municipal domestic waste production is approximately 473 tons per day, and the total annual domestic waste production is approximately 173,000 tons.

The level of urban domestic waste treatment has become an important indicator reflecting the degree of urban civilization, economic strength, scientific and technological strength, and environmental awareness and modern awareness of urban managers. Domestic waste management and pollution prevention and control have become an important part of urban environmental protection. At present, the treatment standards of waste treatment sites in Shishou City are relatively low, and the waste treatment methods are relatively backward. With the development of cities and increase in population, the problem of waste treatment will become more and more serious. In order to achieve centralized treatment of municipal domestic waste and standardization and normalization of treatment facilities, the construction of the project is conducive to the achievement of reduction and standard removal of local waste, saving land resources, and mitigating the problem that mere use of the landfilling method occupies a larger area. The completion of the waste-to-energy project in Shishou City will protect the ecological environment and also save and provide resources for the society. Therefore, the project is necessary.

**3. Investment estimates for the project**

The investment estimates for the project are as follows:

Name of engineering or expense	Total investment (RMB0'000)	Proportion in investment
Construction engineering	12,108.00	33.39%
Equipment purchase	13,979.00	38.55%
Installation engineering	3,962.00	10.93%
Initial working capital	116.00	0.32%
Interest during construction period	1,286.00	3.55%
Budgetary reserves	1,015.00	2.80%
Others	3,796.00	10.47%
<b>Total investment</b>	<b>36,262.00</b>	<b>100.00%</b>

**4. Analysis on economic benefits of the project**

According to the project feasibility study report, the financial internal rate of return (after tax) of investment in Shishou Project is 9.89% and the payback period (after tax) is 10.63 years, indicating good economic benefits.

**5. Project approval procedures and its fulfillment**

The Shishou Project is operated with BOT model, and the approval procedures are fulfilled as follows:

## (1) Reply on the project proposal

In May 2019, the Development and Reform Bureau of Shishou City issued the Reply on Approval of the Report on Change Application of the Municipal waste-to-energy Project in Shishou City (Shi Fa Gai Shen Pi [2019] No. 35) (《關於核准〈石首市生活垃圾焚燒發電項目變更申請報告〉的批覆》(石發改審批[2019]35號)) for the project.

## (2) Reply on the environmental impact assessment

In November 2018, the Environmental Protection Department of Hubei Province issued the Reply of the Provincial Environmental Protection Department on Change of Social Investors for the Municipal waste-to-energy Project in Shishou City (E Huan Han [2018] No. 151) (《省環保廳關於變更石首市垃圾焚燒發電項目社會投資方的覆函》(鄂環函[2018]151號)) for the project.

(3) Land management

The owner of Shishou Project has legally obtained a land use right certificate (Shi Tu (2013) No. 01724).

(V) **Yongjia Phase II Project**

**1. Basic information on the project**

Yongjia Phase II Project is located next to the existing waste-to-energy plant in Yongjia County at the foot of Houjiang Mountain in Sanjiang Sub-district, Yongjia County, Zhejiang Province. The newly-built Phase II project's domestic waste treatment capacity is 750 tons per day, and is equipped with a 1×750 tons/day grate waste incinerator, a 1×18MW condensing steam turbine generator set and supporting facilities. The Company's total investment in the project is RMB361,770,700, and it is proposed to use proceeds in an amount of RMB280.00 million.

**2. Background and necessity of the project construction**

Yongjia County, Wenzhou City is located in the southeastern Zhejiang Province and is one of the cities with the fastest economic development in the PRC. With the development of the national economy, the urbanization process has accelerated, the urban population has also increased, and the output of domestic waste and industrial waste has increased. The lack of waste treatment facilities in various districts of Yongjia County has led to a low utilization efficiency of domestic waste and increasingly serious environmental pollution problems, which jeopardizes people's health and restricts the sustainable development of city.

The treatment method of Waste Incineration can be used for treatment of domestic and industrial waste and has a high degree of detoxification and reduction, and the generated heat can be fully utilized for power generation. The construction of Yongjia Phase II Project will utilize the reserved open space for construction and complement the original facilities. It is expected that the project will effectively solve the problem of rapid growth of waste treatment in Yongjia County and is conducive to promoting local environmental protection and economic development. Therefore, the construction of this project is necessary.

### 3. Investment estimates for the project

The investment estimates for the project are as follows:

Name of engineering or expense	Total investment (RMB0'000)	Proportion in investment
Construction engineering	8,235.09	22.76%
Equipment purchase	13,946.63	38.55%
Installation engineering	4,051.29	11.20%
Initial working capital	136.84	0.38%
Interest during construction period	1,120.83	3.10%
Budgetary reserves	1,662.83	4.60%
Others	7,023.56	19.41%
<b>Total investment</b>	<b>36,177.07</b>	<b>100.00%</b>

### 4. Analysis on economic benefits of the project

According to the project feasibility study report, the financial internal rate of return (after tax) of investment in Yongjia Phase II Project is 8.27% and the payback period (after tax) is 11.28 years, indicating good economic benefits.

### 5. Project approval procedures and its fulfillment

The operation model of the Yongjia Phase II Project is changed from PPP to BOT. The above change will not affect the effectiveness of the franchise of the Yongjia Phase II Project and will not cause the project to be terminated. Details of the implementation of the approval procedures for the project are as follows:

(1) Reply on the project proposal

In June 2019, the Development and Reform Bureau of Yongjia County issued the Reply on the Feasibility Study Report on the Municipal waste-to-energy Plant Upgrading and Reconstruction Project in Yongjia County (Yong Fa Gai Shen [2018] No. 80) (《關於永嘉縣垃圾焚燒發電廠改造提升工程可行性研究報告的批覆》(永發改審[2018]80號)) for the project.

## (2) Reply on the environmental impact assessment

In December 2018, the Environmental Protection Bureau of Wenzhou City issued the Letter on Approval of the Environmental Impact Report of the Municipal waste-to-energy Plant Upgrading and Reconstruction Project in Yongjia County (Wen Huan Jian [2018] No. 035) (《關於永嘉垃圾焚燒發電廠改造提升工程項目環境影響報告書審批意見的函》(溫環建[2018]035號)) for the project.

## (3) Land management

In February 2018, Land and Resources Bureau of Yongjia County issued the Preliminary Opinions on the Municipal waste-to-energy Plant Upgrading and Reconstruction Project in Yongjia County (Yong Tu Zi Yu [2018] No. 2) (《關於永嘉縣垃圾焚燒發電廠改造提升工程的預審意見》(永土資預[2018]2號)) for the project.

Sanjiang Branch of the Natural Resources and Planning Bureau of Yongjia County issued the Explanations, which certified that the land for the Yongjia Phase II Project was provided to the project company for use by the Construction Headquarter of Yongjia Waste-to-Energy Power Plant after acquisition thereof by way of allocation. The relevant approval and publication for the abovementioned project land are in progress. There is no legal obstacle to prevent the Construction Headquarter of Yongjia Waste-to-Energy Power Plant to obtain the land use ownership certificate and there will be no adverse impact on the land use by the project company.

Therefore, the Yongjia Phase II Project is still in the process of obtaining the land, which is expected to be not subject to legal obstacle, and the implementation of the Yongjia Phase II Project as scheduled will not be affected accordingly.

**(VI) Repayment of bank loans**

The Company proposes to use proceeds from this Issue in an amount of no more than RMB540.00 million for repayment of bank loans.

In recent years, with the continuous development of the municipal waste-to-energy industry, relevant industry support policies have been introduced, and the demand for waste removal and treatment has been continuously released. As a result, the Company's business scale and operating income have grown rapidly. As at 31 March 2020, in respect of the municipal waste-to-energy sector, the Company had 21 projects under operation, 8 projects under construction and 14 projects under preparation. The waste treatment capacity of the projects under operation reached 20,010 tons/day, the installed capacity was 392.5MW.



As the Company's construction projects and projects under operation increase, in order to satisfy the capital needs during the Company's development process, the Company mainly raise funds through bank loans and other means. As at the end of March 2020, the Company's balance of short-term loans, balance of long-term loans and long-term loans due within one year amounted to RMB2,817 million, RMB5,337 million and RMB734 million, respectively. Therefore, the Company's repayment pressure is large. For 2017, 2018, 2019 and January to March 2020, the finance costs of the Company amounted to RMB153 million, RMB209 million, RMB328 million and RMB94 million, respectively. The finance costs increase year by year. Meanwhile, as at the end of 2017, 2018, 2019 and March 2020, the Company's gearing ratio was 67.19%, 72.22%, 74.42% and 74.75%, presenting a rising trend year by year, which were above the debt levels of the industry over the same period. The higher gearing ratio affects the Company's debt financing ability and also leads to higher borrowing costs, which exposes the Company to certain financial risks.

Therefore, the use of proceeds for repayment of part of the bank loans will help ease the Company's debt repayment pressure, reduce the Company's finance costs, optimize the Company's financial structure, and enhance the Company's financial stability, which will help the Company obtain financial support through diversified channels in the future.

In sum, the use of proceeds from this Non-public Issue is in line with the needs of the national industrial policy and the development of the Company. The proceeds funded project has strong profitability and good development prospects, which is conducive to further expanding the Company's operating scale and comprehensive strength and the Company's operating efficiency, laying a foundation for the future healthy and rapid development and performance improvement of the Company; the use of proceeds can effectively reduce the Company's gearing ratio and help to improve the Company's solvency, thereby optimizing the Company's financial structure, which is in the interests of the Company and all shareholders of the Company as a whole.

### **III. EFFECTS OF THIS ISSUE ON THE OPERATING CONDITIONS AND FINANCIAL POSITION OF THE COMPANY**

#### **(I) Effects of this Issue on the operating results of the Company**

The proceeds funded projects of this Issue will be carried out centering on the Company's main business of waste-to-energy in line with the national industrial policy and the Company's overall strategic direction in the future. The proceeds funded projects of this Issue have good economic returns and considerable installed capacity. Upon completion, the proceeds funded projects will increase the Company's waste treatment capacity by 4,700 tons per day or 23.49% and the installed capacity by 109MW or 27.77%, as compared with the Company's waste treatment capacity of 20,010 tons per day and installed capacity of 392.5 MW as at the end of March 2020, which will effectively enhance the Company's profitability



and market share, further improve the Company's core competitiveness, promote the Company's sustainable development and safeguard the long-term interests of shareholders.

**(II) Effects of this Issue on the financial position of the Company**

Upon receipt of proceeds from this Non-public Issue, the financial position will tend to be stable, the profitability will be further improved, and the overall strength will be enhanced.

Upon completion of this Issue, the Company's total assets and net assets will increase and the proportion of monetary funds in current assets will increase, which will help strengthen the Company's capital strength. At the same time, it can effectively reduce the Company's gearing ratio and finance costs, and improve the Company's financial risk resistance capacity.

With the completion of the proceeds funded projects, the Company's profitability will be further improved and its development potential will be enhanced. Upon completion of this Issue, as the proceeds funded projects require a certain construction period, the Company's return on equity will be affected in the short term. However, in the medium and long term, as the projects continue to generate benefits, the Company's income and profit will gradually increase and the Company's profitability and profiting stability will continue to improve.

Upon completion of this Issue, as the target subscribers make subscriptions in cash, the cash flow from the fundraising activities of the Company will increase significantly.

In conclusion, the implementation of the projects funded with the proceeds from this Non-public Issue will further expand the Company's scale and strength. In the context of the current integration acceleration of environmental protection enterprises, the implementation will help strengthen the Company's competitiveness and promote its sustainable development. The proceeds funded projects are in line with the needs of the national industrial policy and the Company's development and have strong profitability and good development prospects. The use of proceeds will bring good investment income to the Company, effectively improve the Company's financial position and bring better returns to shareholders.

**SECTION V DISCUSSION AND ANALYSIS OF THE BOARD OF  
DIRECTORS ON THE EFFECTS OF THIS ISSUE ON THE COMPANY****I. WHETHER THERE EXISTS ANY INTEGRATION PLAN FOR THE COMPANY'S  
BUSINESS AND ASSETS AND WHETHER THE ARTICLES OF ASSOCIATION  
OF THE COMPANY WILL BE ADJUSTED AFTER THIS ISSUE; EXPECTED  
CHANGES IN SHAREHOLDER STRUCTURE, SENIOR MANAGEMENT  
STRUCTURE, AND BUSINESS STRUCTURE****(I) Business and asset integration plan**

The proceeds from this Issue will be used for the Company's principal businesses and will not have a major impact on the Company's principal business structure or lead to the integration of the Company's business and assets.

**(II) Plan on amendments to the Articles of Association**

Upon completion of this Non-public Issue, the registered capital of the Company will change. The Company will amend the corresponding articles in its Articles of Association according to the issue results and proceed with the industrial and commercial registration of changes.

**(III) Effects on the shareholder structure and senior management structure**

The number of A Shares under this Non-public Issue shall not exceed 232,240,000 shares (inclusive), and the proposed subscription proportion of BSAM shall not be less than 40% of the actual number of A Shares under this Non-public Issue, and the number of shares to be subscribed for will not exceed 133,000,000. Upon completion of this Issue, it is expected that the proportion of the aggregate shares of the Company held by BSAM in the total share capital of the Company will not be less than 44.42 % and not reach 47.30%, and BSAM remains the controlling shareholder and actual controller of the Company. Therefore, this Non-public Issue will not result in changes in the right of control of the Company.

Upon completion of this Non-public Issue, the Company's senior management structure will not change. If the Company intends to adjust the senior management structure, it will perform the necessary legal procedures and information disclosure obligations in accordance with relevant regulations.

**(IV) Effects on the business structure**

Upon completion of this Issue, the proceeds will be fully used for the investment in construction of waste-to-energy projects as the principal business of the Company and repayment of bank loans. The business structure of the Company will not change due to this Issue.

**II. CHANGES IN THE FINANCIAL POSITION, PROFITABILITY AND CASH FLOW OF THE COMPANY AFTER THIS ISSUE****(I) Effects of this Issue on the financial position of the Company**

Upon completion of this Issue, the Company's capital will increase and the total assets and net assets will increase accordingly. The gearing ratio will be further reduced and the financial strength will be effectively enhanced, which relieves the pressure caused by the tight liquidity to a certain extent. It will help the Company improve its solvency, reduce financial risks, further improve its financial structure, and enhance its short-term solvency and risk prevention capability.

**(II) Effects of this Issue on the profitability of the Company**

Upon completion of this Issue, as the economic benefits of the proceeds funded projects need to be released within a certain period of time after completion, the Company's earnings per share and return on net assets may be affected to some extent and diluted by this Non-public Issue in the short term. With the gradual implementation of the proceeds funded projects, the business income of the Company will increase accordingly, which will be conducive to the continuous stability and expansion of the Company's business operation scale and drive the growth of the operating income and net profit of the Company, thereby enhancing the Company's sustainable profitability.

**(III) Effects of this Issue on the cash flow of the Company**

Upon completion of this Issue, the cash inflow of the Company's fundraising activities will increase significantly. In the future, with the implementation of the proceeds funded projects, the cash outflow of the Company's investment activities will increase accordingly. After the proceeds funded projects successively generate benefits, the Company's principal business scale will expand, the profitability will increase accordingly, and the cash inflow from operating activities will increase. As a result, the cash flow position of the Company will be further improved.

**III. CHANGES IN BUSINESS RELATIONSHIP, MANAGEMENT RELATIONSHIP, CONNECTED TRANSACTIONS, HORIZONTAL COMPETITION, ETC. BETWEEN THE COMPANY AND THE CONTROLLING SHAREHOLDER AND ITS ASSOCIATES**

Upon completion of this Issue, there will be no changes in the business relationship, management relationship, connected transactions, horizontal competition, etc. between the Company and the controlling shareholder and its associates.

**IV. UPON COMPLETION OF THIS ISSUE, WHETHER THE FUNDS AND ASSETS OF THE COMPANY ARE OCCUPIED BY THE CONTROLLING SHAREHOLDER AND ITS ASSOCIATES OR WHETHER THE COMPANY PROVIDES GUARANTEE FOR THE CONTROLLING SHAREHOLDER AND ITS ASSOCIATES**

The funds and assets of the Company will not be occupied by the controlling shareholder and its associates and the Company will not provide guarantee for the controlling shareholder and its associates due to this Issue.

**V. WHETHER THE COMPANY'S LIABILITY STRUCTURE IS REASONABLE, WHETHER THERE IS A LARGE INCREASE IN LIABILITIES (INCLUDING CONTINGENT LIABILITIES) DUE TO THIS ISSUE, AND WHETHER THE GEARING RATIO IS TOO LOW AND THE FINANCIAL COST IS UNREASONABLE**

As at 31 March 2020, the Company's gearing ratio was 74.75%. Upon completion of this Non-public Issue, the Company's total assets and net assets will increase significantly and the gearing ratio will decline to a certain extent. The Company's asset-liability structure will be more stable, and its risk prevention capability will be further enhanced; meanwhile, the Company's debt financing space and capability will be improved, providing a strong guarantee for the Company's future business development.

**SECTION VI RISKS IN RELATION TO THIS NON-PUBLIC ISSUE**

In evaluating this Non-public Issue of shares of the Company, investors should carefully consider the following risk factors in addition to the other information provided in the Proposal:

**I. POLICY RISK****(I) Risk of industry policies**

The municipal waste-to-energy industry is greatly affected by industry policies. Pursuant to the Renewable Energy Law of the PRC (《中華人民共和國可再生能源法》) (as amended in 2009), the government implements a full coverage purchase system for renewable energy power generation. Pursuant to the Notice on Improving the Pricing Policy of waste-to-energy from the NDRC (Fa Gai Jia Ge [2012] No. 801) (《國家發展改革委關於完善垃圾焚燒發電價格政策的通知》)(發改價格[2012]801號) issued by the NDRC on 28 March 2012, the municipal waste-to-energy projects are converted into on-grid electricity based on the volume of waste treatment received in the plants with a conversion ratio of 280 kWh per ton of domestic waste. The part that does not exceed the above-mentioned amount of electricity implements a national waste-to-energy benchmark price of RMB0.65 per kWh (inclusive of tax). The part that exceeds the above-mentioned amount of electricity implements the on-grid tariff for the local coal-fired generating units. All the municipal waste-to-energy projects approved after 2006 shall follow such regulation. In the future, if the government reduces its support for the municipal waste-to-energy industry, the operations, profitability and cash flows of the Company may be adversely affected.

**(II) Risk of environmental protection policies**

The municipal waste-to-energy business conducted by the Company is strictly regulated by the environmental protection departments at all levels in the country. In recent years, the environmental pollution problems have become increasingly prominent in the PRC. On the one hand, the government has introduced favourable policies to support the rapid development of the environmental protection industry, and on the other hand, it has also strengthened the supervision on the environmental protection industry. The Company operates in strict compliance with the relevant requirements of the environmental protection departments. As the government has been raising the environmental protection standards, the Company's investment in environmental protection will correspondingly increase, which may adversely affect the operations, profitability and cash flows of the Company.

**(III) Risk of failure to collect waste treatment fee in time**

The main sources of income of the Company's waste-to-energy projects are electricity tariff and waste treatment fee. In particular, according to the franchise agreement entered into between the Company and the owner, the owner is required to provide waste and pay waste treatment fee on time. However, if the local government fails to perform consideration procedures for financial budget by the People's Government in time or at all, there is any change in the financial expenditure arrangement of local government or it is unable to make payment in time due to the large local financial pressure or other external circumstances, the waste treatment fee of the Company's waste-to-energy projects may not be collected in time, resulting in that relevant projects will fail to reach the expected income, giving rise to adverse impact on the operating results of the Company.

**(IV) Risk of tax policies**

During the Reporting Period, the Company and its subsidiaries rely on the government's policies in respect of the environmental protection industries to enjoy tax incentives for certain taxes such as corporate income tax and value-added tax. The tax incentives enjoyed by the Company and its subsidiaries are mainly derived from the state's policy support for the environmental protection industry. The environmental protection industry is not only a strategic emerging industry in the PRC, but also an important livelihood project. Vigorous development of the environmental protection industry is an effective way to "stabilize growth, adjust structure, and benefit people's livelihood". If the state cuts tax incentives for the environmental protection industry in the future, it may have an adverse impact on the Company's operations, profitability and cash flow.

**II. MARKET RISKS****(I) Risk of intensified market competition**

As an industry with broad development prospects, the municipal waste-to-energy industry has attracted many market participants with certain competitive advantages in terms of technology, market, talent and management. With the further expansion of the demand in the municipal waste-to-energy market, more large-scale state-owned enterprises, private enterprises and international competitors with strong financial strength, government resources and strong research and development capabilities have joined the competition in the industry. Strong competitors will also increase their investment in technology research and development and market development. It is expected that the competition in the industry will further intensify in the future, which may make it more difficult for the Company to acquire new projects, resulting in adverse impact on the Company's operations.

**(II) Risk of negative public perceptions on waste-to-energy business**

The public may have a negative view on municipal waste-to-energy business. The public may be worried that the construction and operation of the projects may cause secondary pollution to the surrounding environment. To this end, the NDRC added a social stability risk assessment procedure in the project approval procedures, and the Ministry of Environmental Protection also strengthened the requirements for environmental impact assessment and further regulated the environmental impact assessment hearings and public investigation procedures. The “Not in My Back Yard” effect and the strict regulatory policies of the government intensify the difficulty of project site selection, leading to an increase in project preparation time and costs. If the negative public perceptions on waste-to-energy business are further aggravated in the future, the complexity of the operation of the Company may be intensified and the profitability of the Company may be adversely affected.

**(III) Risk of unstable supply and calorific value of municipal solid waste**

The operating efficiency of a municipal waste-to-energy plant depends on the supply and calorific value of municipal solid waste. Municipal solid waste is mainly transported by the local government to the waste-to-energy plant of the Company by land transportation. The supply is mainly affected by the local waste collection system and population. If the local government lacks or fails to establish a complete waste collection and delivery system on time, it will not be able to supply the Company with continuous and stable supply of municipal solid waste, which may result in insufficient capacity utilisation of the Company. In addition, the calorific value of waste will also affect the amount of electricity generated by waste-to-energy plants. If the calorific value of municipal solid waste is insufficient, the amount of electricity generated cannot be guaranteed. Therefore, the instability of the supply and calorific value of municipal solid waste may affect the operational efficiency of the waste-to-energy plants of the Company, which will adversely affect the operations and profitability of the Company.

**III. BUSINESS RISKS****(I) Risk of substandard performance in environmental protection**

In the course of project construction and operation, the Company may be subject to environmental pollution risks such as air pollution, noise pollution, harmful substances, sewage and solid waste discharge. Although the Company has adopted measures such as waste gas purification, waste water and solid waste treatment and noise prevention to avoid or minimize the potential adverse impact of its projects on the environment, environmental pollution risks may still exist due to equipment failures or human errors in the actual production and operation processes of the project companies, which may adversely affect the operations, brand reputation and profitability of the Company.

**(II) Financing risks brought about by the demand for a large amount of funds of the Company's BOT projects**

Waste-to-energy BOT project is featured by a large investment amount, a long construction period and a long payback period, and is capital-intensive. The Company is affected by a number of factors in obtaining project financing, including macroeconomic and capital market conditions, the overall conditions of the municipal waste-to-energy industry, the economic conditions, government policies and available credit lines from banks and other lenders in the geographic area in which the project is located and the operation conditions of the waste-to-energy project operated by the Company. Changes in the above important factors may result in the Company failing to obtain project financing or higher finance costs. If the Company fails to obtain sufficient funds for the BOT project to be built, it may lead to delays in the project and the Company will be punished and fined for violation of the BOT project agreement, which will adversely affect the Company's operation and financial position.

**(III) Risk that certain proceeds funded projects have not obtained land use right certificate**

The land for the franchise projects of the Company is mainly the land that shall be obtained by the project owner (government departments) by way of allocation and provided to the project company of the Issuer for use, and the land that shall be obtained by the project company of the Issuer independently by way of allocation or transfer. In particular, the land for the proceeds funded projects including the Huizhou Phase II Project and the Yongjia Phase II Project shall be obtained by the owner. According to the explanations of the owners of the Huizhou Phase II Project and the Yongjia Phase II Project and the relevant departments, the procedures for the abovementioned project land are in progress; the project company of the Jinsha Project has recently paid off the land transfer fee and is in proceeding with the subsequent procedures for project land. In case of extreme disadvantages, resulting in that the land use ownership certificate cannot be obtained in time for the abovementioned projects, the operations of the Company may be adversely affected.



**IV. FINANCIAL RISKS****(I) Risk of dilution of current return**

After receipt of proceeds, the Company's total share capital and net assets will increase accordingly. Since it takes a certain period of time for the proceeds funded projects to be completed and put into production, in light of an increase in the Company's total share capital and net assets, the Company's earnings per share, weighted average return on equity and other indicators are expected to decline to a certain extent in the short term before the proceeds funded projects fully generate benefits. After receipt of proceeds, there is risk that the current return to shareholders (earnings per share, return on equity and other financial indicators) may be diluted.

**(II) Insolvency risk**

As at the End of Each Reporting Period, the Company's gearing ratio was 67.19%, 72.22%, 74.42% and 74.75%, respectively, showing an upward trend year by year. The Company's gearing ratio is relatively high, mainly because the waste-to-energy industry in which the Company operates is a capital-intensive industry, which requires a large investment in the early stage including investment in fixed assets, and the Company has a large size of bank borrowings and bond financing. If the Company's future profitability fluctuates, there may be a certain degree of insolvency risk.

**(III) Risk of failure of provision of counter guarantee by the joint venture**

On 1 July 2019, the Issuer and the Shenzhen Branch of Bank of Beijing Co., Ltd. entered into the Guarantee Contract in relation to provision of joint and several liability guarantee by Fengcheng Company to the Shenzhen Branch of Bank of Beijing Co., Ltd. for the loan of RMB310 million for a term of 2 years from the date of expiry of the secured debts under the master contract. Fengcheng Company did not provide counter guarantee to the Issuer. Although it is expected that Fengcheng Company will have the ability to repay bank loans in the future and the aggregate amount of the external guarantee accounts for a small proportion of the latest net assets, which will not adversely affect the production and operations of the Company, there will still be risk that the Issuer may be required to perform the guarantee obligations due to the debt default by Fengcheng Company after the guarantee comes into effect.

**V. RISKS OF PROCEEDS FUNDED PROJECTS**

After deducting the issue expenses, the proceeds from this Issue will be invested in Huizhou Phase II Project, Jinsha Project, Pingyang Phase II Project, Shishou Project and Yongjia Phase II Project and used for repayment of bank loans. The total investment in the projects is RMB2,640,526,100, and it is proposed to use proceeds in an amount of RMB2,390.00 million. In particular, Huizhou Phase II Project and Pingyang Phase II Project are PPP project.

- (1) The Huizhou Phase II Project and the Pingyang Phase II Project have been included in the PPP project library of the Ministry of Finance and obtained the corresponding government approval depending on the project construction progress. In addition, the government financial expenditure responsibility carried over to the next year under the project has been included in the medium-term financial planning of the government. The Article 19 of the Notice on Issuance of the Interim Measures for Financial Administration of PPP Projects (Cai Jin [2016] No. 92) (《關於印發〈政府和社會資本合作項目財政管理暫行辦法〉的通知》) (財金[2016]92號) issued by the Ministry of Finance stipulates that “for the PPP projects which are included in the medium-term financial planning with the approval of the People’s Government at the current level, the competent authority of industry shall include the financial revenue and expenditure for the next year which meets the budget management requirements under the contract in the budget management in accordance with the budget preparation procedures and requirements, include the same in the drafted budget after the submission of the same to the finance department for examination and submit the same to the People’s Congress at the current level for consideration after the approval by the People’s Government at the current level”. Pursuant to this provision, after the inclusion of the PPP projects in the medium-term financial planning with the approval by the People’s Government, the People’s Congress at the current level will only consider the inclusion of the financial revenue and expenditure for the next year which meets the budget management requirements in the budget management. As the Huizhou Phase II Project and the Pingyang Phase II Project have not been put into operation, the projects have not been approved by the local People’s Congress; although the above circumstance meets relevant provisions, it is still required to obtain approval from the local People’s Congress in the future.
- (2) The operation model of the Jinsha Project is changed from PPP to BOO. The above change will not affect the effectiveness of the franchise of the Jinsha Project and will not cause the project to be terminated.
- (3) The operation model of the Yongjia Phase II Project is changed from PPP to BOT. The above change will not affect the effectiveness of the franchise of the Yongjia Phase II Project and will not cause the project to be terminated.

In case of extreme disadvantages in the future, resulting in that the proceeds funded projects fail to complete the abovementioned government approval procedures in time or be included in the financial budget after consideration by the local People's Congress or the matters in relation to the change of project operation model are unable to be achieved or the achievement thereof is delayed, there may be adverse impact on the actual operating benefits of the proceeds funded projects and the collection of funds by the government and the Company's profitability after the projects are put into operation.

## **VI. ISSUE RELATED RISKS**

### **(I) Approval risk**

This Issue is subject to fulfillment of a number of conditions, including but not limited to completing the filling procedures in the state-owned assets supervision and administration authorities for this Non-public Issue, obtaining approval at class meeting for holders of A Shares, class meeting for holders of H Shares and general meeting of the Company, and approval of the CSRC for this Non-public Issue. There is some uncertainty as to whether relevant approvals can be obtained and the timing of such approvals. Therefore, there is uncertainty as to whether this Non-public Issue can be successfully implemented.

### **(II) Stock market fluctuation risk**

This Issue will have certain impact on the Company's production and operation and future development. The changes in the Company's fundamentals will likely affect the Company's stock price. However, the stock price depends not only on the Company's operating conditions but also on the adjustment of national economic policies, changes in interest rates and exchange rates, speculation in the stock market, and psychological expectations of investors. In addition, the industry's prosperity changes, macroeconomic changes and other factors will also have an impact on stock prices. Due to the existence of various uncertainties as mentioned above, the Company's stock price may deviate from its own value, thus bringing investment risks to investors. Investors are advised to pay attention to the risk of stock price fluctuations.

**SECTION VII PROFIT DISTRIBUTION POLICY AND  
THE IMPLEMENTATION THEREOF****I. PROFIT DISTRIBUTION POLICY OF THE COMPANY**

In accordance with the Articles of Association as considered and approved at the 2019 general meeting held on 22 May 2020, the profit distribution and decision-making mechanism of the Company are as follows:

**(I) Profit distribution of the Company**

Any profit distribution of the Company shall not exceed the amount of accumulated distributable profits and shall not adversely affect the continued operation of the Company. The Company may distribute interim dividends according to its profit and capital requirements.

**(II) Terms and policies of cash dividends**

The Company shall give priority to the payment of cash dividends. If no cash dividends are available, no scrip dividends shall be declared for the same year. Any cash dividends proposed shall satisfy the following criteria: The current profit and accumulated retained earnings of the Company shall be positive and its cash flow shall be sufficient to support the continued operation and long-term development of the Company; the profit to be distributed in cash shall not be less than 10% of the distributable profits of the year, and the accumulated profit distributed in cash in any three consecutive financial years shall not be less than 30% of the average distributable profit of the Company for such three years.

With a view to providing investment returns to its shareholders and sharing its corporate values, the Company may declare the payment of scrip dividends in addition to the cash dividends, taking into account practical and reasonable factors such as the growth of the Company, dilution of net asset value per share and the maintenance of an adequate reflection of its share capital on its share price. Where the Company records surplus for consecutive years, each cash dividend shall not be more than 24 months apart.

The board of directors shall distinguish the following situations and formulate/diversified cash dividend distribution proposals in accordance with requirements of these Articles of Association and comprehensively take into account of the Company's industry, stage of development, business model, and profitability and other factors such as whether there are significant capital expenditure arrangements:

1. If the Company is at a mature stage of development and has no significant capital expenditure arrangements, the proportion of cash dividends should be at least 80% in the profit distribution;

2. If the Company is at a mature stage of development and has significant capital expenditure arrangements, the proportion of cash dividends should be at least 40% in the profit distribution;
3. If the Company is at a development stage and has significant capital expenditure arrangements, the proportion of cash dividends should be at least 20% in the profit distribution.

If the Company's development stage is unclear but has significant capital expenditure arrangements, the foregoing provisions may be followed. Significant capital expenditure arrangements are transactions involving, among other things, acquisition of assets, external investment and investment in fixed assets contemplated by the Company and settled in cash in the following 12 months with expenditure amounting to or exceeding an aggregate of 30% of the latest audited total assets, or exceeding 50% of the latest audited net assets and RMB50 million, in each case except for project investments through raised capital.

### **(III) Decision-making mechanism**

Particulars of any profit distribution shall be determined by the board of directors in accordance with the requirements of these Articles of Association, the Company's profits, capital supply and requirements and shareholders' return as approved by a simple majority at the supervisory committee and as proposed for approval at a general meeting.

The board of directors shall specify the use of retained earnings and, where scrip dividends are to be distributed, the reasonableness and feasibility thereof in any profit distribution proposal. In the event that the board of directors does not declare any cash dividend in its annual profit distribution plan in accordance with relevant requirements herein, the board shall provide reasons for not declaring the cash dividend or declaring a dividend below the stipulated percentage and the specific use of the retained profits and expected return thereon, which shall be opined by independent directors and proposed at a general meeting for shareholders' approval. Such information shall be disclosed in the announcement on results of the meeting of the board of directors of the Company and periodic reports.

Independent directors may collect opinions from minority shareholders, propose dividend distribution proposals and directly submit it to the board of directors for approval. The Company shall elicit opinion of investors on profit distribution through effective means such as investors' interaction platforms, the website of the Company, telephone, facsimile and electronic mail. Such opinion shall be summarized by the secretary to the board of directors and provided at the meeting thereof considering a proposal for profit distribution.

When considering a proposal for profit distribution at a board meeting, such proposal shall be passed by two-thirds of independent directors by a separate voting. By considering a cash dividend proposal, the board of directors shall earnestly research and determine the timing, conditions, minimum proportion, adjustment conditions and other decision-making procedures in relation thereto. The independent directors shall express clear opinions before such proposals are considered in a board meeting. Such proposals shall be proposed at a general meeting upon being approved by the board of directors.

Before a cash dividend proposal is considered at a shareholders' meeting, the Company shall communicate with shareholders, especially minority shareholders through various channels to listen to the opinion and requests of minority shareholders and give timely responses to issues which minority shareholders are concerned about. When convening a general meeting to consider a proposal for profit distribution, online voting shall be provided in addition to the on-site meeting for the convenience of minority shareholders. A proposal for profit distribution shall be passed by over half of the shareholders present (including their proxies). Upon passage of the resolution on such proposal at the general meeting, the Company's board of directors shall complete the dividend payout within two months after the general meeting is held.

If the profit distribution policy should be adjusted due to the production and operation conditions, investment plans and long-term development, or the changes in external operation environment, the Company shall focus on the protection of shareholders' rights and interests and the adjusted profit distribution policy should not violate relevant laws and regulations and provisions of regulatory documents and Articles of Association. The proposal to adjust the profit distribution policy, together with opinions expressed by independent directors, will be considered by the Board before submission to the general meeting of the Company for approval, the resolution must be passed by not less than two-thirds of the voting rights held of shareholders attending the general meeting, and whether the conditions and process of the adjustment are in compliance should be explained in detail in the periodic reports.

## **II. PROFIT DISTRIBUTION AND USE OF UNDISTRIBUTED PROFIT FOR THE LAST THREE YEARS**

### **(I) Profit distribution for the last three years**

According to the resolution passed at the 2019 annual general meeting of the Company held on 22 May 2020, the Company would make dividend distribution of RMB0.1 (before tax) per share for 2019 in an aggregate amount of RMB116.12 million. Dividends on Domestic Shares would be paid in RMB and dividends on H Shares would be paid in Hong Kong dollars (calculated at the average exchange rate for the seven days prior to the general meeting). As at the announcement date of the Proposal, the Company has not completed the distribution of dividends.

According to the resolution passed at the 2018 annual general meeting of the Company held on 5 June 2019, the Company would make dividend distribution of RMB0.1 (before tax) per share for 2018 in an aggregate amount of RMB116.12 million. Dividends on Domestic Shares would be paid in RMB and dividends on H Shares would be paid in Hong Kong dollars (calculated at the average exchange rate for the seven days prior to the general meeting). The Company has completed the distribution of dividends.

In 2018, the Company did not make distribution of dividends for 2017.

The Company's cash dividends for the last three years are shown in the following table:

*Unit: RMB0'000*

Item	2019	2018	2017
Cash dividends (tax inclusive)	11,612.00	11,612.00	–
Net profit attributable to owners of the parent company	41,608.85	27,277.33	20,647.74
Cash dividends/net profit attributable to owners of the parent company for the current period	28%	43%	–
Accumulated cash dividends for the last three years		23,224.00	
Annual average net profit attributable to owners of the parent company for the last three years		29,844.64	
Accumulated cash dividends in the last three years/annual average net profit attributable to owners of the parent company for the last three years		77.82%	

The accumulated cash dividends of the Company for the last three years amount to RMB232.24 million. The annual average net profit attributable to owners of the parent company for the last three years is RMB298,446,400. The accumulated cash dividends for the last three years account for 77.82% of the annual average net profit attributable to owners of the parent company for the last three years, and the Company's cash dividend ratio is relatively high.



**(II) Use of undistributed profit in the last three years**

As for the Company's net profit attributable to shareholders of the parent company realized in the last three years, after withdrawing the statutory surplus reserve fund and then making distribution to the shareholders, the remaining undistributed profits of the current year will be transferred to the next year and will continue to be used for the business development and post-profit distribution.

**III. SHAREHOLDERS' RETURN PLAN OF THE COMPANY FOR 2020-2022**

In order to improve and refine the scientific, sustainable, stable and transparent decision-making for dividend distribution and supervision mechanisms of the Company as well as further highlight the importance of return to the shareholders, pursuant to the relevant requirements of "Notice Regarding Further Implementation of Cash Dividend Distribution by Listed Companies" (Zheng Jian Fa [2012] No. 37)《關於進一步落實上市公司現金分紅有關事項的通知》(證監發[2012]37號) and "Listed Companies Regulatory Guidance No. 3 – Cash Dividends Distribution of Listed Companies" (Zheng Jian Hui Gong Gao [2013] No. 43 《上市公司監管指引第3號 – 上市公司現金分紅》(證監會公告[2013]43號)) issued by CSRC and the Articles of Association, the Company has formulated the plan for return to the Shareholders for the next three years (2020–2022) of Dynagreen Environmental Protection Group Co., Ltd. (the "Plan"), details of which are as follows:

**(I) Factors to consider for making the Plan**

The Company shall adopt a continuous and steady profit distribution policy after giving a comprehensive consideration to strategic plan on development, development goals and industry development trend. The Company's profit distribution shall focus on providing investors with reasonable investment return as well as maintaining the sustainable development of the Company.

**(II) Principles for making the Plan**

Subject to the relevant laws and regulations and the relevant rules on profit distribution in the Articles of Association, the formulation of the Plan shall fully take into account of and consider the opinions of independent directors, supervisors and public shareholders, and balance short-term benefits and long-term development of the Company according to the actual operating development and capital requirement in order to establish a sustainable, stable and scientific return plan and mechanism for the investors, thus to make an institutional arrangement for profit distribution and ensure the continuity and stability of the profit distribution policy.



**(III) Specific shareholders' return plan for the next three years (2020-2022)**

1. Any profit distribution of the Company shall not exceed the amount of accumulated distributable profits and shall not adversely affect the continued operation of the Company. The Company may distribute interim dividends according to its profit and capital requirements.
2. Terms and policies of cash dividends

The Company shall give priority to the payment of cash dividends. If no cash dividends are available, no scrip dividends shall be declared for the same year. Any cash dividends proposed shall satisfy the following criteria: The current profit and accumulated retained earnings of the Company shall be positive and its cash flow shall be sufficient to support the continued operation and long-term development of the Company; the profit to be distributed in cash shall not be less than 10% of the distributable profits of the year, and the cumulative profit distributed in cash in any three consecutive financial years shall not be less than 30% of the average distributable profit of the Company for such three years.

With a view to providing investment returns to its shareholders and sharing its corporate values, the Company may declare the payment of scrip dividends in addition to the cash dividends, taking into account practical and reasonable factors such as the growth of the Company, dilution of net asset value per share and the maintenance of an adequate reflection of its share capital on its share price.

Where the Company records surplus for consecutive years, each cash dividend shall not be more than 24 months apart.

The Board shall distinguish the following situations and formulate/diversified cash dividend distribution proposals in accordance with requirements of these Articles of Association and comprehensively take into account of the Company's industry, stage of development, business model, and profitability and other factors such as whether there are significant capital expenditure arrangements:

- (1) If the Company is at a mature stage of development and has no significant capital expenditure arrangements, the proportion of cash dividends should be at least 80% in the profit distribution;
- (2) If the Company is at a mature stage of development and has significant capital expenditure arrangements, the proportion of cash dividends should be at least 40% in the profit distribution;

- (3) If the Company is at a development stage and has significant capital expenditure arrangements, the proportion of cash dividends should be at least 20% in the profit distribution.

When it is difficult to assess the Company's stage of development but there are significant capital expenditure arrangements, the profit distribution may be determined in accordance with the foregoing provisions.

Significant capital expenditure arrangements are transactions involving, among other things, acquisition of assets, external investment and investment in fixed assets contemplated by the Company and settled in cash in the following 12 months with expenditure amounting to or exceeding an aggregate of 30% of the latest audited total assets, or exceeding 50% of the latest audited net assets and RMB50 million, in each case except for project investments through raised capital.

3. Decision-making mechanism

Particulars of any profit distribution shall be determined by the Board in accordance with the requirements of these Articles of Association, the Company's profits, capital supply and requirements and shareholders' return as approved by a simple majority at the supervisory committee and as proposed for approval at a general meeting.

The board of directors shall specify the use of retained earnings and, where scrip dividends are to be distributed, the reasonableness and feasibility thereof in any profit distribution proposal. In the event that the board of directors does not declare any cash dividend in its annual profit distribution plan in accordance with relevant requirements herein, the board shall provide reasons for not declaring the cash dividend or declaring a dividend below the stipulated percentage and the specific use of the retained profits and expected return thereon, which shall be opined by independent directors and proposed at a general meeting for shareholders' approval. Such information shall be disclosed in the announcement on results of the meeting of the board of directors of the Company and periodic reports.

Independent directors may collect opinions from minority shareholders, propose dividend distribution proposals and directly submit it to the board of directors for approval.

The Company shall elicit opinion of investors on profit distribution through effective means such as investors' interaction platforms, the website of the Company, telephone, facsimile and electronic mail. Such opinion shall be summarized by the secretary to the board of directors and provided at the meeting thereof considering a proposal for profit distribution.

When considering a proposal for profit distribution at a board meeting, such proposal shall be passed by two thirds of independent directors by a separate voting. By considering a cash dividend proposal, the Board shall earnestly research and determine the timing, conditions, minimum proportion, adjustment conditions and other decision-making procedures in relation thereto. The independent directors shall express clear opinions before such proposals are considered in a board meeting. Such proposals shall be proposed at a general meeting upon being approved by the Board.

Before a cash dividend proposal is considered at a shareholders' meeting, the Company shall communicate with shareholders, especially minority shareholders through various channels to listen to the opinion and requests of minority shareholders and give timely responses to issues which minority shareholders are concerned about. When convening a general meeting to consider a proposal for profit distribution, online voting shall be provided in addition to the on-site meeting for the convenience of minority shareholders. A proposal for profit distribution shall be passed by over half of the shareholders present (including their proxies). Upon passage of the resolution on such proposal at the general meeting, the Company's Board shall complete the dividend payout within two months after the general meeting is held.

4. The Company may distribute dividends in either or both of the following forms:

(1) cash; (2) shares.

Any cash dividends and other payments to domestic shareholders shall be paid in RMB. Any cash dividends and payments to foreign shareholders will be denominated and declared in RMB and paid in foreign currency. The Company will, according to regulations on foreign exchange, deal with foreign currency matters for cash dividends and other payments to foreign shareholders.

Unless otherwise provided by the relevant laws and regulations, for the payment of cash dividends and other payments in foreign currency, the applicable exchange rates shall be the average sell price announced by the People's Bank of China in one calendar week immediately preceding the declaration date of such cash dividends and other payments.

5. After the general meeting has resolved on the plan to allocate profits, the board of directors shall complete the distribution of dividends (or bonus shares) within 2 months of the general meeting.
6. The Company will give full consideration to the interests of shareholders and adopt a reasonable profit distribution policy according to business situation and market environment. The Company's profit distribution policy shall to the greatest extent maintain continuity and stability, and give priority to cash dividends, with the specific dividend rate to be passed with a resolution at the general meeting in accordance with relevant laws and regulations.

#### IV. EFFECTIVE MECHANISM FOR THE PLAN

1. The Plan, as well as its amendments, shall be effective from the date of approval at the Company's general meeting.
2. Any matters not covered in the Plan shall be implemented in accordance with relevant laws and regulations, regulatory documents and the Articles of Association.
3. The Board of the Company is responsible for the interpretation of the Plan.

**SECTION VIII IMPACT OF THE DILUTION OF  
CURRENT RETURN BY THIS ISSUE ON THE MAJOR FINANCIAL  
INDICATORS OF THE COMPANY AND THE MEASURES TO BE  
TAKEN BY THE COMPANY**

According to the relevant provisions of the Opinions of the General Office of the State Council on Further Strengthening the Protection of Small and Medium Investors' Legitimate Interests in the Capital Markets (Guo Ban Fa [2013] No. 110) (《國務院辦公廳關於進一步加強資本市場中小投資者合法權益保護工作的意見》(國辦發[2013]110號)) and the Guiding Opinions on Matters Concerning the Dilution of Current Return by Initial Public Offering, Refinancing and Material Asset Restructuring (CSRC Announcement [2015] No. 31) (《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》(證監會公告[2015]31號)) promulgated by the CSRC, in order to protect the right to know of the small and medium investors and to safeguard the interests of small and medium investors, the Company's announcement concerning the impact of the dilution of current return by this Non-public Issue of A Shares on the Company's main financial indicators and the measures to be taken by the Company is as follows:

**I. THE IMPACT OF DILUTION OF CURRENT RETURN BY THIS NON-PUBLIC  
ISSUE ON THE COMPANY'S MAJOR FINANCIAL INDICATORS**

**(I) Hypothetical premises**

1. This Non-public Issue will be completed by the end of November 2020 (the completion time of this Non-public Issue is only used for the calculation and is subject to the actual completion time of this Issue).
2. The number of shares under this Non-public Issue is 232,240,000 (which is an estimate and subject to the number approved by the CSRC and actually issued); the proceeds is RMB2,390.00 million, without considering the impact of deducting the issue expenses.
3. There is no major change in the macroeconomic environment, industrial policy and industry development, etc.
4. The impact of using the proceeds from this Non-public Issue on the Company's production and operation, financial position (such as finance costs, investment income) is not considered.
5. When predicting the Company's total share capital, the total share capital of 1,161,200,000 shares before this Non-public Issue is regarded as the basis, only considering the impact of this Non-public Issue of A Shares, regardless of other factors causing changes in share capital;

6. Assuming that the net profit attributable to the shareholders of the parent company and the net profit excluding extraordinary gain and loss attributable to the shareholders of the parent company for 2020 are calculated based on the changes in results of -10.00%, 0.00% and 10.00%, respectively over the same period of 2019. This assumption is only based on calculation of the impact of dilution of current return by this Issue on the major financial indicators, and does not represent the Company's judgment on the operation and trend in 2020 or constitute a profit forecast of the Company.
7. Assuming that the Company's profit distribution plan for 2019 is as follows: based on the total share capital of 1,161,200,000 shares of the Company as at 31 December 2019, cash dividend was distributed to all shareholders at RMB1.00 (tax inclusive) for every 10 shares and a total of RMB116,120,000 (tax inclusive) was distributed. No capital reserve will be transferred to share capital during the year. Assuming that the profit distribution for 2019 has completed before the end of June 2020.
8. Assuming that the hypothetical number of the equity attributable to the shareholders of the parent company as at the end of 2020 = the equity attributable to the shareholders of the parent company as at the end of 2019 – the amount of profit distribution for 2019 + the hypothetical amount of net profit attributable to the shareholders of the parent company for 2020 + the net proceeds from this Issue.

Assuming that the net profit attributable to the shareholders of the parent company for 2020 changes by -10.00%, 0% and 10.00% respectively compared with that for the last year and the proceeds from this Non-public Issue have been received, then the hypothetical number of the equity attributable to the shareholders of the parent company as at the end of 2020 are RMB5,944,588,543.59, RMB5,986,197,390.95 and RMB6,027,806,238.31.

The above is just the assumption for the purpose of making calculation, which does not constitute an undertaking, profit forecast or performance undertaking. Investors shall not make investment decisions based on this assumption; the Company does not bear any liability for investors' losses caused by making investment decisions based on the assumption.

**(II) Calculation process**

Based on the above assumptions, the impact of the dilution of current return by this Issue on the Company's main financial indicators are as follows:

Item	Before This Issue (2019/31 December 2019)	Without consideration	After This Issue (2020/31 December 2020)
		of This Issue (2020/31 December 2020)	
Total share capital (share)	1,161,200,000.00	1,161,200,000.00	1,393,440,000.00
Weighted total share capital (share)	1,161,200,000.00	1,161,200,000.00	1,180,553,333.33
Hypothetical case 1: The Company's net profit attributable to the shareholders of the parent company for 2020 decreases by 10% over the last year			
Net asset value per share attributable to the holders of ordinary shares (RMB/share)	2.84	3.06	4.27
Net profit excluding extraordinary gain and loss attributable to the parent company (RMB)	388,313,038.27	349,481,734.44	349,481,734.44
Basic earnings per share excluding extraordinary gain and loss (RMB/share)	0.3344	0.3010	0.2960
Diluted earnings per share excluding extraordinary gain and loss (RMB/share)	0.3344	0.3010	0.2960
Weighted average return on net assets excluding extraordinary gain and loss	12.34%	10.20%	9.64%

Item	Before	Without	After
	This Issue	consideration	This Issue
	(2019/31	of This	(2020/31
	December	Issue	December
	2019)	December	December
		2020)	2020)

Hypothetical case 2: The Company's net profit attributable to the shareholders of the parent company for 2020 remains unchanged as compared with the last year

Net asset value per share attributable to the holders of ordinary shares (RMB/share)	2.84	3.10	4.30
Net profit excluding extraordinary gain and loss attributable to the parent company (RMB)	388,313,038.27	388,313,038.27	388,313,038.27
Basic earnings per share excluding extraordinary gain and loss (RMB/share)	0.3344	0.3344	0.3289
Diluted earnings per share excluding extraordinary gain and loss (RMB/share)	0.3344	0.3344	0.3289
Weighted average return on net assets excluding extraordinary gain and loss	12.34%	11.27%	10.65%

Hypothetical case 3: The Company's net profit attributable to the shareholders of the parent company for 2020 increases by 10% over the last year

Net asset value per share attributable to the holders of ordinary shares (RMB/share)	2.84	3.13	4.33
Net profit excluding extraordinary gain and loss attributable to the parent company (RMB)	388,313,038.27	427,144,342.10	427,144,342.10
Basic earnings per share excluding extraordinary gain and loss (RMB/share)	0.3344	0.3678	0.3618
Diluted earnings per share excluding extraordinary gain and loss (RMB/share)	0.3344	0.3678	0.3618
Weighted average return on net assets excluding extraordinary gain and loss	12.34%	12.32%	11.65%



According to the above calculation, after the completion of this Non-public Issue, the Company's basic earnings per share and weighted average return on net assets for the current period will be subject to a certain degree of dilution.

## **II. SPECIAL RISK WARNING FOR DILUTION OF CURRENT RETURN BY THIS ISSUE**

After receipt of the proceeds from his Non-public Issue, the Company's total share capital and net assets will increase accordingly. Within a short term after the receipt of the proceeds, the growth of the Company's net profit may be lower than that of the net assets and the total share capital; the earnings per share and weighted average return on net assets and other financial indicators may decline to a certain extent; there is risk of dilution of current return of shareholders.

At the same time, the assumed values of the relevant financial data of the Company for 2020 are for the sake of calculating relevant financial indicators and do not represent the Company's judgment on the operation and trend in 2020 or constitute the profit forecast and performance undertaking of the Company. Investors should not make investment decisions based on the above assumptions.

Investors are hereby advised to pay attention to the risk of dilution of current return by this Non-public Issue.

### III. NECESSITY AND RATIONALITY FOR THE BOARD TO CHOOSE THIS NON-PUBLIC ISSUE

#### (I) Plan on use of proceeds from this Non-public Issue of A Shares

The total proceeds to be raised from this Non-public Issue of the Company (including issue expenses) will not exceed RMB2,390.00 million. The net proceeds after deducting the issue expenses will be used for investment in Huizhou Phase II Project, Jinsha Project, Pingyang Phase II Project, Shishou Project and Yongjia Phase II Project and repayment of bank loans. Details are as follows:

No	Project name	Total	Proceeds
		investment (RMB0'000)	intended to be used (RMB0'000)
1	Huizhou Phase II Project	111,345.00	60,000.00
2	Jinsha Project	45,205.00	38,000.00
3	Pingyang Phase II Project	35,063.55	30,000.00
4	Shishou Project	36,262.00	29,000.00
5	Yongjia Phase II Project	36,177.06	28,000.00
6	Repayment of bank loans	–	54,000.00
<b>Total</b>		<b><u>264,052.61</u></b>	<b><u>239,000.00</u></b>

Prior to the receipt of the proceeds from this Non-public Issue, the Company will first make investment with its self-raised funds depending on the progress of the proceeds funded projects, and will replace such funds according to the relevant specified procedures after the receipt of the proceeds.

If the actual amount of proceeds (after deducting the issue expenses) is less than the amount of proceeds to be invested in the abovementioned projects, the Company will, within the scope of ultimately determined proceeds funded projects, adjust and ultimately decide the specific proceeds funded projects, priority, and specific amount of investment in each project taking into account the Company's operation and the construction progress of projects. The insufficient funds that cannot be covered by the proceeds will be raised by the Company itself.

**(II) Necessity and rationality of this Non-public Issue****1. *Municipal waste-to-energy is a capital-intensive industry, and fund raising is conducive to the rapid development of the Company***

The waste-to-energy industry requires a large amount of investment in the early stage. The capital investment in a waste-to-energy plant with the daily treatment capacity of 1,000 tons is RMB400 million to RMB600 million. At the same time, the investment recovery cycle of waste-to-energy projects is relatively long, generally 8-12 years, and it is a capital-intensive industry. Due to the capital intensiveness of waste-to-energy projects, participants in the industry need to have sufficient capital strength and financing capacity to satisfy large capital and cost expenditures. Therefore, financial strength is one of the key factors for waste-to-energy enterprises to achieve rapid development and maintain their leading position in the industry.

As at 31 March 2020, in respect of the waste-to-energy sector, the Company had 21 projects under operation, 8 projects under construction and 14 projects under preparation. The waste treatment capacity of the projects under operation reached 20,010 tons/day, the installed capacity was 392.5 MW. In order to ensure the sustainable development of the Company, it is necessary to continuously increase investment. Therefore, to raise proceeds through this Non-public Issue of shares to increase investment in construction of waste-to-energy projects will help further improve the Company's waste treatment capacity, increase market share, and expand the Company's business coverage and influence, improving the Company results. This Non-public Issue is the specific implementation of the Company's established development strategy, which is conducive to further consolidating the advantages of the Company's principal businesses and enhancing the core competitiveness of the Company's principal businesses, which is of great significance for the realization of the Company's sustainable development.

**2. *Reduce the Company's gearing ratio to enhance the risk resistance capacity***

With the rapid development of the Company, the size of the Company's liabilities has also gradually expanded. As at 31 March 2020, the Company's total assets under the consolidated statements amounted to RMB14,279,502,800, the size of total liabilities was RMB10,673,372,100, and the gearing ratio reached 74.75 %.

At present, the Company's gearing ratio is relatively high. This Non-public Issue will help strengthen the Company's capital strength and optimize the capital structure, which will reduce the gearing ratio, enhance the risk prevention capability of the Company, reduce financial expenses, and improve the Company's financial position, and it helps strengthen the Company's subsequent financing capabilities. On the one hand, it conforms to the national "structural de-leverage" policy requirements and, on the other hand, it can enhance the Company's profitability and operational stability, provide financial support for the continued growth of the Company's businesses, and provide a strong guarantee for the Company's sustainable development.

#### **IV. RELATIONSHIP BETWEEN THE PROCEEDS FUNDED PROJECTS AND THE COMPANY'S EXISTING BUSINESS AND RESERVE IN TERMS OF PERSONNEL, TECHNOLOGY AND MARKET FOR PROCEEDS FUNDED PROJECTS**

##### **(I) Relationship between the proceeds funded projects and the Company's existing business**

The Company's principal business is investment, construction and operation of waste-to-energy projects. The proceeds from this Non-public Issue will be used for investment and construction of waste-to-energy projects as the principal business of the Company and repayment of bank loan.

Upon completion of this Non-public Issue, the Company's business scope and principal business will not undergo major changes, and the Company's assets and business scale will be further expanded.

##### **(II) Reserves in terms of personnel, technology and market for proceeds funded projects**

###### **1. Talent reserve**

The Company has always attached great importance to personnel training and reserve. After years of development, it has built a high-quality core management team and excellent technical team. The proceeds funded projects are the investment and construction of waste-to-energy projects as the principal business of the Company. The implementation of the proceeds funded projects can make full use of the existing technology and personnel. The Company will continue to accelerate the personnel recruitment and training plan according to the needs of business development and continuously enhance personnel reserve, to ensure the smooth implementation of the proceeds funded projects.

## 2. *Technology reserve*

Since its establishment, the Company has been engaged in the development, construction and operation of waste-to-energy projects. After years of operation and development, it has built a group of highly professional and experienced technical teams, and has rich experience and mature technologies in the field of waste-to-energy. It has good technology reserve in terms of site selection in the early stage, project construction, and project operation in the later stage.

Currently, the Company continues to promote the development of large grate, and has completed the design and optimization of 800 tons incinerator and begun processing and manufacturing; it organized the research and development of the online warning and control system for dioxin in waste incineration; as at 31 March 2020, the Company had been granted a total of 63 patents (including 13 invention patents and 50 utility model patents).

## 3. *Market reserve*

The waste-to-energy industry is characterised by policy encouragement, regional monopoly, capital intensiveness, long payback period, and insignificant seasonal fluctuations. The upstream industries of the waste-to-energy industry include construction enterprises, installation companies, waste treatment and power generation equipment (such as incinerators, smog and gas treatment systems, turbine generators and waste heat boilers) suppliers. In addition, local sanitation departments provide waste to waste-to-energy enterprises. The downstream industries mainly include local government departments and power grid companies. Waste-to-energy enterprises provide waste incineration treatment services to local governments to receive waste treatment fees and provide electricity to power grid companies to receive electricity tariffs.

As at 31 March 2020, in respect of the waste-to-energy sector, the Company had 21 projects under operation, 8 projects under construction and 14 projects under preparation. The waste treatment capacity of the projects under operation reached 20,010 tons/day, the installed capacity was 392.5 MW, placing the Company in a leading position in the industry in terms of the number of projects and waste treatment capacity.

In summary, the Company has a good foundation in terms of personnel, technology and market for the proceeds funded projects. With the construction of proceeds funded projects and based on the development of the Company, the Company will further improve the reserves in terms of personnel, technology and market to ensure the smooth implementation of the proceeds funded projects.

**V. REMEDIAL MEASURES FOR DILUTION OF CURRENT RETURN BY THIS  
NON-PUBLIC ISSUE OF THE COMPANY**

In order to safeguard the interests of investors, reduce the risk of dilution of current return and enhance the capability of creating long-term return for shareholders, the Company will strengthen the supervision of proceeds funded projects and speed up project implementation progress. It will improve management and internal control to enhance the Company's Profitability and strengthen the return mechanism for investors. The specific measures are as follows:

**1. Accelerate the progress of investment in the proceeds funded projects  
realize the expected benefits of the projects as soon as possible**

The projects funded with the proceeds from this Non-public Issue of the Company have been fully investigated and discussed, and are in line with the national industrial policy and the Company's overall strategic development direction. The expected return on investment is high. With the completion of the projects and the realization of benefits, the Company's profitability and operating results will be significantly improved, helping to remedy the dilution of the current return to shareholders by this Issue.

Before receipt of the proceeds from this Issue, in order to implement the proceeds funded projects as soon as possible, the Company will proactively allocate resources and implement the preparatory work for the proceeds funded projects in advance as well as first make investment with its self-raised funds depending on the progress of the proceeds funded projects; after receipt of the proceeds from this Issue, the Company will accelerate the construction of the proceeds funded projects, striving to complete the proceeds funded projects and achieve the expected benefits as soon as possible, to increase return to shareholders in the following years and reduce the risk of dilution of current return to shareholders by this Issue.

**2. Strengthen the management of proceeds to ensure that the proceeds are used as planned**

After receipt of proceeds, the Company will deposit the proceeds from this Issue in the special account for proceeds as designated by the Board of the Company in accordance with the relevant laws and regulations and the relevant system of the Company. The Board of the Company will manage the proceeds in strict accordance with the relevant laws and regulations and the relevant systems on management of proceeds, to ensure the reasonable, standardized and effective use of the proceeds and to reasonably prevent risks in relation to the use of proceeds. The Company will improve and strengthen the investment decision-making process and strictly manage the use of proceeds, to prevent the risks in relation to the use of proceeds; various financing tools and channels will be rationally used to reduce capital costs, improve the use efficiency of proceeds, and comprehensively control the risks in relation to the Company's operations and management control, endeavouring to achieve the expected benefits for the proceeds funded projects as early as possible.

**3. Continuously improve corporate governance to comprehensively improve the Company's operation management level**

The Company will be in strict compliance with the requirements of laws, regulations and regulatory documents including the Company Law, the Securities Law and Code of Corporate Governance of Listed Companies (《上市公司治理準則》) and constantly improve the Company's governance structure to ensure that shareholders can fully exercise their rights, the Board can perform its functions and powers in accordance with the provisions of laws, regulations and Articles of Association to make scientific, quick and cautious decisions, and the independent directors can earnestly perform their duties, protect the Company's interests as a whole, especially the legitimate rights of minority shareholders; and the Supervisory Committee can independently and effectively exercise the right of supervision and inspection against directors, managers and other senior management members as well as the finance of the Company to provide system guarantee for the development of the Company.

The Company will improve business processes, strengthen information management for all aspects including R&D, procurement and operation, and strengthen internal control, to improve the turnover efficiency of working capital. Meanwhile, the Company will strengthen budget management and strictly implement the Company's procurement approval system. In addition, the Company will consummate the compensation and incentive mechanism, introduce excellent talents from the market, and stimulate the enthusiasm of employees and tap the creativity and potential of employees to the greatest extent. Through the above measures, the Company will comprehensively improve its operating efficiency, reduce costs, and enhance its operating results.

The remedial measures of the Company do not represent guarantee for the Company's future profits. Investors should not make investment decisions based thereon. The Company is not liable for compensating the losses caused by the investment decisions made by the investors based thereon. Investors are advised to pay attention to investment risks.

## VI. UNDERTAKINGS ISSUED BY RELEVANT SUBJECTS

In accordance with the requirements of the Opinions of the General Office of the State Council on Further Strengthening the Protection of Small and Medium Investors' Legitimate Interests in the Capital Markets (Guo Ban Fa [2013] No. 110) (《國務院辦公廳關於進一步加強資本市場中小投資者合法權益保護工作的意見》(國辦發[2013]110號)), the Several Opinions of the State Council on Further Promoting the Healthy Development of the Capital Market (Guo Fa [2014] No. 17) (《國務院關於進一步促進資本市場健康發展的若干意見》(國發[2014]17號)) and the Guiding Opinions on Matters Concerning the Dilution of Current Return by Initial Public Offering, Refinancing and Material Asset Restructuring (CSRC Announcement [2015] No. 31) (《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》(證監會公告[2015]31號)), all directors, senior management, and controlling shareholder and actual controller of the Company have fulfilled the following undertakings to ensure the practical implementation of the Company's measures to remedy current return:

### (I) Undertakings of the controlling shareholder and actual controller

As the controlling shareholder and actual controller of the Company, BSAM has issued the Undertakings of Beijing State-owned Assets Management Co., Ltd. on Taking Remedial Measures for Dilution of Current Return by the Non-public Issue of A Shares by Dynagreen Environmental Protection Group Co., Ltd. (《北京市國有資產經營有限責任公司關於綠色動力環保集團股份有限公司非公開發行A股股票攤薄即期回報採取填補措施的承諾》). The undertakings are as follows:

- I. As at the date of this letter, the company does not interfere with the operation management activities of Dynagreen or encroach on the interests of Dynagreen.
- II. the Company undertakes not to interfere with the operation management activities of Dynagreen or encroach on the interests of Dynagreen in the future."



**(II) Undertakings of all directors and senior management**

In accordance with the Undertakings of the Directors and Senior Management of Dynagreen Environmental Protection Group Co., Ltd. on Taking Remedial Measures for Dilution of Current Return by the Non-public Issue of A Shares (《綠色動力環保集團股份有限公司董事、高級管理人員關於非公開發行A 股股票攤薄即期回報採取填補措施的承諾》), the Undertakings made by the directors and senior management of the Company are as follows:

- “1. Neither transfer interests to other entities or individuals without compensation or under unfair conditions, nor damage the interest of the Company by other means;
2. To restrain their own occupational consumption behavior;
3. Not appropriate the Company’s assets to engage in investment and consumption activities unrelated to its performance of duties;
4. The remuneration system formulated by the Board or the Remuneration and Assessment Committee shall be linked to the implementation of the Company’s remedial measures for the return;
5. If the Company introduces equity incentive policy in the future, the conditions for exercise of the equity incentive that is intended to be publicized by the Company shall be linked to the implementation of the Company’s remedial measures for the returns;
6. For any new regulatory requirements introduced by the CSRC in relation to the remedial measures and relevant Undertakings during the period from the date of the undertaking to the completion of this Non-public Issue of shares of the Company that makes the said undertaking fail to meet such requirements of the CSRC, the Company shall give further undertaking (s) in accordance with those new requirements of the CSRC.

If I violate the above Undertakings and cause losses to the Company or shareholders, I will bear the corresponding liabilities.”

**SECTION IX OTHER MATTERS THAT NEED TO BE DISCLOSED**

There are no other matters that need to be disclosed in relation to this Non-public Issue of shares.

*This English version is for reference only. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese version shall prevail.*

In order to implement its overall development strategy, conform to the trend of national policies, and optimize and strengthen its principal businesses to further enhance its core competitiveness, Dynagreen Environmental Protection Group Co., Ltd. (the “Company”) proposed to raise proceeds from the non-public issue of A shares (“This Non-public Issue” or “This Issue”). The proceeds after deducting issue expenses, will be used for investment in construction of the phase II of the municipal waste-to-energy project in Huiyang Environmental Park (the “Huizhou Phase II Project”), the municipal waste-to-energy project in Jinsha County (the “Jinsha Project”), the phase II of the municipal solid waste-to-energy plant expansion project in Pingyang County (the “Pingyang Phase II Project”), the municipal waste-to-energy project in Shishou City (the “Shishou Project”) and the municipal waste-to-energy plant upgrading and reconstruction project in Yongjia County (the “Yongjia Phase II Project”) and repayment of bank loans. The feasibility analysis on the use of proceeds from this Non-public Issue of the Company is as follows:

#### I. PLAN ON THE USE OF PROCEEDS

The total proceeds of this Non-public Issue of A Shares will not exceed RMB2,390.00 million. The net proceeds after deducting the issue expenses will be used for investment in Huizhou Phase II Project, Jinsha Project, Pingyang Phase II Project, Shishou Project, Yongjia Phase II Project and repayment of bank loans. Details are as follows:

No.	Project name	Proceeds	
		Total investment (RMB0'000)	intended to be used (RMB0'000)
1	Huizhou Phase II Project	111,345.00	60,000.00
2	Jinsha Project	45,205.00	38,000.00
3	Pingyang Phase II Project	35,063.55	30,000.00
4	Shishou Project	36,262.00	29,000.00
5	Yongjia Phase II Project	36,177.06	28,000.00
6	Repayment of bank loans	—	54,000.00
<b>Total</b>		<b>264,052.61</b>	<b>239,000.00</b>

Prior to the receipt of the proceeds from this Non-public Issue, the Company will first make investment with its self-raised funds depending on the progress of the proceeds funded projects, and will replace such funds according to the relevant specified procedures after the receipt of the proceeds.

If the actual amount of proceeds (after deducting the issue expenses) is less than the amount of proceeds to be invested in the abovementioned projects, the Company will, within the scope of ultimately determined proceeds funded projects, adjust and ultimately decide the specific investment projects, priority, and specific amount of investment in each project according to the actual amount of proceeds and taking into account the Company's operation and the construction progress of the projects. The insufficient funds that cannot be covered by the proceeds will be raised by the Company itself.

## II. FEASIBILITY ANALYSIS ON THE PROCEEDS FUNDED PROJECTS

### (I) Huizhou Phase II Project

#### 1. *Basic information on the project*

The Huizhou Phase II Project is located in Lan Zi Long Environmental Park, Shatian Town, Huiyang District, Huizhou City, Guangdong Province. The domestic waste incineration treatment capacity of the phase I of the project is 1,700 tons per day. The project adopts 2 ×850 tons / day mechanical grate waste incinerators and a 1 ×40 MW steam turbine generator set; the construction of the phase II of the project with a domestic waste incineration treatment capacity of 1,700 tons per day is expected to commence when appropriate depending on waste supply and the civil works and supporting works have been completed in the phase I. The total investment in the project is estimated to be RMB1,113.45 million, and it is proposed to use proceeds in an amount of RMB600.00 million.

#### 2. *Background and necessity of the project construction*

Huiyang-Daya Bay area is adjacent to Shenzhen. In recent years, with the economic development of the Pearl River Delta and driven by the Shenzhen region, economy of the Huiyang-Daya Bay area has developed rapidly, resulting in an increase in domestic waste production at a faster rate.

At present, the average volume of waste transported to the environmental park is 1,435 tons per day, which is still gradually increasing and exceeds the construction expectation of the phase I of the project (the capacity of phase I of the project is 1,200 tons per day upon completion and being put into operation), and the current incineration treatment scale cannot satisfy needs. The excess waste falling to be transported to the landfill inside the park for treatment occupies a large amount of storage capacity. The landfill is a fly ash landfill treatment site. According to the environmental impact assessment of the phase I of the project, the incineration fly ash must be safely treated in the park. If the excess domestic waste continues to enter the landfill for treatment, the future treatment space for incineration fly ash in the park will be further compressed, thus shortening the life of the environmental park. Therefore, in order to implement the relevant plan on

detoxification treatment of domestic waste, protect the local ecological environment, and improve the efficiency of waste recycling, the construction of Huizhou Phase II Project is necessary.

### 3. *Investment estimates for the project*

The investment estimates for the project are as follows:

Name of engineering or expense	Total investment (RMB0'000)	Proportion in investment
Construction engineering	39,194.20	35.20%
Equipment purchase	33,244.24	29.86%
Installation engineering	10,695.75	9.61%
Initial working capital	329.66	0.30%
Interest during construction period	3,359.52	3.02%
Budgetary reserves	7,974.51	7.16%
Others	16,547.12	14.86%
<b>Total investment</b>	<b>111,345.00</b>	<b>100.00%</b>

### 4. *Analysis on economic benefits of the project*

According to the project feasibility study report, the financial internal rate of return (after tax) of investment in Huizhou Phase II Project is 6.18%, indicating good economic benefits.

### 5. *Project approval procedures and its fulfillment*

The Huizhou Phase II Project is operated with PPP model, and the approval procedures are fulfilled as follows:

#### (1) *Reply on the project proposal*

In February 2019, Huizhou Municipal Development and Reform Bureau issued the Reply of Huizhou Municipal Development and Reform Bureau on Approval of the Phase II of the Municipal waste-to-energy PPP Project in Huiyang Environmental Park (Hui Fa Gai He Zhun [2019] No. 2) (《惠州市發展和改革局關於惠陽環境園生活垃圾焚燒二期PPP項目核准的批覆》(惠發改核准[2019]2號)) for the project.

(2) *Reply on the environmental impact assessment*

In November 2018, Huizhou Environmental Protection Bureau issued the Reply on the Environmental Impact Report of the Phase II of the Municipal waste-to-energy PPP Project in Huiyang Environmental Park (Hui Shi Huan Jian [2018] No. 43) (《關於惠陽環境園生活垃圾焚燒二期PPP項目環境影響報告書的批覆》(惠市環建[2018]43號)) for the project.

(3) *Land management*

The owner for the Huizhou Phase II Project has obtained the Preliminary Opinions on the Phase II of the Municipal waste-to-energy PPP Project in Huiyang Environmental Park (Hui Shi Guo Tu Zi Han [2018] No. 2031) (《關於惠陽環境園生活垃圾焚燒二期(PPP)項目用地的預審意見》(惠市國土資函[2018]2031號)) issued by Huizhou Land Resources Bureau.

Relevant provision under the Contract on the Phase II of the Municipal Waste-to-energy PPP Project in Huiyang Environmental Park (《惠陽環境園生活垃圾焚燒二期PPP項目合同》) entered into between the City Appearance and Environmental Health Administration of Huiyang District, Huizhou City and the project company: “5.1 Land use right - The Environmental Health Administration of Huiyang District shall proactively communicate and cooperate with relevant government authorities to ensure that the project company has the right to obtain the project land (the “Land Use Right”) for free at the beginning of the construction period and that the project company exclusively uses the land during the project cooperation period. For the avoidance of doubt, both parties made it clear that the project land use right shall not be transferred to the project company. The government only provides the land in its current status to the project company. The project company shall complete the land filling and leveling of the project land”. According to the above provision under the contract, for Huizhou Phase II Project, the City Appearance and Environmental Health Administration of Huiyang District, Huizhou City mainly provides the project company with the project land needed for the project construction project in accordance with the contract.

According to the Explanations on the Completion of Procedures for the Land for the Phase II of the Municipal Waste-to-energy PPP Project in Huiyang Environmental Park (《關於惠陽環境園生活垃圾焚燒發電二期項目土地手續辦理情況的說明》) issued by the Natural Resources Administration of Huiyang District, Huizhou City on 22 May 2020, the land for the Huizhou Phase II Project has been submitted for approval as one of the third batch of urban construction land of Huiyang District for 2019 and has been approved by the Document (Yue Fu Tu Shen (10)

[2020] No. 6) for transfer into state-owned construction land. The administration is currently proceeding with relevant subsequent procedures for land use for the abovementioned project in accordance with established procedures.

In conclusion, the land use ownership certificate for the Huizhou Phase II Project is still in progress of application, and it is expected that there will be no obstacle against the acquisition of land and the implementation of the Huizhou Phase II Project as scheduled will not be affected.

(4) *Safety approval*

Pursuant to Article 29 of the Law of the People's Republic of China on Production Safety (Revised in 2014) (《中華人民共和國安全生產法(2014修正)》), "construction projects for mines and metal smelting and construction projects for production, storage, loading and unloading of dangerous goods shall be subject to safety evaluation in accordance with relevant national regulations". Therefore, the Huizhou Phase II Project is not required to go through safety evaluation procedures or obtain approval from safety management authorities.

(5) *Energy management approval*

According to Article 7 of the Measures for Implementation of Energy Conservation Examination of Fixed Assets Investment Projects of Guangdong Province (《廣東省固定資產投資項目節能審查實施辦法》), the projects with the annual comprehensive energy consumption of less than 1,000 tons of standard coal and the annual electricity consumption of less than 5 million kWh and those in the industry directory which are not required to be subject to separate energy conservation examination as stipulated by the state shall be constructed in accordance with relevant energy conservation standards and not be subject to separate energy conservation examination. Therefore, the Huizhou Phase II Project shall not be subject to energy conservation examination.

(6) *Other government approval procedures*

According to the Approval of the People's Government of Huiyang District, Huizhou City on the Implementation Plan and Tender Documents (Including PPP Contract) of the Phase II of the Municipal Waste-to-energy PPP Project in Huiyang Environmental Park (《惠州市惠陽區人民政府關於惠陽環境園生活垃圾焚燒二期項目實施方案、招標文件(含PPP合同)的批覆》) issued by the People's Government of Huiyang District, Huizhou City on 4 September 2017, the project was approved to be set up.

According to the Letter on Passing the Verification of Value for Money and Financial Affordability of the Phase II of the Municipal Waste-to-energy PPP Project in Huiyang Environmental Park (《關於〈惠陽環境園生活垃圾焚燒二期項目〉通過物有所值、財政承受能力驗證的函》) issued by the Finance Bureau of Huiyang District, Huizhou City on 10 August 2017, the project passed the appraisal of value for money and verification of financial affordability.

In accordance with the information published on the official website of China Public Private Partnerships Center, the Huizhou Phase II Project was included in the PPP project library by China Public Private Partnerships Center on 27 July 2018.

As the main regulation objects under relevant PPP project laws and regulations including the Notice on Issuance of the Interim Measures for Financial Administration of PPP Projects (《關於印發〈政府和社會資本合作項目財政管理暫行辦法〉的通知》) (Cai Jin [2016] No. 92) (the “Notice”) issued by the Ministry of Finance are government authorities at all levels instead of social capital, the relevant compete government authorities shall take the lead in inclusion of the Huizhou Phase II Project in the medium-term financial planning and budget of government.

According to the Contract on the Phase II of the Municipal Waste-to-energy PPP Project in Huiyang Environmental Park (《惠陽環境園生活垃圾焚燒二期PPP項目合同》) entered into between the City Appearance and Environmental Health Administration of Huiyang District, Huizhou City and the project company, the Huizhou Phase II Project shall be operated by the project company set up wholly with the contribution by the Issuer and does not involve government funding. The Huizhou Phase II Project is expected to be put into commercial operation in 2020 and will then incur financial expenditure due to payment of waste treatment fee by the government to the project company.

Pursuant to the Explanations issued by the Environmental Health Affairs Center of Huiyang District on 6 May 2020, as the construction of the Huizhou Phase II Project has not been completed and the government did not incur payment obligation before the official operation of the project, the project has not been included in the medium and long-term financial planning and budget, and shall be subject to approval by the People’s Congress of the district or its standing committee. The Environmental Health Affairs Center of Huiyang District is proactively advancing the inclusion of the Huizhou Phase II Project in the medium and long-term financial planning and budget as well as consideration and approval by the People’s Congress. There is no legal or procedure obstacle and there will be no adverse impact on the implementation of the Huizhou Phase II Project and the performance of the relevant franchise agreement.



**(II) Jinsha Project****1. Basic information on the project**

Jinsha Project is located in Jinsha County, Bijie City, Guizhou Province. The project's domestic waste incineration treatment capacity is 800 tons per day. The project adopts 2×400 tons/day mechanical grate waste incinerators, a 1×15 MW steam turbine and a 1×18MW generator, and is also equipped with flue gas and leachate treatment facilities, power access system engineering and production water supply engineering, etc. The total investment in the project is RMB452.05 million, and it is proposed to use proceeds in an amount of RMB380.00 million.

**2. Background and necessity of the project construction**

According to the data provided by Jinsha County Urban Management Bureau, the volume of waste removal of the urban area of the county is currently more than 110 tons per day, while the volume of waste to enter the waste treatment system from other township areas is estimated to be around 330 tons per day and there is still part of the waste which is not collected by the waste treatment system. It is preliminarily estimated that the waste production in the county is close to 450 tons per day. At present, the main waste treatment method in Jinsha County is landfilling, and there are Jinsha County Landfill (140 tons/day) and Shatu Domestic Waste Landfill (90 tons/day) in the county. It is expected that Jinsha County Landfill will be closed in 2020. Then, Shatu Domestic Waste Landfill will not be able to meet the waste collection and transportation needs of the county, and it is urgently needed to build other waste treatment facilities.

The “13th Five-Year” Plan for National Construction Plan for Municipal Waste Detoxification Treatment Facilities (《「十三五」全國城鎮生活垃圾無害化處理設施建設規劃》) encourages to give priority to recycling treatment technologies including incineration where conditions permit and the “13th Five-Year” Plan on Energy Development (《能源發展「十三五」規劃》) also strongly advocates the development and utilization of clean energy. The use of waste incineration for treatment of domestic waste in Jinsha County is in line with the need to strengthen the treatment of municipal domestic waste in Guizhou Province.

The service of the project covers all areas of Jinsha County, Qianxi County and Baili Dujuan Management Area, including rural areas, which can effectively solve the problem of domestic waste pollution and resource recovery and greatly improve the urban and rural landscape and ecological environment. Jinsha Project is a good practice in response to the requirement of “to carry out remediation for rural living environment” under the “13th Five-Year” Plan and is of great importance for improving the local ecological environment and promoting regional economic development.

### 3. *Investment estimates for the project*

The investment estimates for the project are as follows:

Name of engineering or expense	Total investment (RMB0'000)	Proportion in investment
Construction engineering	12,789.73	28.29%
Equipment purchase	16,319.92	36.10%
Installation engineering	5,724.65	12.66%
Initial working capital	158.52	0.35%
Interest during construction period	1,350.53	2.99%
Budgetary reserves	2,080.76	4.60%
Other expenses	6,780.94	15.00%
<b>Total investment</b>	<b>45,205.05</b>	<b>100.00%</b>

### 4. *Analysis on economic benefits of the project*

According to the project feasibility study report, the financial internal rate of return (after tax) of investment in Jinsha Project is 5.83% and the payback period is 15.5 years, indicating good economic benefits.

### 5. *Project approval procedures and its fulfillment*

The operation model of the Jinsha Project is changed from PPP to BOO model. The above change will not affect the effectiveness of the franchise of the Jinsha Project and will not cause the project to be terminated. Details of the implementation of the approval procedures for the project are as follows:

#### (1) *Reply on the project proposal*

In October 2018, Guizhou Provincial Development and Reform Commission issued the Reply of the Provincial Development and Reform Commission on Approval of the Municipal waste-to-energy Project in Jinsha County (Qian Fa Gai Huan Zi [2018] No. 1222) (《省發展改革委關於金沙縣生活垃圾焚燒發電項目核准的批覆》(黔發改環資[2018]1222號)) for the project.

#### (2) *Reply on the environmental impact assessment*

In March 2018, the Environmental Protection Department of Guizhou Province issued the Reply of the Environmental Protection Department of Guizhou Province on the Environmental Impact Report

of the Municipal waste-to-energy Project in Jinsha County (Qian Huan Shen [2018] No. 25) (《貴州省環境保護廳關於金沙縣生活垃圾焚燒發電項目環境影響報告書的批覆》(黔環審[2018]25號)) for the project.

(3) *Land management*

In March 2018, the Land and Resources Department of Guizhou Province issued the Reply of the Provincial Land and Resources Department on the Pre-approval of the Land for the Municipal waste-to-energy Project in Jinsha County (Qian Guo Tu Zi Yu Shen Han [2018] No. 10) (《省國土資源廳關於金沙縣生活垃圾焚燒發電項目用地預審的覆函》(黔國土資預審函[2018]10號)) for the project.

Relevant provision under the Contract on Franchise Operation of the Domestic Waste Removal and Waste-to-energy Integration Services PPP Project in Jinsha County (《金沙縣生活垃圾清運焚燒發電一體化服務PPP項目特許經營合同》) entered into between the Urban Administration Bureau of Jinsha County and the project company: “7.1 Party B shall undertake to obtain the land use right of waste-to-energy power plant according to the bidding price of land bidding, auction and listing”. According to the above provision under the contract, the project land for the Jinsha Project shall be obtained by Jinsha Company by way of transfer.

On 15 October 2019, Jinsha Company and the Natural Resources Bureau of Jinsha County entered into the Contract on Transfer of the Use Right of State-owned Construction Land (《國有建設用地使用權出讓合同》) (Electronic Supervision No.: 5224242019B01215), pursuant to which Jinsha Company shall pay for the transfer of the use right of state-owned construction land in an amount of RMB14.6 million to the Natural Resources Bureau of Jinsha County in two instalments of RMB7.3 million each prior to 14 November 2019 and 15 October 2020, respectively. It is verified that as at the date of issuance of the reply report, Jinsha Company has made full payment for the land transfer in instalments according to the contract in September 2019, November 2019 and April 2020, respectively.

In accordance with the Guidance on Registration of Real Estate of Jinsha County (《金沙縣不動產登記辦事指南》) as published by the Real Estate Registration Center of Jinsha County, the following materials shall be submitted for initial registration of use right of state-owned construction land: 1. real estate registration application form; 2. identity certificate of applicant; 3. contract on transfer of use right of state-owned construction land; 4. vouchers on full payment for land transfer; 5. real estate ownership survey results; 6. tax payment receipt. At present, Jinsha Company is preparing the real estate ownership survey results and plans to submit the relevant application documents

for the real estate certificate of the land for the Jinsha Project to the Real Estate Registration Center of Jinsha County immediately after obtaining the abovementioned real estate ownership survey results. Currently, the procedures for the project land are in normal progress, and it is expected that there is no legal obstacle against the acquisition of the project land and the implementation of the Jinsha Project as scheduled will not be affected accordingly.

### **(III) Pingyang Phase II Project**

#### **1. *Basic information on the project***

Pingyang Phase II Project is located in Dongjiang Village, Aojiang Town, Pingyang County, Wenzhou City, Zhejiang Province. The project's domestic waste incineration treatment capacity is 750 tons per day. The project is equipped with a 1×7,500 tons/day mechanical grate waste incinerator and a 1×18MW steam turbine generator. It comprises the main plant, chimney, waste haulage gantry, complex building, circulating pump room and cooling tower, guard room, sewage treatment plant station, industrial and fire pool, water purification station and other supporting facilities. The total investment in the project is RMB350,635,500, and it is proposed to use proceeds in an amount of RMB300.00 million.

#### **2. *Background and necessity of the project construction***

Pingyang County is under the jurisdiction of Wenzhou City, Zhejiang Province. It is along the coast in the south of Zhejiang Province. With the rapid growth of Pingyang County's economic construction and the continuous expansion of city size, the volume of urban domestic waste has increased year by year. The waste production in the whole area has increased rapidly and the situation is grim. In order to speed up the construction of environmental sanitation infrastructures in Pingyang County, implement the construction plan of solid waste facilities in Pingyang County, and realize the total discharge control over major pollutants, it is urgently needed to solve the problem of urban domestic waste treatment in Pingyang County.

Waste-to-energy is one of the most effective technical means for the detoxification treatment, reduction and resource recycling of municipal waste. The construction of this project is in line with the planning and industrial policy requirements of the State and Zhejiang Province, and can effectively alleviate the waste treatment problem in the whole Pingyang County and gradually realize the detoxification treatment, reduction and resource recycling of domestic waste, to improve the local environmental, social and economic benefits. Therefore, the construction of the waste-to-energy project is necessary.

### 3. *Investment estimates for the project*

The investment estimates for the project are as follows:

Name of engineering or expense	Total investment (RMB0'000)	Proportion in investment
Construction engineering	9,306.89	26.54%
Equipment purchase	16,337.20	46.59%
Installation engineering	4,456.90	12.71%
Initial working capital	135.32	0.39%
Interest during construction period	1,040.70	2.97%
Budgetary reserves	987.02	2.81%
Others	2,799.52	7.98%
<b>Total investment</b>	<b>35,063.55</b>	<b>100.00%</b>

### 4. *Analysis on economic benefits of the project*

According to the project feasibility study report, the financial internal rate of return (after tax) of investment in Pingyang Phase II Project is 8.70% and the payback period (after tax) is 12.28 years, indicating good economic benefits.

### 5. *Project approval procedures and its fulfillment*

The Pingyang Phase II Project is operated with PPP model, and the approval procedures are fulfilled as follows:

#### (1) *Reply on the project proposal*

In July 2018, the Development and Reform Bureau of Pingyang County issued the Reply on Approval of the Feasibility Study Report for the Phase II of the Municipal Solid Waste-To-Energy Plant Expansion Project in Pingyang County (Ping Fa Gai Tou Zi [2018] No. 74) (《關於同意平陽縣垃圾焚燒發電廠二期擴建工程可行性研究報告的批覆》) 平發改投資[2018]74號) for the project.

#### (2) *Reply on the environmental impact assessment*

In March 2018, the Environmental Protection Bureau of Wenzhou City issued the Letter on Approval of the Environmental Impact Report of the Phase II of the Municipal Solid Waste-To-Energy Plant Expansion Project in Pingyang County (Wen Huan Jian [2018] No. 036) (《關於平陽縣垃圾焚燒發電廠二期擴建工程環境影響報告書審批意見的函》) (溫環建[2018]036號) for the project.

(3) *Land management*

Relevant provision under the Contract on the Phase II of Expansion of Waste-to-energy Power Plant PPP Project in Pingyang County (《平陽縣垃圾焚燒發電廠二期擴建PPP項目合同》) entered into between the Comprehensive Administrative Law Enforcement Bureau of Pingyang County and the project company: “10.2.1 The project is an urban infrastructure project. The construction land is allowed to be allocated as it is ‘land for environmental protection facilities’ and in line with the Land Allocation List and meets the allocation conditions. The county government allocates land for project facilities to Party A or a government-designated agency, provides it to Party B for use, and issues relevant certification documents”. According to the above provision under the contract, the project land required for project construction of the Pingyang Phase II Project is mainly provided by the Comprehensive Administrative Law Enforcement Bureau of Pingyang County to the project company according to the contract.

The owners of Pingyang Phase II Project have obtained the land use rights certificates (Zhe (2019) Pingyang County Bu Dong Chan Quan No. 0014803) (浙(2019)平陽縣不動產權第0014803號).

(4) *Safety approval*

Pursuant to Article 29 of the Law of the People’s Republic of China on Production Safety (Revised in 2014) (《中華人民共和國安全生產法(2014修正)》), “construction projects for mines and metal smelting and construction projects for production, storage, loading and unloading of dangerous goods shall be subject to safety evaluation in accordance with relevant national regulations”. Therefore, the Pingyang Phase II Project is not required to go through safety evaluation procedures or obtain approval from safety management authorities.

(5) *Energy management approval*

According to Article 3 of the Administrative Measures for Energy Conservation Assessment and Examination of Fixed Assets Investment Projects of Zhejiang Province (《浙江省固定資產投資項目節能評估和審查管理辦法》), the fixed assets investment projects with the annual comprehensive energy consumption of 3,000 tons of standard coal and above or annual electricity consumption of 3 million kWh and above shall be subject to energy conservation examination. The energy conservation examination for industrial investment projects other than those as stipulated in the above article shall be determined by the government of the cities with districts and countries (cities, districts). The retrieval through public channels shows that Pingyang Municipal



Government has not published provisions on energy conservation examination. Therefore, the Pingyang Phase II Project is not required to be subject to energy conservation examination.

(6) *Other government approval procedures*

In accordance with the Reply of the People's Government of Pingyang County on Approval of the Implementation Plan of the Phase II of Expansion of Waste-to-energy Power Plant PPP Project in Pingyang County (《平陽縣人民政府關於關於同意〈平陽縣垃圾焚燒發電廠二期擴建PPP項目實施方案〉的批覆》) issued by the People's Government of Pingyang County on 8 October 2018, the project was approved to be set up.

The Finance Bureau of Pingyang County issued the Opinions on Review of the Value for Money Appraisal Report of the Phase II of Expansion of Waste-to-energy Power Plant PPP Project in Pingyang County and the Financial Affordability Verification Report of the Phase II of Expansion of Waste-to-energy Power Plant PPP Project in Pingyang County (《關於對〈平陽縣垃圾焚燒發電廠二期擴建PPP項目物有所值評價報告〉和〈平陽縣垃圾焚燒發電廠二期擴建PPP項目財政承受能力論證報告〉審核的意見》) on 25 July 2018, pursuant to which the project passed the value for money appraisal and financial affordability verification.

In accordance with the information published on the official website of China Public Private Partnerships Center, the Pingyang Phase II Project was included in the PPP project library by China Public Private Partnerships Center on 25 September 2018.

On 8 October 2018, the People's Government of Pingyang County issued the Reply of the People's Government of Pingyang County on Approval of the Implementation Plan of the Phase II of Expansion of Waste-to-energy Power Plant PPP Project in Pingyang County (《平陽縣人民政府關於同意〈平陽縣垃圾焚燒發電廠二期擴建PPP項目實施方案〉的批覆》) (Ping Zheng Fa [2018] No. 170), pursuant to which the government financial expenditure responsibility of the Pingyang Phase II Project was approved to be included in the annual financial budget and medium-term financial planning of county-level government and the government's performance capacity throughout the life cycle of the project was guaranteed.

As of the announcement date of the proposal, the funds for purchase of services by the government in relation to the Pingyang Phase II Project have not been approved by the local People's Congress. In accordance with the Contract on the Phase II of Expansion of Waste-to-energy Power Plant PPP Project in Pingyang County (《平陽縣垃圾焚燒發電廠二期擴建PPP項目合同》) entered into between the

Comprehensive Administrative Law Enforcement Bureau of Pingyang County and the project company, the construction period of the project is 2 years, and the project is expected to be completed and put into operation in 2021 and then the local government needs to pay the relevant waste treatment fee to the project company. At present, the project is still in the construction period. Before the project construction is completed and the project is put into operation, the government will not have a payment obligation. Therefore, it has not been considered by the People's Congress.

In light of the above, the Comprehensive Administrative Law Enforcement Bureau of Pingyang County has issued the Explanations: the government financial expenditure responsibility of the Pingyang Phase II Project has been included in the annual financial budget and medium-term financial planning of county-level government. The Comprehensive Administrative Law Enforcement Bureau of Pingyang County is proactively advancing relevant consideration and approval. There is no legal and procedure obstacle and there will be no adverse impact on the implementation of the Pingyang Phase II Project and the performance of the relevant franchise agreement.

#### **(IV) Shishou Project**

##### **1. *Basic information on the project***

Shishou Project is located on the south side of Liunan Road, Guanjiapu Village, Nankou Town, Shishou City, Hubei Province. The project's domestic waste incineration treatment capacity is 700 tons per day. The project is equipped with 2×350 tons/day mechanical grate waste incinerators, a 1×18MW condensing steam turbine and a 1×18MW generator set. The total investment in the project is RMB362.62 million, and it is proposed to use proceeds in an amount of RMB290.00 million.

##### **2. *Background and necessity of the project construction***

According to the Urban Master Planning of Shishou City (2014-2030) (《石首市城市總體規劃(2014-2030)》), it is expected that the resident population of Shishou City will be 670,300 by 2020, including 343,100 urban population, and the resident population of Shishou City will reach 753,300 by 2030, including 473,900 urban population. As at the end of the planning period, the volume of municipal domestic waste production will be approximately 473 tons per day, and the total annual domestic waste production will be approximately 173,000 tons.



The level of urban domestic waste treatment has become an important indicator reflecting the degree of urban civilization, economic strength, scientific and technological strength of a city, and the environmental awareness and modern awareness of its managers. Domestic waste management and pollution prevention and control have become an important part of urban environmental protection. At present, the treatment standards of waste treatment sites in Shishou City are relatively low, and the waste treatment methods are relatively backward. With the development of cities and increase in population, the problem of waste treatment will become more and more serious. In order to achieve centralized treatment of municipal domestic waste and standardization and normalization of treatment facilities, the construction of the project is conducive to the achievement of reduction and standard removal of local waste, saving land resources and mitigating the problem that the use of landfilling method alone occupies a larger area. The completion of the waste-to-energy project in Shishou City will protect the ecological environment and also save and provide resources for the society. Therefore, the construction of the project is necessary.

### 3. *Investment estimates for the project*

The investment estimates for the project are as follows:

Name of engineering or expense	Total investment (RMB0'000)	Proportion in investment
Construction engineering	12,108.00	33.39%
Equipment purchase	13,979.00	38.55%
Installation engineering	3,962.00	10.93%
Initial working capital	116.00	0.32%
Interest during construction period	1,286.00	3.55%
Budgetary reserves	1,015.00	2.80%
Others	3,796.00	10.47%
<b>Total investment</b>	<b>36,262.00</b>	<b>100.00%</b>

### 4. *Analysis on economic benefits of the project*

According to the project feasibility study report, the financial internal rate of return (after tax) of investment in Shishou Project is 9.89% and the payback period (after tax) is 10.63 years, indicating good economic benefits.

### 5. *Project approval procedures and its fulfillment*

The Shishou Project is operated with BOT model, and the approval procedures are fulfilled as follows:

#### (1) *Reply on the project proposal*

In May 2019, the Development and Reform Bureau of Shishou City issued the Reply on Approval of the Application Report on Changes to the Municipal Waste-to-energy Project in Shishou City (Shi Fa Gai Shen Pi [2019] No. 35) (《關於核准〈石首市生活垃圾焚燒發電項目變更申請報告〉的批覆》(石發改審批[2019]35號)) for the project.

#### (2) *Reply on the environmental impact assessment*

In November 2018, the Environmental Protection Department of Hubei Province issued the Reply of the Provincial Environmental Protection Department on Change of Social Investors for the Municipal waste-to-energy Project in Shishou City (E Huan Han [2018] No. 151) (《省環保廳關於變更石首市垃圾焚燒發電項目社會投資方的覆函》(鄂環函[2018]151號)) for the project.

#### (3) *Land management*

The owners of Shishou Project have obtained the land use rights certificates (Shi Tu (2013) No. 01724) (石土(2013)第01724號).

## (V) **Yongjia Phase II Project**

### 1. *Basic information on the project*

Yongjia Phase II Project is located next to the existing waste-to-energy plant of Yongjia County at the foot of Houjiang Mountain in Sanjiang Sub-district, Yongjia County, Zhejiang Province. The Phase II newly-built project's domestic waste treatment capacity is 750 tons per day. The project is equipped with a 1×750 tons/day mechanical grate waste incinerator, a 1×18MW condensing steam turbine generator set and supporting facilities. The Company's total investment in the project is RMB361,770,700, and it is proposed to use proceeds in an amount of RMB280.00 million.

## 2. *Background and necessity of the project construction*

Yongjia County, Wenzhou City is located in the southeastern Zhejiang Province and is one of the cities with the fastest economic development in the PRC. With the development of the national economy, the urbanization process has accelerated, the urban population has also increased, so has the output of domestic waste and industrial waste. The lack of waste treatment facilities in various districts of Yongjia County has led to a low utilization efficiency of domestic waste and increasingly serious environmental pollution problems, which jeopardizes people's health and restricts the sustainable development of the city.

The treatment method of waste incineration can be used for treatment of domestic and industrial waste and has a high degree of detoxification and reduction, and the generated heat can be fully utilized for power generation. The construction of Yongjia Phase II Project will utilize the reserved open space for construction and complement the original facilities. It is expected that the project will effectively solve the problem of rapid growth of waste treatment backlog in Yongjia County and is conducive to promoting local environmental protection and economic development. Therefore, the construction of this project is necessary.

## 3. *Investment estimates for the project*

The investment estimates for the project are as follows:

Name of engineering or expense	Total investment (RMB0'000)	Proportion in investment
Construction engineering	8,235.09	22.76%
Equipment purchase	13,946.63	38.55%
Installation engineering	4,051.29	11.20%
Initial working capital	136.84	0.38%
Interest during construction period	1,120.83	3.10%
Budgetary reserves	1,662.83	4.60%
Others	7,023.56	19.41%
<b>Total investment</b>	<b>36,177.07</b>	<b>100.00%</b>

#### 4. *Analysis on economic benefits of the project*

According to the project feasibility study report, the financial internal rate of return (after tax) of investment in Yongjia Phase II Project is 8.27% and the payback period (after tax) is 11.28 years, indicating good economic benefits.

#### 5. *Project approval procedures and its fulfillment*

The operation model of the Yongjia Phase II Project is changed from PPP to BOT model. The above change will not affect the effectiveness of the franchise of the Yongjia Phase II Project and will not cause the project to be terminated. Details of the implementation of the approval procedures for the project are as follows:

##### (1) *Reply on the project proposal*

In June 2019, the Development and Reform Bureau of Yongjia County issued the Reply on the Feasibility Study Report on the Municipal waste-to-energy Plant Upgrading and Reconstruction Project in Yongjia County (Yong Fa Gai Shen [2018] No. 80) (《關於永嘉縣垃圾焚燒發電廠改造提升工程可行性研究報告的批覆》(永發改審[2018]80號)) for the project.

##### (2) *Reply on the environmental impact assessment*

In December 2018, the Environmental Protection Bureau of Wenzhou City issued the Letter on Approval of the Environmental Impact Report of the Municipal waste-to-energy Plant Upgrading and Reconstruction Project in Yongjia County (Wen Huan Jian [2018] No. 035) (《關於永嘉垃圾焚燒發電廠改造提升工程項目環境影響報告書審批意見的函》(溫環建[2018]035號)) for the project.

##### (3) *Land management*

In February 2018, the Land and Resources Bureau of Yongjia County issued the Preliminary Opinions on the Municipal waste-to-energy Plant Upgrading and Reconstruction Project in Yongjia County (Yong Tu Zhi Yu [2018] No. 2) (《關於永嘉縣垃圾焚燒發電廠改造提升工程的預審意見》(永土資預[2018]2號)).

Sanjiang Branch of the Natural Resources and Planning Bureau of Yongjia County issued the Explanations, which certified that the land for the Yongjia Phase II Project was provided to the project company for use by the Construction Headquarter of Yongjia Waste-to-Energy Power Plant after acquisition thereof by way of allocation. The relevant

approval and publication for the abovementioned project land are in progress. There is no legal obstacle to prevent the Construction Headquarter of Yongjia Waste-to-Energy Power Plant to obtain the land use ownership certificate and there will be no adverse impact on the land use by the project company.

Therefore, the Yongjia Phase II Project is still in the process of obtaining the land, which is expected to be not subject to legal obstacle, and the implementation of the Yongjia Phase II Project as scheduled will not be affected accordingly.

#### **(VI) Repayment of bank loans**

The Company proposes to use proceeds from this Issue in an amount of no more than RMB540.00 million for repayment of bank loans.

In recent years, with the continuous development of the municipal waste-to-energy industry, relevant industry support policies have been introduced, and the demand for waste removal and treatment has been continuously released. As a result, the Company's business scale and operating income have grown rapidly. As of 31 March 2020, in respect of the waste-to-energy sector, the Company had 21 projects under operation, 8 projects under construction and 14 projects under preparation. The waste treatment capacity of the projects under operation reached 20,010 tons/day, the installed capacity was 392.5MW.

As the Company's construction projects and projects under operation increase, in order to satisfy the capital needs during the Company's development process, the Company mainly raise funds through bank loans and other means. As at the end of March 2020, the Company's balance of short-term loans, balance of long-term loans and long-term loans due within one year amounted to RMB2,817 million, RMB5,337 million and RMB734 million, respectively. Therefore, the Company's repayment pressure is great in the future. For 2017, 2018, 2019 and January to March 2020, the finance costs of the Company amounted to RMB153 million, RMB209 million, RMB328 million and RMB94 million, respectively. The finance costs increased year by year. Meanwhile, as of the end of 2017, 2018, 2019 and March 2020, the Company's gearing ratio was 67.19%, 72.22%, 74.42% and 74.75%, respectively, presenting a rising trend year by year, and a higher debt level above the industry peers over the same period. The higher gearing ratio affects the Company's debt financing ability and also leads to higher borrowing costs, which exposes the Company to certain financial risks.

Therefore, the use of proceeds for repayment of part of the bank loans will help ease the Company's debt repayment pressure, reduce the Company's finance costs, optimize the Company's financial structure, and enhance the Company's financial stability, which will help the Company obtain financial support through diversified channels in the future.

In sum, the use of proceeds from this Non-public Issue is in line with the national industrial policy and the needs of the development of the Company. The proceeds funded project has strong profitability and good development prospects, which is conducive to further expanding the Company's operating scale and comprehensive strength and enhancing the Company's operating efficiency, thereby laying a foundation for the future healthy and rapid development and performance improvement of the Company; the use of proceeds can effectively reduce the Company's gearing ratio and help to improve the Company's solvency, thereby optimizing the Company's financial structure, which is in the interests of the Company and all shareholders of the Company as a whole.

### **III. EFFECTS OF THIS ISSUE ON THE OPERATING CONDITIONS AND FINANCIAL POSITION OF THE COMPANY**

#### **(I) Effects of this Issue on the operating conditions of the Company**

The proceeds funded projects of this Issue will be carried out centering on the Company's main business of waste-to-energy, in line with the national industrial policy and the Company's overall strategic direction in the future. The proceeds funded projects of this Issue enjoy good economic returns and considerable installed capacity. Upon completion, the proceeds funded projects will increase the Company's waste treatment capacity by 4,700 tons per day or 23.49% and the installed capacity by 109 MW or 27.77%, as compared with the Company's waste treatment capacity of 20,010 tons per day and installed capacity of 392.5MW as at the end of March 2020, which will effectively enhance the Company's profitability and market share, further improve the Company's core competitiveness, promote the Company's sustainable development and safeguard the long-term interests of shareholders.

#### **(II) Effects of this Issue on the financial position of the Company**

Upon receipt of proceeds from this Non-public Issue, the financial position will tend to be stable, the profitability will be further improved, and the overall strength will be enhanced.

Upon completion of this Issue, the Company's total assets and net assets will both increase and the proportion of monetary funds in current assets will increase, which will help strengthen the Company's capital strength. At the same time, it can effectively reduce the Company's gearing ratio and finance costs, and improve the Company's financial risk resistance capacity.

With the completion of the proceeds funded projects, the Company's profitability will be further improved and its development potential will be enhanced. Upon completion of this Issue, as the proceeds funded projects require a certain construction period, the Company's return on net assets will be affected in the short term. However, in the medium and long term, as the projects continue to generate benefits, the Company's income and profit will gradually increase and the Company's profitability and profiting stability will continue to improve.

Upon completion of this Issue, as the target subscribers all make subscriptions in cash, the cash inflows from the financing activities of the Company will increase significantly.

In conclusion, the implementation of the projects funded with the proceeds from this Non-public Issue will further expand the Company's scale and strength. In the context of the current accelerated integration of environmental protection enterprises, the implementation will help strengthen the Company's competitiveness and promote its sustainable development. The proceeds funded projects are in line with the national industrial policy and the needs of the Company's development and have strong profitability and good development prospects. The use of proceeds will bring solid investment income to the Company, effectively improve the Company's financial position and bring better returns to shareholders.

*This English version is for reference only. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese version shall prevail.*

**DYNAGREEN ENVIRONMENTAL PROTECTION GROUP CO., LTD.\*  
REPORT ON THE DILUTION OF CURRENT RETURNS DUE TO  
THE NON-PUBLIC ISSUANCE OF SHARES AND  
THE REMEDIAL MEASURES (REVISED)**

The Company and all members of the Board warrant the truthfulness, accuracy and completeness of the contents of this announcement and jointly and severally accept responsibility for any false representations or misleading statements contained in or material omissions from this announcement.

According to the relevant provisions of the Opinions of the General Office of the State Council on Further Strengthening the Protection of Small and Medium Investors' Legitimate Interests in the Capital Markets (Guo Ban Fa [2013] No. 110) (《國務院辦公廳關於進一步加強資本市場中小投資者合法權益保護工作的意見》(國辦發[2013]110號)) and the Guiding Opinions on Matters Concerning the Dilution of Current Return by Initial Public Offering, Refinancing and Material Asset Restructuring (CSRC Announcement [2015] No. 31) (《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》(證監會公告[2015]31號) (the "Guiding Opinions") promulgated by the CSRC, in order to protect the right to know of small and medium investors and to safeguard the interests of small and medium investors, the announcement of Dynagreen Environmental Protection Group Co., Ltd. (the "Company") concerning the impact of the dilution of current return by this non-public issue of A shares ("This Issue" or "This Non-public Issue") on the Company's major financial indicators and the measures to be taken by the Company is hereby reported as follows:

**I. THE POTENTIAL IMPACT OF THE DILUTION OF CURRENT RETURN BY THIS NON-PUBLIC ISSUE ON THE COMPANY'S MAJOR FINANCIAL INDICATORS**

**(I) Hypothetical premises**

1. This Non-public Issue will be completed by the end of November 2020 (the completion time of This Non-public Issue is only used for the calculation and is subject to the actual completion time of This Issue).
2. The number of shares under This Non-public Issue is 232,240,000 (which is an estimate and subject to the number approved by the CSRC and actually issued); the hypothetical proceeds is RMB2,390.00 million, without considering the impact of deducting the issue expenses.
3. There is no major change in the macroeconomic environment, industrial policy and industry development, etc.

\* For identification purposes only



<b>APPENDIX III      DILUTION OF CURRENT RETURNS DUE TO THE NON-PUBLIC ISSUANCE OF A SHARES AND THE REMEDIAL MEASURES (REVISED)</b>
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4. The impact of using the proceeds from This Non-public Issue on the Company's production and operation, financial position (such as finance costs, investment income) is not considered.
5. When predicting the Company's total share capital, the total share capital of 1,161,200,000 shares before This Non-public Issue is regarded as the basis, only considering the impact of This Non-public Issue of A Shares, regardless of other factors causing changes in share capital.
6. Assuming that the net profit attributable to the shareholders of the parent company and the net profit excluding extraordinary gain and loss attributable to the shareholders of the parent company for 2020 are calculated based on the changes in results of -10.00%, 0.00% and 10.00%, respectively over the same period of 2019. This assumption is only used for the calculation of the impact of dilution of current return by This Issue of shares on the major financial indicators, and does not represent the Company's judgment on the operation and trend in 2020 or constitute a profit forecast of the Company.
7. Assuming that the Company's profit distribution plan for 2019 is as follows: based on the total share capital of 1,161,200,000 shares of the Company as at 31 December 2019, cash dividend was distributed to all shareholders at RMB1.00 (tax inclusive) for every 10 shares and a total of RMB116,120,000 (tax inclusive) was distributed. No capital reserve will be transferred to share capital during this year. Assuming that profit distribution will be completed before the end of June 2020.
8. Assuming that the Company's hypothetical number of the equity attributable to the shareholders of the parent company as at the end of 2020 = the equity attributable to the shareholders of the parent company as at the end of 2019 – the amount of profit distribution for 2019 + the hypothetical amount of net profit attributable to the shareholders of the parent company for 2020 + the net proceeds from This Issue.

Assuming that the Company's net profit attributable to the shareholders of the parent company for 2020 changes by -10.00%, 0.00% and 10.00% respectively compared with that for the last year and the proceeds from This Non-public Issue have been received, then the hypothetical number of the equity attributable to the shareholders of the parent company as at the end of 2020 are RMB5,944,588,543.59, RMB5,986,197,390.95 and RMB6,027,806,238.31, respectively.

The above is just the assumption for the purpose of making calculation, which does not constitute an undertaking, profit forecast or performance undertaking. Investors should not make investment decisions based on this assumption; the Company does not bear any liability for investors' losses caused by making investment decisions based on the assumption.

APPENDIX III	DILUTION OF CURRENT RETURNS DUE TO THE NON-PUBLIC ISSUANCE OF A SHARES AND THE REMEDIAL MEASURES (REVISED)
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**(II) Calculation process**

Based on the above hypothetical premises, the impact of the dilution of current return by This Issue on the Company's major financial indicators are calculated as follows:

Item	Without consideration		
	Before This Issue (2019/31 December 2019)	of This Issue (2020/31 December 2020)	After This Issue (2020/31 December 2020)
Total share capital (share)	1,161,200,000.00	1,161,200,000.00	1,393,440,000.00
Weighted total share capital (share)	1,161,200,000.00	1,161,200,000.00	1,180,553,333.33
Hypothetical case 1: The Company's net profit attributable to the shareholders of the parent company for 2020 decreases by 10% over the last year			
Net asset value per share attributable to the holders of ordinary shares (RMB/share)	2.84	3.06	4.27
Net profit excluding extraordinary gain and loss attributable to the parent company (RMB)	388,313,038.27	349,481,734.44	349,481,734.44
Basic earnings per share excluding extraordinary gain and loss (RMB/share)	0.3344	0.3010	0.2960
Diluted earnings per share excluding extraordinary gain and loss (RMB/share)	0.3344	0.3010	0.2960
Weighted average return on net assets excluding extraordinary gain and loss	12.34%	10.20%	9.64%

APPENDIX III	<b>DILUTION OF CURRENT RETURNS DUE TO THE NON-PUBLIC ISSUANCE OF A SHARES AND THE REMEDIAL MEASURES (REVISED)</b>
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Item	Before This Issue (2019/31 December 2019)	Without consideration of This Issue (2020/31 December 2020)	After This Issue (2020/31 December 2020)
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Hypothetical case 2: The Company's net profit attributable to the shareholders of the parent company for 2020 remains unchanged as compared with the last year

Net asset value per share attributable to the holders of ordinary shares (RMB/share)	2.84	3.10	4.30
Net profit excluding extraordinary gain and loss attributable to the parent company (RMB)	388,313,038.27	388,313,038.27	388,313,038.27
Basic earnings per share excluding extraordinary gain and loss (RMB/share)	0.3344	0.3344	0.3289
Diluted earnings per share excluding extraordinary gain and loss (RMB/share)	0.3344	0.3344	0.3289
Weighted average return on net assets excluding extraordinary gain and loss	12.34%	11.27%	10.65%

Hypothetical case 3: The Company's profit attributable to the shareholders of the parent company for 2020 increases by 10% over the last year

Net asset value per share attributable to the holders of ordinary shares (RMB/share)	2.84	3.13	4.33
Net profit excluding extraordinary gain and loss attributable to the parent company (RMB)	388,313,038.27	427,144,342.10	427,144,342.10
Basic earnings per share excluding extraordinary gain and loss (RMB/share)	0.3344	0.3678	0.3618
Diluted earnings per share excluding extraordinary gain and loss (RMB/share)	0.3344	0.3678	0.3618
Weighted average return on net assets excluding extraordinary gain and loss	12.34%	12.32%	11.65%

<b>APPENDIX III      DILUTION OF CURRENT RETURNS DUE TO THE NON-PUBLIC ISSUANCE OF A SHARES AND THE REMEDIAL MEASURES (REVISED)</b>
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According to the above calculation, after the completion of this Non-public Issue, the Company's basic earnings per share and weighted average return on net assets for the current period will be subject to a certain degree of dilution.

**II. SPECIAL RISK WARNING FOR DILUTION OF CURRENT RETURN BY THIS ISSUE**

After receipt of the proceeds from This Non-public Issue, the Company's total share capital and net assets will increase accordingly. Within a short term after the receipt of the proceeds from This Issue, the growth of the Company's net profit may be lower than that of the net assets and the total share capital; the earnings per share and weighted average return on net assets and other financial indicators may decline to a certain extent; there is risk of dilution of current return of shareholders.

At the same time, the assumed values of the relevant financial data of the Company for 2020 are for the sake of calculating relevant financial indicators and do not represent the Company's judgment on the operation and trend in 2020 or constitute the profit forecast and performance undertaking of the Company. Investors should not make investment decisions based on the above assumptions.

Investors are hereby advised to pay attention to the risk of dilution of current return by This Non-public Issue.

<b>APPENDIX III      DILUTION OF CURRENT RETURNS DUE TO THE NON-PUBLIC ISSUANCE OF A SHARES AND THE REMEDIAL MEASURES (REVISED)</b>
---

### III. NECESSITY AND RATIONALITY FOR THE BOARD TO CHOOSE THIS NON-PUBLIC ISSUE

#### (I) Plan on use of proceeds from This Non-public Issue of A Shares

The total proceeds to be raised from This Non-public Issue (including issue expenses) by the Company will not exceed RMB2,390.00 million. The net proceeds after deducting the issue expenses will be used for investment in the Huizhou Phase II Project, the Jinsha Project, the Pingyang Phase II Project, the Shishou Project and the Yongjia Phase II Project and repayment of bank loans. Details are as follows:

No	Project name	Total investment of projects (RMB0'000)	Proceeds intended to be used (RMB0'000)
1	Huizhou Phase II Project	111,345.00	60,000.00
2	Jinsha Project	45,205.00	38,000.00
3	Pingyang Phase II Project	35,063.55	30,000.00
4	Shishou Project	36,262.00	29,000.00
5	Yongjia Phase II Project	36,177.06	28,000.00
6	Repayment of bank loans	–	54,000.00
<b>Total</b>		<b><u>264,052.61</u></b>	<b><u>239,000.00</u></b>

Prior to the receipt of the proceeds from This Non-public Issue, the Company will first make investment with its self-raised funds depending on the progress of the proceeds funded projects, and will replace such funds according to the relevant specified procedures after the receipt of the proceeds.

If the actual amount of proceeds (after deducting the issue expenses) is less than the amount of proceeds to be invested in the abovementioned projects, the Company will, within the scope of ultimately determined proceeds funded projects, adjust and ultimately decide the specific proceeds funded projects, priority, and specific amount of investment in each project according to the actual amount of proceeds and taking into account the Company's operation and the construction progress of the projects. The insufficient funds that cannot be covered by the proceeds will be raised by the Company itself.

(II) **Necessity and rationality of This Non-public Issue**

1. *Municipal solid waste-to-energy is a capital-intensive industry, and fund raising is conducive to the rapid development of the Company*

Waste-to-energy industry requires a large amount of investment in the early stage. The capital investment in a waste-to-energy plant with the daily treatment capacity of 1,000 tons is RMB400 million to RMB600 million. At the same time, the investment recovery cycle of waste-to-energy projects is relatively long, generally 8-12 years, and it is a capital-intensive industry. Due to the capital intensiveness of waste-to-energy projects, participants in the industry need to have sufficient capital strength and financing capacity to satisfy large capital and cost expenditures. Therefore, financial strength is one of the key factors for waste-to-energy enterprises to achieve rapid development and maintain their leading position in the industry.

As at 31 March 2020, in respect of the waste-to-energy sector, the Company had 21 projects under operation, 8 projects under construction and 14 projects under preparation. The waste treatment capacity of the projects under operation reached 20,010 tons/day, the installed capacity was 392.5 MW. In order to ensure the sustainable development of the Company, it is necessary to continuously increase investment. Therefore, to raise proceeds through This Non-public Issue of shares to increase investment in construction of waste-to-energy projects will help further improve the Company's waste treatment capacity, increase market share, and expand the Company's business coverage and influence, to improve the Company's results. This Non-public Issue is the specific implementation of the Company's established development strategy, which is conducive to further consolidating the advantages of the Company's principal businesses and enhancing the core competitiveness of the Company's principal businesses, which is of great significance for the realization of the Company's sustainable development.

2. *Reduce the Company's gearing ratio to enhance the risk resistance capacity*

With the rapid development of the Company, the size of the Company's liabilities has also gradually expanded. As at 31 March 2020, the Company's total assets under the consolidated statements amounted to RMB14,279,502,800, the size of total liabilities was RMB10,673,372,100, and the gearing ratio reached 74.75%.

At present, the Company's gearing ratio is relatively high. This Non-public Issue will help strengthen the Company's capital strength and optimize the capital structure, which will reduce the gearing ratio, reduce financial expenses, and improve the Company's financial position, enhancing the risk resistance capability of the Company, and it helps strengthen the Company's subsequent financing capabilities. On the one hand, it conforms to the national "structural de-leverage" policy requirements and, on the other hand, it can enhance the Company's profitability and operational stability, provide financial support for the continued growth of the Company's businesses, and provide a strong guarantee for the Company's sustainable development.

**IV. RELATIONSHIP BETWEEN THE PROCEEDS FUNDED PROJECTS AND THE COMPANY'S EXISTING BUSINESS AND RESERVE IN TERMS OF PERSONNEL, TECHNOLOGY AND MARKET FOR PROCEEDS FUNDED PROJECTS**

**(I) Relationship between the proceeds funded projects and the Company's existing business**

The Company's principal business is investment, construction and operation of waste-to-energy projects. The proceeds from This Non-public Issue will all be used for investment and construction of waste-to-energy projects as the principal business of the Company and repayment of bank loans.

Upon completion of This Non-public Issue, the Company's business scope and principal business will not undergo major changes, and the Company's assets and business scale will be further expanded.

**(II) Reserves in terms of personnel, technology and market for the Company's proceeds funded projects**

**1. Personnel reserve**

The Company has always attached great importance to personnel training and reserve. After years of development, it has built a high-quality core management team and excellent technical team. The proceeds funded projects are the investment and construction of waste-to-energy projects as the principal business of the Company. The implementation of the proceeds funded projects can make full use of the existing technology and personnel. The Company will continue to accelerate the personnel recruitment and training plan according to the needs of business development and continuously enhance personnel reserve, to ensure the smooth implementation of the proceeds funded projects.

2. *Technology reserve*

Since its establishment, the Company has been engaged in the development, construction and operation of waste-to-energy projects. After years of operation and development, it has built a group of highly professional and experienced technical teams, and has rich experience and mature technologies in the waste-to-energy sector. It has good technology reserve in terms of site selection and project construction in the early stage, and project operation in the later stage.

Currently, the Company continues to promote the research and development of large grate, and has completed the design and optimization of 800 ton incinerator and begun processing and manufacturing; it organized the research and development of the online warning and control system for dioxin in waste incineration; as at 31 March 2020, the Company had been granted a total of 63 patents (including 13 invention patents and 50 utility model patents).

3. *Market reserve*

The waste-to-energy industry is characterised by policy encouragement, regional monopoly, capital intensiveness, long payback period, and insignificant seasonal fluctuations. The upstream industries of the waste-to-energy industry include construction enterprises, installation companies, waste treatment and power generation equipment (such as incinerators, smog and gas treatment systems, turbine generators and waste heat boilers) suppliers. In addition, local sanitation departments provide waste to waste-to-energy enterprises. The downstream industries mainly include local government departments and power grid companies. Waste-to-energy enterprises provide waste incineration treatment services to local governments to receive waste treatment fees and provide electricity to power grid companies to receive electricity tariffs.

As at 31 March 2020, in respect of the waste-to-energy sector, the Company had 21 projects under operation, 8 projects under construction and 14 projects under preparation. The waste treatment capacity of the projects under operation reached 20,010 tons/day, the installed capacity was 392.5MW, placing the Company in a leading position in the industry in terms of the number of projects and waste treatment capacity.

In summary, the Company has a good foundation in terms of personnel, technology and market for the proceeds funded projects. With the construction of the proceeds funded projects and based on the development of the Company, the Company will further improve the reserves in terms of personnel, technology and market to ensure the smooth implementation of the proceeds funded projects.



**V.    REMEDIAL MEASURES FOR DILUTION OF CURRENT RETURN BY THIS  
NON-PUBLIC ISSUE OF THE COMPANY**

In order to safeguard the interests of investors, reduce the risk of dilution of current return and enhance the capability of creating long-term return for shareholders, the Company will strengthen the supervision of the proceeds funded projects and speed up project implementation progress. It will improve operation and management and internal control to enhance the Company's profitability and strengthen the return mechanism for investors. The specific measures are as follows:

**1.    Accelerate the progress of investment in the proceeds funded projects and  
realize the expected benefits of the projects as soon as possible**

The projects funded with the proceeds from This Non-public Issue of shares of the Company have been fully investigated and discussed, and are in line with the national industrial policy and the Company's overall strategic development direction. The expected return on investment is high. With the completion of the projects and the realization of benefits, the Company's profitability and operating results will be significantly improved, helping to remedy the dilution of current return to shareholders by This Issue.

Before receipt of the proceeds from This Issue, in order to implement the proceeds funded projects as soon as possible, the Company will proactively allocate resources and implement the preparatory work for the proceeds funded projects in advance as well as first make investment with its self-raised funds depending on the progress of the proceeds funded projects; after receipt of the proceeds from This Issue, the Company will accelerate the construction of the proceeds funded projects, striving to complete the proceeds funded projects and realize the expected benefits as early as possible, to increase return to shareholders in the following years and reduce the risk of dilution of current return to shareholders by This Issue.

**2. Strengthen the management of proceeds to ensure that the proceeds are used as planned**

After receipt of proceeds, the Company will deposit the proceeds from This Issue in the special account for proceeds as designated by the Board of the Company in accordance with the relevant laws and regulations and the relevant system of the Company. The Board of the Company will manage the proceeds in strict accordance with the relevant laws and regulations and the relevant systems on management of proceeds, to ensure the reasonable, standardized and effective use of the proceeds and to reasonably prevent the risks in relation to the use of proceeds. The Company will improve and strengthen the investment decision-making process and strictly manage the use of proceeds, to prevent the risks in relation to the use of proceeds; various financing tools and channels will be rationally used to reduce capital costs, improve the use efficiency of proceeds, and comprehensively control the risks in relation to the Company's operations and management control, endeavouring to achieve the expected benefits for the proceeds funded projects as early as possible.

**3. Continuously improve corporate governance to comprehensively improve the Company's operation and management level**

The Company will be in strict compliance with the requirements of laws, regulations and regulatory documents including the Company Law, the Securities Law and Code of Corporate Governance of Listed Companies (《上市公司治理準則》) and constantly improve the corporate governance structure to ensure that shareholders can fully exercise their rights, the Board can perform its functions and powers in accordance with the provisions of laws, regulations and Articles of Association to make scientific, quick and cautious decisions, and the independent directors can earnestly perform their duties, protect the Company's interests as a whole, especially the legitimate rights of minority shareholders; and the Supervisory Committee can independently and effectively exercise the right of supervision and inspection against directors, managers and other senior management members as well as the finance of the Company to provide system guarantee for the development of the Company.

The Company will improve business processes, strengthen information management for all aspects including R&D, procurement and operation, and strengthen internal control, to improve the turnover efficiency of working capital. Meanwhile, the Company will strengthen budget management and strictly implement the Company's procurement approval system. In addition, the Company will consummate the compensation and incentive mechanism, introduce excellent talents from the market, and stimulate the enthusiasm of employees and tap the creativity and potential of employees to the greatest extent. Through the above measures, the Company will comprehensively improve its operating efficiency, reduce costs, and enhance its operating results.

The remedial measures for the return formulated by the Company do not represent guarantee made for the Company's future profits. Investors should not make investment decisions based thereon. The Company is not liable for compensating the losses caused by the investment decisions made by the investors based thereon. Investors are advised to pay attention to investment risks.

## **VI. UNDERTAKINGS MADE BY RELEVANT SUBJECTS**

In accordance with the requirements of the Opinions of the General Office of the State Council on Further Strengthening the Protection of Small and Medium Investors' Legitimate Interests in the Capital Markets (Guo Ban Fa [2013] No. 110) (《國務院辦公廳關於進一步加強資本市場中小投資者合法權益保護工作的意見》(國辦發[2013]110號)), the Several Opinions of the State Council on Further Promoting the Healthy Development of the Capital Market (Guo Fa [2014] No. 17) (《國務院關於進一步促進資本市場健康發展的若干意見》(國發[2014]17號)) and the Guiding Opinions on Matters Concerning the Dilution of Current Return by Initial Public Offering, Refinancing and Material Asset Restructuring (CSRC Announcement [2015] No. 31) (《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》(證監會公告[2015]31號)), all directors, senior management, and controlling shareholder and actual controller of the Company have fulfilled the following undertakings to ensure the practical implementation of the Company's measures to remedy current return:

### **(I) Undertakings of the controlling shareholder and actual controller**

As the controlling shareholder and actual controller of the Company, BSAM has issued the Undertakings of Beijing State-owned Assets Management Co., Ltd. on Taking Remedial Measures for Dilution of Current Return by the Non-public Issue of A Shares by Dynagreen Environmental Protection Group Co., Ltd. (《北京市國有資產經營有限責任公司關於綠色動力環保集團股份有限公司非公開發行A 股股票攤薄即期回報採取填補措施的承諾》). The undertakings are as follows:

- I. As at the date of this letter, the Company does not interfere with the operation and management activities of Dynagreen or encroach on the interests of Dynagreen.
- II. The Company undertakes not to interfere with the operation and management activities of Dynagreen or encroach on the interests of Dynagreen in the future."

**(II) Undertakings of all directors and senior management**

In accordance with the Undertakings of the Directors and Senior Management of Dynagreen Environmental Protection Group Co., Ltd. on Taking Remedial Measures for Dilution of Current Return by the Non-public Issue of A Shares (《綠色動力環保集團股份有限公司董事、高級管理人員關於非公開發行A股股票攤薄即期回報採取填補措施的承諾》), made by the directors and senior management of the Company, the undertakings made by the directors and senior management of the Company are as follows:

- “1. Neither transfer interests to other entities or individuals without compensation or under unfair conditions, nor damage the interest of the Company by other means;
2. To restrain their own occupational consumption behavior;
3. Not appropriate the Company’s assets to engage in investment and consumption activities unrelated to its performance of duties;
4. The remuneration system formulated by the Board or the Remuneration and Assessment Committee shall be linked to the implementation of the Company’s remedial measures for the return;
5. If the Company introduces equity incentive policy in the future, the conditions for exercise of the equity incentive that is intended to be publicized by the Company shall be linked to the implementation of the Company’s remedial measures for the return;
6. For other new regulatory requirements introduced by the CSRC in relation to the remedial measures for the return and relevant undertakings during the period from the date of this undertaking to the completion of This Non-public Issue of shares of the Company that makes the said undertaking fail to meet such requirements of the CSRC, then the Company shall give further undertaking(s) in accordance with those new requirements of the CSRC.

If I violate the above undertakings and cause losses to the Company or shareholders, I will bear the corresponding liabilities by law.”

*This English version is for reference only. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese version shall prevail.*

**THE BOARD OF DIRECTORS OF DYNAGREEN  
ENVIRONMENTAL PROTECTION GROUP CO., LTD.**

**SPECIAL REPORT ON THE UTILISATION OF  
PREVIOUSLY RAISED FUNDS**

In accordance with the provisions of the Regulations on the Report on the Use of Previously Raised Proceeds (Zheng Jian Fa Xing Zi [2007] No.500) (《關於前次募集資金使用情況報告的規定》(證監發行字[2007]500號)) issued by China Securities Regulatory Commission, Dynagreen Environmental Protection Group Co., Ltd. (the “Company”) has prepared the report on the use of previously raised proceeds as at 31 March 2020.

**I. BASIC CONDITION ON THE PROCEEDS**

**(I) Actual amount and receipt of the proceeds**

**1. Proceeds from initial public offering**

The Company was approved by China Securities Regulatory Commission with the Reply on Approval of the Initial Public Offering of Shares by Dynagreen Environmental Protection Group Co., Ltd. (Zheng Jian Xu Ke [2018] No. 746) (《關於核准綠色動力環保集團股份有限公司首次公開發行股票的批覆》證監許可[2018]746號文) to issue no more than 116,200,000 RMB denominated ordinary shares (“A Shares”) under public offering. In accordance with the Announcement on Listing of Shares under Initial Public Offering and the 2018 First Quarterly Review Report (《首次公開發行股票上市公告書暨2018年第一季度審閱報告》) published by the Company on 8 June 2018, the issue price was RMB3.29 per share and the number of shares issued was 116,200,000 shares. The aggregate proceeds from the initial public offering of A Shares by the Company amounted to RMB382,298,000 and the net proceeds after deducting the issue expenses of RMB36,279,200 amounted to RMB346,018,800. The proceeds were received on 5 June 2018.

The proceeds from the initial public offering of A Shares by the Company have been verified by Grant Thornton Certified Public Accountants (special ordinary partnership) which has issued the Capital Verification Report (Zhi Tong Yan Zi (2018) No. 110ZC0182).

**(II) Deposit of proceeds in a special account**

**1. Proceeds from initial public offering**

The balance of the special account for proceeds as at 31 March 2020 is as follows:

Name of bank for deposit of proceeds	Bank account	Account balance (RMB0'000)	Remarks
High-tech Park Sub-branch of Shenzhen Branch of China Merchants Bank Co., Ltd.	755903860310518	0.00	Cancelled
Xuanwu Sub-branch of Beijing Rural Commercial Bank Co., Ltd.	1901000103000012784	0.00	Cancelled
Shenzhen Xiangmi Sub-branch of Bank of Beijing Co., Ltd.	20000030483900022858696	0.00	Cancelled
High-tech Park Sub-branch of Shenzhen Branch of China Merchants Bank Co., Ltd.	755930481810701	0.00	Cancelled
Total		<u>0.00</u>	

**II. ACTUAL USE OF PREVIOUSLY RAISED PROCEEDS**

**(I) Checklist of the use of the previously raised proceeds**

The checklist of the use of the previously raised proceeds is attached to this report as annex 1.

**(II) Changes in investment projects actually funded with the previously raised proceeds**

There are no changes in investment projects funded with the proceeds.

**(III) Explanation on the difference between the actual and the committed total investment size for the projects funded with the previously raised proceeds**

As at 31 March 2020, there was no difference between the actual and the committed total investment size for the projects funded with the previously raised proceeds of the Company.

**(IV) Transfer or replacement of investment projects funded with the previously raised proceeds****1. Proceeds from the initial public offering**

Before actual arrival of the proceeds from the initial public offering, the Company applied its own funds to invest certain projects which were planned to be funded with such proceeds. In accordance with Verification Report on Investment of Self-raised Funds in Proceeds Funded Projects by Dynagreen Environmental Protection Group Co., Ltd. (Zhi Tong Zhuan Zi (2018) No. 110ZB5782) (《關於綠色動力環保集團股份有限公司以自籌資金預先投入募集資金投資項目情況鑒證報告》(致同專字(2018)第110ZB5782號)) issued by Grant Thornton Certified Public Accountants (special ordinary partnership), as at 5 June 2018, the total amount of self-raised funds invested in proceeds funded projects by the Company amounted to RMB900,115,700.

The Proposal on Use of Proceeds for Replacement of Self-raised Funds Previously Invested in Proceeds-funded Projects was considered and approved at the 29th meeting of the second session of the board of directors of the Company. The supervisory committee and independent directors expressed affirmative opinions and the sponsor issued verification opinions in relation to approval of the Company's use of proceeds in an amount of RMB246,018,800 to replace the self-raised funds previously invested in the proceeds-funded projects. The Company completed the replacement of proceeds in August 2018.

As at 31 March 2020, the balance of proceeds was nil.

**(V) Use of temporarily idle proceeds**

As at 31 March 2020, the Company had no temporarily idle proceeds.

**(VI) Unused proceeds**

As at 31 March 2020, the previously raised proceeds had been used up without any unused proceeds.

**III. ECONOMIC BENEFITS FROM THE PROCEEDS-FUNDED PROJECTS**

The checklist of benefits realized by the projects funded with the previously raised proceeds is attached to this report as annex 2.

**IV. STATEMENT OF USE OF THE PREVIOUSLY RAISED PROCEEDS FOR SUBSCRIPTION OF SHARES**

No previously raised proceeds were used for subscription of shares by the Company.

**V. EXPLANATIONS ON OTHER DIFFERENCES**

There is no difference between the actual use of the previously raised proceeds by the Company and the disclosures in the periodic reports and other information disclosure documents published by the Company in the previous years.

- Annexes: 1 Checklist of the Use of the Previously Raised Proceeds
- 2 Checklist of Benefits Realized by the Projects Funded with the Previously Raised Proceeds



**ANNEX: 1 CHECKLIST OF THE USE OF THE PREVIOUSLY RAISED PROCEEDS PRIOR TO THE INITIAL PUBLIC OFFERING  
As at 31 March 2020**

*Unit: RMB0'000*

Net proceeds: 34,601.88  
 Net proceeds involved in change of use: 0  
 Proportion of net proceeds involved in change of use: 0

Net cumulative proceeds used: 34,601.88

Net proceeds used in each year  
 2019 2018  
 0 34,601.88  
 34,601.88

No.	Investment projects	Net investment of proceeds			Cumulative investment funded with the proceeds as at the cut-off date			Difference between actual investment amount and committed investment amount after the fund raising	Date on which the project reaches the serviceable conditions
		Committed investment amount before the fund raising	Committed investment amount after the fund raising	Actual investment amount	Committed investment amount before the fund raising	Committed investment amount after the fund raising	Actual investment amount		
1	Tianjin Ninghe Straw-fired Power Project	8,000.00	8,000.00	8,000.00	8,000.00	8,000.00	8,000.00	0	October 2017
2	Tianjin Ninghe Biomass Power Project	8,000.00	8,000.00	8,000.00	8,000.00	8,000.00	8,000.00	0	August 2018
3	Bengbu WTE Project	15,225.28	8,601.88	8,601.88	15,225.28	8,601.88	8,601.88	0	November 2017
4	Replenishment of working capital	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	0	N/A
Total		41,225.28	34,601.88	34,601.88	41,225.28	34,601.88	34,601.88	0	N/A

**ANNEX: 2 CHECKLIST OF BENEFITS REALIZED BY THE INVESTMENT PROJECTS FUNDED WITH THE PREVIOUSLY RAISED PROCEEDS PRIOR TO THE INITIAL PUBLIC OFFERING**

As at 31 March 2020

*Unit: RMB0'000*

No.	Project name	Cumulative capacity utilization rate of investment project as at the cut-off date	Estimated benefits			Actual benefits for the past three years and the latest period (Note 3)				Benefits accumulatively realized as at the cut-off date	Whether the estimated benefits are achieved
			The first year after commencement of production (net profit)	The second year after commencement of production (net profit)	The third year after commencement of production (net profit)	2017 (net profit)	2018 (net profit)	2019 (net profit)	January–March 2020 (net profit)		
1	Tianjin Ninghe Straw-fired Power Project	48.88% (Note 1)	3,922	4,365	4,443	-312.46	-2,092.12	-4,819.34	-639.77	-7,863.69 (Note 2)	
2	Tianjin Ninghe Biomass Power Project	98.70%	364	454	483	-	724.03	2,552.25	332.09	3,608.37	Yes
3	Bengbu WTE Project	85.14%	215.26	456.83	680.09	222.31	4,115.82	2,851.46	239.43	7,429.02	Yes

*Note 1:* Tianjin Ninghe Straw-fired Power Project is a straw-fired power project, different from the waste-to-energy project to some extent. The capacity utilization rate is calculated based on the volume of electricity generated and the power generation capacity utilization rate of Tianjin Ninghe Straw-fired Power Project is 48.88%, based on the following formula: power generation capacity utilization rate = (actual volume of electricity generated of the project/designed power generation capacity of the project during the operation period) \* 100%. If calculated based on the straw amount treated, its straw treatment capacity utilization rate is 114.03%, which is based on the following formula: straw treatment capacity utilization rate = (actual amount of straw processed in the furnace/straw treatment capacity during the operation period) \*100%. In addition, Tianjin Ninghe Biomass Power Project and Bengbu WTE Project are all waste-to-energy projects, and their capacity utilization rates are calculated based on the amount of waste disposed. The calculation formula is as follows: waste treatment capacity utilization rate = (actual amount of waste processed in the furnace/waste disposal capacity during the operation period) \*100%.

*Note 2:* Tianjin Ninghe Straw-fired Power Project reached the predetermined serviceable conditions in October 2017. There are certain differences between the actual benefits and estimated benefits of the project, the main reasons of which are: (1) the project has not received the national renewable energy subsidies, which resulted in the deficiency in the project company's daily operational cash flow and the necessity to borrow from the Company, increasing the financial costs of the project company; (2) the calorific value of local straw is low and transportation costs keep on rising, resulting in an increase in costs; (3) the project has been put into production for a short period, which was the first time the Company invested in a straw-fired power project, and the operation management and the power generation efficiency of the fluidized bed process fails to meet expectations; (4) in 2019, the Company performed an impairment test on Tianjin Ninghe Straw-fired Power Project, and impairment of RMB38,487,000 has been made (aggregate caliber impairment: RMB12,547,800) on an individual basis. Accordingly, we recorded a relatively low net profit from the project in 2019, and a net profit of RMB-9,706,400 after excluding the impairment above, representing an improvement of the actual benefits of the project in 2019 as compared to 2018. In the future, with the further optimization of operation indicators and technical transformation as well as the enhancement of the capacity utilization rate and the power generation efficiency by the Company in 2020, the estimated benefits of the project will be gradually improved.

*Note 3:* The feasibility report in respect of the above projects has already taken into account the national renewable energy subsidies during the analysis of the projects' estimated benefits. The actual benefits of the above projects for the past three years and the latest period represent the net profits after retrospective adjustments for the national renewable energy subsidies, which is in the same caliber as the estimated benefits.

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## **THE PLAN FOR RETURN TO THE SHAREHOLDERS FOR THE NEXT THREE YEARS (2020–2022)**

In order to improve and refine the scientific, sustainable, stable and transparent decision-making for dividend distribution and supervision mechanisms of Dynagreen Environmental Protection Group Co., Ltd. (the “Company”) as well as to further highlight the importance of return to the shareholders, pursuant to the relevant requirements of Notice Regarding Further Implementation of Certain Matters Relating to Cash Dividend Distribution by Listed Companies (Zheng Jian Fa [2012] No. 37)《關於進一步落實上市公司現金分紅有關事項的通知》(證監發[2012]37號) and the Listed Companies Regulatory Guidance No. 3 – Cash Dividends Distribution of Listed Companies (Zheng Jian Hui Gong Gao [2013] No. 43 《上市公司監管指引第3號—上市公司現金分紅》(證監會公告[2013]43號) issued by China Securities Regulatory Commission (the “CSRC”) and the articles of association of Dynagreen Environmental Protection Group Co., Ltd. (the “Articles of Association”), the Company has formulated the plan for return to the Shareholders for the next three years (2020–2022) of Dynagreen Environmental Protection Group Co., Ltd. (the “Plan”), details of which are as follows:

### **I. FACTORS TO CONSIDER FOR MAKING THE PLAN**

The Company shall adopt a continuous and steady profit distribution policy after giving a comprehensive consideration to strategic plan on development, development goals and industry development trend. The Company’s profit distribution shall focus on providing investors with reasonable investment return as well as maintaining the sustainable development of the Company.

### **II. PRINCIPLES FOR MAKING THE PLAN**

Subject to the relevant laws and regulations and the relevant rules on profit distribution in the Articles of Association, the formulation of the Plan shall fully take into account of and consider the opinions of independent directors, supervisors and public shareholders, and balance short-term benefits and long-term development of the Company according to the actual operating development and capital requirement in order to establish a sustainable, stable and scientific return plan and mechanism for the investors, thus to make an institutional arrangement for profit distribution and ensure the continuity and stability of the profit distribution policy.

**III. SPECIFIC SHAREHOLDERS' RETURN PLAN FOR THE NEXT THREE YEARS  
(2020-2022)**

- (1) Any profit distribution of the Company shall not exceed the amount of accumulated distributable profits and shall not adversely affect the continued operation of the Company. The Company may distribute interim dividends according to its profit and capital requirements.
- (2) Terms and policies of cash dividends

The Company shall give priority to the payment of cash dividends. If no cash dividends are available, no scrip dividends shall be declared for the same year. Any cash dividends proposed shall satisfy the following criteria: the profit and accumulated retained earnings of the Company for the year shall be positive and its cash flow shall be sufficient to support the continued operation and long-term development of the Company, then distribution of cash dividend shall be adopted positively; the profit to be distributed in cash each year shall not be less than 10% of the distributable profits of the year, and the cumulative profit distributed in cash in the past three years shall not be less than 30% of the yearly average distributable profit of the Company for such three years.

With a view to provide investment returns to shareholders and share corporate values, the Company may declare scrip dividends in addition to the cash dividends, taking into account practical and reasonable factors such as the growth of the Company, dilution to the net asset per share and the adequate match between the share price and the size of the share capital of the Company.

Where the Company records surplus for consecutive years, each cash dividend shall not be more than 24 months apart.

The board of directors shall distinguish the following situations and formulate diversified cash dividend distribution policies in accordance with requirements of these Articles of Association and comprehensively take into account the characteristics of the industry in which the Company operates, stage of development, its own business model, profitability and other factors such as whether there are significant capital expenditure arrangements:

1. If the Company is at a mature stage of development and has no significant capital expenditure arrangements, the proportion of cash dividends should be at least 80% in the profit distribution;
2. If the Company is at a mature stage of development and has significant capital expenditure arrangements, the proportion of cash dividends should be at least 40% in the profit distribution;

3. If the Company is at a growing stage and has significant capital expenditure arrangements, the proportion of cash dividends should be at least 20% in the profit distribution.

When it is difficult to distinguish the Company's stage of development but there are significant capital expenditure arrangements, the profit distribution may be arranged in accordance with the foregoing provisions.

Significant capital expenditure arrangements are transactions involving, among other things, acquisition of assets, external investment and investment in fixed assets contemplated by the Company and settled in cash in the following 12 months with the cumulative expenditure amounting to or exceeding 30% of the latest audited total assets, or exceeding 50% of the latest audited net assets and RMB50 million, in each case except for project investments through raised capital.

(3) Decision-making mechanism for profit distribution

Particulars of any profit distribution plan shall be determined by the board of directors in accordance with the requirements of these Articles of Association, the Company's profits, capital supply and demands and shareholders' return plan as approved by a simple majority at the supervisory committee and as proposed for approval at a general meeting.

The board of directors shall specify the planned use of retained undistributed profits and, where scrip dividends are to be distributed, the reasonableness and feasibility thereof in any profit distribution proposal. In the event that the board of directors does not declare any cash dividend in its annual profit distribution plan in accordance with the dividend distribution policies under the Articles of Association, the board shall provide reasons for not declaring the cash dividend or declaring a dividend below the stipulated percentage and the specific use of the retained profits and expected return thereon, which shall be opined by independent directors and proposed at a general meeting for shareholders' approval. Such information shall be disclosed in the announcement on results of the meeting of the board of directors of the Company and periodic reports.

Independent directors may collect opinions from minority shareholders, propose dividend distribution proposals and directly submit it to the board of directors for consideration.

The Company shall elicit opinion of investors on profit distribution through effective means such as investors' interaction platforms, the website of the Company, telephone, facsimile and electronic mail. Such opinion shall be summarized by the secretary to the board of directors and provided at the board meeting considering a proposal for profit distribution.

When considering a proposal for profit distribution at a board meeting, such proposal shall be passed by two thirds of independent directors by a separate voting. By considering a cash dividend proposal, the board of directors shall earnestly research and determine the timing, conditions, minimum proportion, adjustment conditions and other decision-making procedures in relation thereto. The independent directors shall expressly issue independent opinions before such proposals are considered in a board meeting. Such proposals shall be proposed at a general meeting upon being approved by the board of directors.

Before a cash dividend proposal is considered at a general meeting, the Company shall communicate with shareholders, especially minority shareholders through various channels to listen to the opinion and requests of minority shareholders and give timely responses to issues which minority shareholders are concerned about. When convening a general meeting to consider a proposal for profit distribution, online voting shall be provided in addition to the on-site voting at the meeting for the shareholders. A proposal for profit distribution shall be passed by voting by over half of the shareholders present (in person or by their proxies at the general meeting). Upon finalization of the resolution on such proposal at the general meeting, the Company's board of directors shall complete the dividend payment within two months after the general meeting is held.

- (4) The Company may distribute dividends in either or both of the following forms:

1. cash; 2. shares.

Any cash dividends and other payments to domestic shareholders shall be paid in RMB. Any cash dividends and payments to foreign shareholders shall be denominated and declared in RMB and paid in foreign currency. The Company will, according to the national regulations on foreign exchange, address the foreign currency required for cash dividends and other payments to foreign shareholders.

Unless otherwise provided by the relevant laws and regulations, for the payment of cash dividends and other payments in foreign currency, the applicable exchange rates shall be the average sell price announced by the People's Bank of China in one calendar week immediately preceding the declaration date of such cash dividends and other payments.

- (5) After the general meeting has resolved on the plan to allocate profits, the board of directors shall complete the distribution of dividends (or bonus shares) within 2 months of the general meeting.

- (6) The Company will give full consideration to the interests of shareholders and adopt a reasonable profit distribution policy according to its business operation and market conditions. The Company's profit distribution policy shall to the greatest extent maintain continuity and stability, and give priority to cash dividends, with the specific dividend rate to be passed with a resolution at the general meeting in accordance with relevant laws and regulations.

#### **IV. EFFECTIVE MECHANISM FOR THE PLAN**

1. The Plan, as well as its amendments, shall be effective from the date of approval at the Company's general meeting.
2. Any matters not covered in the Plan shall be implemented in accordance with relevant laws and regulations, regulatory documents and the Articles of Association.
3. The board of directors of the Company is responsible for the interpretation of the Plan.



In order to meet the respective construction funding needs of Laizhou Haikang Environmental Protection Energy Co., Ltd.\* (萊州海康環保能源有限公司) (“**Laizhou Company**”) and the domestic waste incineration power generation projects of Shuozhou Lvdong Nanshan Environmental Energy Co., Ltd.\* (朔州綠動南山環境能源有限公司) (“**Shuozhou Company**”), the Company intends to provide joint and several liability guarantees for the fixed-asset loans of not more than RMB0.4 billion and RMB0.45 billion applied for its controlling subsidiaries, namely Laizhou Company and Shuozhou Company.

#### I. PARTICULARS OF THE GUARANTEE

1. Date of the guarantee: The date on which the guarantee contract is signed
2. Name of the guarantor: The Company
3. Name of the guaranteed party: Laizhou Company, Shuozhou Company
4. The estimated specific guarantee amount is as follows:

The guaranteed party	Guaranteed amount	Term	Guaranteed method	Remark
Laizhou Company	Not exceeding RMB0.4 billion	Loan period shall not exceed 15 years; grace period shall not exceed 3 years	Joint and several liability guarantee	Fixed asset loan
Shuozhou Company	Not exceeding RMB0.45 billion	Loan period shall not exceed 15 years; grace period shall not exceed 3 years	Joint and several liability guarantee	Fixed asset loan

#### II. ACCUMULATED NUMBER OF EXTERNAL GUARANTEES AND OVERDUE GUARANTEES UP TO THE DATE OF INFORMATION DISCLOSURE

As at the Latest Practicable Date, the total amount of guarantees provided by the Company and its controlling subsidiaries was RMB5.761 billion, which accounted for approximately 175% of the audited net assets attributable to shareholders of the Company as of 31 December 2019. In particular, the amount of guarantees provided to its controlling subsidiaries was RMB5.504 billion, and the amount of RMB257 million was provided for joint ventures. No overdue guarantees were provided by the Company.

\* For identification purposes 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 Company. 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. DISCLOSURE OF INTERESTS

### a) Directors' interests or short positions in the Shares

Save as disclosed in this section, as at the Last Practicable Date, none of the Directors, Supervisors and chief executives of the Company had any interests or short positions in the Shares, underling Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) 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 (b) pursuant to section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (c) 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.

Director	Number of shares held	Capacity	Approximate percentage of shareholding in the relevant class of shares	Approximate percentage of shareholding in the total share capital of the Company
Mr. Qiao Dewei <sup>2</sup>	13,311,078 A shares (Long position)	Interest in controlled corporation	1.76%	1.15%

<sup>2</sup> Gongqingcheng Jingxiu Investment Partnership (Limited Partnership) ("**Jingxiu Investment**", originally known as Shenzhen Jingxiu Investment Partnership (Limited Partnership)) held 13,311,078 A shares, representing approximately 1.76% of the A shares and approximately 1.15% of the total share capital of the Company respectively. As Mr. Qiao Dewei is a general partner of Jingxiu Investment according to the partnership agreement of Jingxiu Investment, pursuant to the SFO, Mr. Qiao Dewei is deemed to be interested in the A shares held by Jingxiu Investment.

## b) Substantial Shareholders' interests or short positions in the Shares

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

Name	Nature of interest	Capacity	Approximate percentage of the relevant class of Shares	Approximate percentage of issued Shares
Beijing State-owned Asset Management Co., Ltd ("BSAM")	501,189,618 A shares (L)	Beneficial owner	66.22%	43.16%
Beijing State-owned Assets Management (Hong Kong) Company Limited ("BSAM (HK)") <sup>3</sup>	24,859,792 H shares (L)	Beneficial owner	6.15%	2.16%
BSAM <sup>3</sup>	24,859,792 H shares (L)	Interest in controlled corporation	6.15%	2.14%
National Council for Social Security Fund	28,293,000 H shares (L)	Beneficial owner	6.99%	2.44%
Tenbagger Capital Management CO., LTD	40,350,000 H shares (L)	Investment manager	9.98%	3.47%

Save as disclosed, as at the Latest Practicable Date, so far as was known to the Directors, no other person (other than the Directors) had interest or short positions in the Shares and/or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

<sup>3</sup> BSAM (HK) is a wholly-owned subsidiary of BSAM. Pursuant to the SFO, BSAM is deemed to be interested in the H Shares held by BSAM (HK), holding 24,859,792 H Shares, representing approximately 6.15% of the total H Shares of the Company and approximately 2.14% of the total share capital of the Company.

As at the Latest Practicable Date, so far as was known to the Directors, the following Directors were directors or employees of the substantial Shareholders set out above:

<b>Name of Director</b>	<b>Position held in the Company</b>	<b>Position held in BSAM</b>
Zhi Jun	Non-executive director	Employee of entity under the BSAM group
Cheng Suning	Non-executive director	Employee of entity under the BSAM group

**c) Competing Interests**

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective close associates had any interest in any business, which competes or may compete, either directly or indirectly, with the business of the Group as if each of them were treated as a controlling shareholder of the Company under Rule 8.10 of the Listing Rules.

**3. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors or Supervisors had entered or proposed to enter into a service contract with any member of the Group which will not expire or is not determinable within one year without payment of compensation (other than statutory compensation).

**4. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, there had been no material adverse change in the financial or trading position of the Group since 31 December 2019 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

**5. LITIGATION**

So far as the Directors are aware, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or arbitration of material importance was pending or threatened against any member of the Group as at the Latest Practicable Date.

**6. DIRECTORS' AND SUPERVISORS' INTEREST**

None of the Directors or Supervisors has any direct or indirect interest in any assets which have been, since 31 December 2019, 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 which are proposed to be acquired or disposed of by, or leased to, any member of the Group.

As at the date of this circular, none of the Directors or Supervisors was materially interested in any contract or arrangement subsisting which was significant in relation to the business of the Group.

## 7. QUALIFICATION AND CONSENT OF EXPERT

The following is the qualification of the expert who has given its opinion or advice contained in this circular:

Name	Qualification
Somerley	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, the above expert has given and has not withdrawn its written consent to the issue of this circular with inclusion of its letter or opinion and reference to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, the above expert did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, the above expert did not have any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group, or was proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2019 (being the date to which the latest published audited statements of the Group were made up).

## 8. MISCELLANEOUS

- a) The company secretary of the Company is YUEN Wing Yan, Winnie. She is a Chartered Secretary and a fellow of both of The Hong Kong Institute of Chartered Secretaries (“HKICS”) and The Institute of Chartered Secretaries and Administrators in the United Kingdom.
- b) The registered office and principal place of business of the Company in the PRC is located at 2nd Floor Northeastern Wing, Jiuzhou Electronic Building, 007 Keji South 12th Street, Nanshan District, Shenzhen, the PRC.
- c) The principal place of business of the Company in Hong Kong is 1st Floor, Xiu Ping Commercial Building, 104 Jervois Street, Hong Kong.
- d) The Hong Kong H share registrar and transfer office of the Company is Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong.

**9. DOCUMENTS FOR INSPECTION**

Copies of the following documents will be made available for inspection during normal business hours from the date of this circular up to 26 June 2020 (both days inclusive) at the offices of Morrison & Foerster at 33/F, Edinburgh Tower, the Landmark, 15 Queen's Road Central, Hong Kong.

- a) the Supplemental Agreement of the BSAM Subscription Agreement;
- b) the letter from the Board;
- c) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Board Committee" in this circular;
- d) the letter from Somerley to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed "Letter from Somerley" in this circular;
- e) the written consent referred to in the paragraph headed "Qualification and Consent of Expert" in this Appendix; and
- f) this circular.