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**China Boqi Environmental (Holding) Co., Ltd.**  
**中國博奇環保（控股）有限公司**  
*(Incorporated in the Cayman Islands with limited liability)*  
**(Stock Code: 2377)**

**CONTINUING CONNECTED TRANSACTIONS  
AND  
PROPOSED ADOPTION OF THE SHARE OPTION SCHEME**

**CONTINUING CONNECTED TRANSACTIONS**

The Board hereby announces that, after negotiation between Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric on arm's length, the parties entered into a supplemental agreement on 30 November 2020, pursuant to which the parties agreed to amend and supplement certain terms in relation to pricing terms for the provision of O&M services and Ancillary Charges in accordance with the market-based pricing mechanism. On the same day, the Board also proposed to renew the annual caps for the continuing connected transactions under the Yangxi Agreements and the 2020 Supplemental Agreement for the three years ending 2023.

Reference is made to the section headed "Connected Transactions" and "Waivers from Compliance with the Listing Rules and Exemption from Compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance" in the Prospectus containing details regarding, among other things, continuing connected transactions under the Yangxi Agreements and a waiver from strict compliance with the three-year term requirement for continuing connected transactions under the Yangxi Agreements granted by the Stock Exchange.

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

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

### **PROPOSED ADOPTION OF THE SHARE OPTION SCHEME**

The Board further announces that, on 30 November 2020, the Board resolved to propose the adoption of the Share Option Scheme to be approved by the Shareholders. The purpose of the Share Option Scheme is to enable the Company to grant Options to Eligible Participants as incentives or rewards for their contribution to the Group.

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

### **SHAREHOLDERS' CIRCULAR**

A circular containing, among other matters, (i) the 2020 Supplemental Agreement; (ii) the Proposed Annual Caps; (iii) the proposed adoption of the Share Option Scheme and authorising the Board to grant the Options pursuant to the Share Option Scheme and to allot and issue the Shares pursuant to the exercise of the Options; (iv) the letter of recommendation from the Independent Board Committee in respect of the continuing connected transactions under the Yangxi Agreements and the 2020 Supplemental Agreement; (v) the letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders in respect of the continuing connected transactions under the Yangxi Agreements and the 2020 Supplemental Agreement; and (vi) a notice convening the EGM, is expected to be despatched to the Shareholders in due course in accordance with the Listing Rules.

## **I. CONTINUING CONNECTED TRANSACTIONS**

### **1. Introduction**

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

Major terms of the Yangxi Agreements are set out below:

Parties:	(1) Beijing Boqi (operator)  (2) Guangdong Huaxia Electric and Yangxi Electric (site owner)
Subject:	the provision of operation, daily maintenance and repair services in respect of the Yangxi Facilities prior to the completion of the acquisition of the Yangxi Facilities
Scope of service:	Beijing Boqi is mainly responsible for the O&M operation in relation to the desulfurization and denitrification systems of the #1-4 units of Yangxi Electric. Specifically, it acts as an operator of the desulfurization and denitrification systems of the #1-4 units of Yangxi Electric to provide major services such as the operation, maintenance, examination and repair and technical improvement; the disposal of waste; the replacement of catalysts; the management and maintenance of the ancillary equipment of the underground pipe network of the desulfurization and denitrification systems, the drainage system in the desulfurization and denitrification areas, the firefighting system of the desulfurization and denitrification systems and the framework of the desulfurization and denitrification systems; and the waterproof/closed recirculation cooling water/waste water and sludge treatment.
Term:	From 1 January 2017 to 31 December 2025
Service fees for the provision of O&M services:	The service fees under the Yangxi Agreements are calculated based on the on-grid power generation multiplied by the applicable fixed rates which were determined with reference to (i) the relevant subsidies with respect to desulfurization and denitrification; and (ii) the fees and expenses in respect of the O&M services of the desulfurization and denitrification facilities.

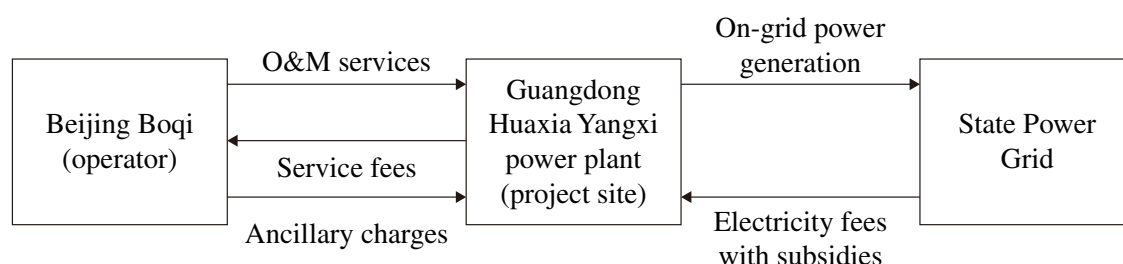
Ancillary charges: Ancillary charges are paid by Beijing Boqi to Yangxi Electric, based on the actual operation costs incurred in the daily operation of the O&M services, such as water, electricity, vapor and pollution tax fees and other relevant operational charges.

Payment Obligations: Yangxi Electric shall pay to Beijing Boqi the service fee within 15 days of Yangxi Electric receiving the electricity fee from the State Power Grid.

Beijing Boqi shall pay the ancillary charges to Yangxi Electric before 10th day of each month.

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

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



## 2. Proposed Alteration to Terms of Yangxi Agreements

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

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

(i) Proposed pricing terms

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

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

Where:

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

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

Where:

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

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

$$\frac{\sum (\text{Each power component of on-grid electricity sales of the single unit} \times \text{Corresponding tariff (including environmental subsidies)})}{\text{On-grid electricity sales of the single unit}}$$

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

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

Where:

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

$$F = (C-G)/C$$

Where:

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

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

$$\frac{\sum (\text{Each power component of on-grid electricity sales of \#1-4 facilities} \times \text{Corresponding tariff (including environmental subsidies)})}{\text{On-grid electricity sales of \#1-4 facilities}}$$

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

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

## **2.1 Pricing basis for Provision of O&M services**

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

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

The desulfurization tariff was set at RMB0.015 per kWh (value-added tax included) on 29 May 2007 and hasn't changed since. The denitrification tariff was RMB0.008 per kWh (value-added tax included) on 29 November 2011, and was increased to RMB0.01 per kWh (value-added tax included) on 27 August 2013. The subsidies with respect to desulfurization and denitrification being RMB0.025 per kWh is determined in accordance with the relevant regulations on the Determination of Desulfurization Price of Coal-Fired Generating Units and Operation of Desulfurization Facilities (燃煤發電機組脫硫電價及脫硫設施運行管理辦法) and the Notice on Further Diverting the Contradiction of Environmental Protection Electricity Prices (Development and Reform Price [2014] No. 1908 (關於進一步疏導環保電價矛盾的通知 (發改價格[2014]1908號)).

- (iii) average sulfur and nitrogen content and dust volume of flue gas emission of the power plant and the standards to be met, the power generation volume and the location;
- (iv) reasonable returns, including profits gained through sale of reserve parts, spare parts and materials for flue gas treatment equipment procured from third-party suppliers; and
- (v) comparison with average market price for similar projects.

The Company's historical O&M project data shows that the contract price obtained through commercial negotiation with independent third parties accounts for 65% to 142% of the prevailing government subsidies. The variation arises out of the cost difference in the installed capacity of the coal-fired power plant, the type of devices installed, and the flue gas parameters of the environmental protection device (flue gas volume, SO<sub>2</sub> content of the flue gas inlet, NO<sub>x</sub> content of the inlet), limestone, spare parts, labor, which reflect the specific requirements of each O&M project. At the time of entering into the Yangxi Agreements, the rate for the provision of O&M services was determined based on cost plus a reasonable profit margin. Yangxi Agreements has been implemented since 2017 and the overall gross profit margin of the O&M segment of the Company remained between 20% and 31.5% for the three financial years ended 31 December 2019. The profit margin for provision of O&M services under the 2020 Supplemental Agreement will not adversely affect the overall gross profit margin of the O&M segment of the Company.



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

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

Therefore, the Board considers the Yangxi Agreements and the 2020 Supplemental Agreement to be on normal commercial terms, and are of the opinion that the basis of determining the service fees under the Yangxi Agreement and the 2020 Supplemental Agreement is no less favourable than the agreements entered into between the Company and customers that are independent third parties and is in line with the market practice.



### *Ancillary Charges based on the 2020 Supplemental Agreement*

Yangxi Electric is the site owner of the Guangdong Huaxia Yangxi power plant, which has outsourced the operation in relation to the desulfurization and denitrification of Guangdong Huaxia Yangxi power plant. The basis of ancillary charges are the actual operation costs incurred during the provision of O&M services, such as the energy consumption of water, electricity, gas and steam required for the operation of the desulfurization and denitrification systems, environmental protection penalty (if any), pollution tax fees and other relevant operational changes. The price of electricity included in the actual operation cost shall be settled based on the Proposed Electricity Price in Ancillary Charges as disclosed above.

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

### **2.2 *Re-compliance with the Listing Rules***

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

Subject to Independent Shareholders’ approval requirements under chapter 14A of the Listing Rules, the 2020 Supplemental Agreement constitutes alteration to pricing term of the Yangxi Agreements. Gram Capital has been appointed as the independent financial adviser to analyzed the term of Yangxi Agreements.

### **3. *Renewal of Annual Caps for Continuing Connected Transactions***

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

### 3.1 Historical figures and annual caps

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

<b>Transaction amounts<sup>(Note 1)</sup> for the year/period (RMB million)</b>		
<b>Financial year ended 31 December</b>	<b>Services Fees</b>	<b>Ancillary charges</b>
2018	261.74	89.72
2019	172.97	66.13
<b>Six months ended 30 June</b>		
2020	69.19 <sup>(Note 2)</sup>	24.86 <sup>(Note 2)</sup>

*Notes:*

- (1) The transaction amount in respect of the “ultra-low emission” subsidy was nil as Beijing Boqi has not received any “ultra-low emission” subsidy from Yangxi Electric. Reference is made to the section headed “Continuing Connected Transactions – 2. Background” in the circular dated 31 May 2019 of the Company, the parties have agreed on the price adjustment under a supplemental agreement entered into between Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric in July 2018, and Beijing Boqi has recovered all the costs for the construction of the Upgrade Units by the “ultra-low emission” subsidies received from Yangxi Electric under the Upgrade Project Cooperation Agreement, and Beijing Boqi has not incurred any fees and expenses in relation to the “ultra-low emission” upgrade project thereafter. In particular, as the ultra-low emission facilities are facilities ancillary to the desulfurization and denitrification environmental protection system, during the course of project operation and maintenance, there will be no additional Ancillary Charges paid by Beijing Boqi to Yangxi Electric. Therefore, the parties need to re-negotiate the rate for “ultra-low emission” subsidy and its payment arrangement, and uncertainties remain in the relevant commercial arrangements. Therefore, the Proposed Annual Caps as disclosed below are determined without taking the expected receipt of part of the “ultra-low emission” subsidy into account. The Company will duly perform its compliance obligations in accordance with the applicable provisions of the Listing Rules based on the negotiation progress.
- (2) The projected transaction amounts for the six months ended 30 June 2020 in accordance with the pricing adjustment based on the 2020 Supplemental Agreement which has not been settled as at the date of this announcement between the parties and is subject to the approval by the Independent Shareholders at the EGM on the 2020 Supplemental Agreement.

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

**Existing annual caps  
of transaction amounts**  
*(RMB million)*

<b>Financial year ended 31 December</b>	<b>Services Fees</b>	<b>Ancillary charges</b>
2018	245 <sup>(Note 1)</sup>	85.05 <sup>(Note 1)</sup>
2019	302.30	103.63
2020	302.30	103.63

*Note:*

- (1) Reference is made to the announcement of the Company dated 12 March 2019 and the circular of the Company dated 31 May 2020, in relation to, among other things, the transaction amount under the Yangxi Agreement for the year 2018 exceeding the original 2018 annual cap. As the highest applicable percentage ratio in respect of the actual 2018 transaction amount exceeded 5%, accordingly the transactions under the Yangxi Agreements with Guangdong Huaxia Electric and Yangxi Electric for the year ended 31 December 2018 are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under chapter 14A of the Listing Rules. The transactions under the Yangxi Agreements for the year ended 31 December 2018 had been ratified by the Independent Shareholders at the EGM held on 21 June 2019.

### **3.2 Renewal of annual caps for the three years ending 2023**

The following table sets forth the Proposed Annual Caps:

**Proposed Annual Caps**  
*(RMB million)*

<b>Financial year ended 31 December</b>	<b>Services fees</b>	<b>Ancillary Charges</b>
2021	189.31	65.27
2022	189.31	65.27
2023	189.31	65.27

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

- (i) the historical actual transaction amount under the Yangxi Agreements with Guangdong Huaxia Electric and Yangxi Electric for the two years ended 31 December 2019 and six months ended 30 June 2020.
- (ii) the pricing adjustments based on the 2020 Supplemental Agreement as disclosed above.

- (iii) an expected growth at 5% of the transaction amount for the year ending 31 December 2021 over historical actual transaction, which is based on the increasing trend observed in the operation statistics of Guangdong Huaxia Yangxi power plant.

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

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

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

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

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

- (v) adding a 10% buffer to provide our Company with some flexibility to cater for any unexpected increase in the transaction amounts from the preceding year, such as a further increase in on-grid power generation by Guangdong Huaxia Yangxi Power Plant, or an increase in the relevant subsidies prescribed by the PRC government.

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

#### **4. Internal Control Measures**

- ***Service Fees***

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

The Concession Operation Center of the Company conducts weekly checks on any update on the policies on the government prescribed subsidies for any adjustment, in the public domain. In event that the government prescribed subsidies are adjusted, the service fees under the Yangxi Agreements and the 2020 Supplemental Agreement shall be adjusted in accordance with a further arm's length negotiation with Yangxi Electric such that it is on normal commercial terms, no less favourable than those with independent third parties. The Concession Operation Center of the Company will also review the latest status of the "benchmark on-grid tariff" promulgated by the competent government authorities on a monthly basis.

Each O&M project is unique due to the variation in technical parameters and scopes. The Company has 18 years of operation and management experience and has developed standardization systems, enabling it to determine service fees for each O&M project through strict calculation. As such, the Directors are of the view that the project is carried out according to market practice, and the service fees payable by Yangxi Electric will not be lower than those with independent third-party customers.

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

- ***Ancillary Charges***

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

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

In addition, the Company will endeavor to carry out adequate supervision over the transaction amount under the Yangxi Agreements and the 2020 Supplemental Agreement against the relevant annual caps, with a view to ensuring that necessary measures and appropriate actions for the compliance with the applicable requirements under the Listing Rules will be promptly taken. Data relating to connected transactions of our Company (including quarterly transaction amounts and cumulative amounts) will be reviewed on a quarterly basis. If the transaction amount reaches 80% of the annual caps at any point of the year, the management would seek advice from the audit committee and the Board would consider the next steps, including the need to inform the Stock Exchange, to publish any announcement and to seek Independent Shareholders' approval for an increase in annual caps, if applicable.

## 5. Reasons for and Benefits of the Continuing Connected Transactions

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

Provision of O&M services is our usual course of business. Beijing Boqi has earned numerous highly-recognized awards in the flue gas treatment industry, and having been already familiarized with the operations and facilities of Yangxi Electric, including the Yangxi Facilities as a result of the potential acquisition under a cooperation framework agreement entered into on 20 May 2016 among Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric. By entering into Yangxi Agreements and the transactions thereunder, Beijing Boqi is able to leverage its relevant professional experience and strengths in the operation, maintenance and management of the desulfurization and denitrification facilities, export its management experience and gain reasonable income and returns. The 2020 Supplemental Agreement was entered into taking into account the market pricing mechanism for on-grid tariffs established by competent government department as disclosed in this announcement. The profit margin for provision of O&M services under the 2020 Supplemental Agreement will not adversely affect the overall gross profit margin of the O&M segment of the Company. Therefore, the execution of the Yangxi Agreements and the 2020 Supplemental Agreement is in line with the Group's overall strategy and business focus of engaging in the operation, management and maintenance of the desulfurization and nitrification facilities and will enhance our market presence in Guangdong province. The enhancement of the Group's competitive edge in its flue gas treatment business is in the interests of the Group as a whole.

In light of the above, our Directors (including the independent non-executive Directors after considering the views of Gram Capital) are of the view that the transactions between our Company and Guangdong Huaxia Electric and Yangxi Electric under the Yangxi Agreements and the 2020 Supplemental Agreement are in the interests of the Company and the Shareholders as a whole. Such transactions are entered into on normal commercial terms and are fair and reasonable. As Mr. Zhu is deemed to have a material interest in the transactions under the Yangxi Agreements and the 2020 Supplemental Agreement with Guangdong Huaxia Electric and Yangxi Electric, Mr. Zhu and his associate(s) has abstained from voting on the relevant Board resolution.

## 6. Information about the Parties

### ***About our Company and Beijing Boqi***

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



Beijing Boqi, a limited liability company established in the People's Republic of China, is an indirect wholly-owned subsidiary of the Company. Its principal business includes the provision of flue gas treatment, water treatment, hazardous and solid waste treatment and disposal, and energy conservation and environmental protection business in China and abroad.

The Company is committed to the development of the environmental protection industry and provides comprehensive environmental governance services to our customers. Its business area mainly covers flue gas treatment, water treatment, hazardous and solid waste treatment/disposal, and environmental protection and energy saving business.

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

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

Guangdong Huaxia Electric is a limited liability company established in the PRC, which mainly engaged in, among others, investment in electricity industry. It has invested in a number of power plants in the PRC, with Yangxi Electric as its current major operating subsidiary. Guangdong Pearl River Investment Management Group Co., Ltd. is the ultimate beneficial owner of Guangdong Huaxia Electric and is primarily engaged in energy and infrastructure investment in China.

## **7. Listing Rules Implications**

Yangxi Electric is a wholly-owned subsidiary of Guangdong Huaxia Electric, which is owned and controlled by, through various intermediaries, Mr. Zhu Yihang (朱一航). Mr. Zhu Yihang is the brother and associate of Mr. Zhu, who is our non-executive Director and substantial shareholder. Mr. Zhu and his associate(s) who in aggregate held 152,170,529 Shares, representing 15.11% of the total issued Shares, as at the date of this announcement. Guangdong Huaxia Electric and Yangxi Electric are deemed to be a connected person of our Company under chapter 14A of the Listing Rules.

Therefore, the transactions under the Yangxi Agreements and the 2020 Supplemental Agreement with Guangdong Huaxia Electric and Yangxi Electric constitute continuing connected transactions of the Company.

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

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

## **II. PROPOSED ADOPTION OF THE SHARE OPTION SCHEME**

The Board further announces that, on 30 November 2020, the Board resolved to propose the adoption of the Share Option Scheme to be approved and adopted by the Shareholders.

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

The Share Option Scheme is conditional upon:

- (i) the passing of the necessary resolution(s) to adopt the Share Option Scheme by the Shareholders; and
- (ii) the Listing Committee of the Stock Exchange approving the listing of and permission to deal in any Shares to be allotted and issued pursuant to the exercise of options under the Share Option Scheme.

The Share Option Scheme will constitute a share option scheme under Chapter 17 of the Listing Rules.

## **III. GENERAL INFORMATION**

### **1. The EGM**

The EGM will be convened for the purpose of considering and, if though fit, approving (i) the 2020 Supplemental Agreement; (ii) the Proposed Annual Caps; (iii) the proposed adoption of the Share Option Scheme and authorising the Board to grant the Options pursuant to the Share Option Scheme and to allot and issue the Shares pursuant to the exercise of the Options. As Mr. Zhu is deemed to have a material interest in the transactions under the Yangxi Agreements and the 2020 Supplemental Agreement with Guangdong Huaxia Electric and Yangxi Electric, Mr. Zhu and his associate(s) shall abstain from voting on the relevant resolutions.

### **2. Independent Board Committee**

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

### **3. Independent Financial Adviser**

Gram Capital will be appointed to advise the Independent Board Committee and the Independent Shareholders in respect of (i) approving the 2020 Supplemental Agreement and (ii) approving the Proposed Annual Caps, subject to the approval by the Independent Board Committee.

### **4. Shareholders' Circular**

A circular containing, among other matters, (i) the 2020 Supplemental Agreement; (ii) the Proposed Annual Caps; (iii) the proposed adoption of the Share Option Scheme and authorising the Board to grant the Options pursuant to the Share Option Scheme and to allot and issue the Shares pursuant to the exercise of the Options; (iv) the letter of recommendation from the Independent Board Committee in respect of the transactions under the Yangxi Agreements and the 2020 Supplemental Agreement; (v) the letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders in respect of the transactions under the Yangxi Agreements and the 2020 Supplemental Agreement; and (vi) a notice convening the EGM, is expected to be despatched to the Shareholders in due course in accordance with the Listing Rules.

## **DEFINITIONS**

“associate(s)”, “subsidiary” and “substantial shareholder”	each shall have the meaning as ascribed to it under the Listing Rules
“Beijing Boqi”	Beijing Boqi Electric Power SCI-TECH Co., Ltd., a wholly-owned subsidiary of the Company
“Board”	the board of Directors
“Business Day”	any day (excluding Saturday and Sunday) on which banks in Hong Kong generally are open for business and the Stock Exchange is open for the business of dealing in securities
“Company”	China Boqi Environmental (Holding) Co., Ltd., a company incorporated in Cayman Islands with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange
“connected person”	has the meaning as described under Rule 14A.06(7) of the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting to be held by the Company for the Independent Shareholders to consider (i) the 2020 Supplemental Agreement; (ii) the Proposed Annual Caps, and for the Shareholders to consider (iii) the proposed adoption of the Share Option Scheme

“Eligible Participants”	the persons who may be invited by the Directors to take up Options, and “Eligible Participant” shall be construed accordingly
“Gram Capital” or “Independent Financial Adviser”	Gram Capital Limited, a Licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of (i) the 2020 Supplemental Agreement and transactions contemplated thereunder; and (ii) the Proposed Annual Caps
“Grantee”	any Eligible Participant who accepts an Offer in accordance with the terms of the Share Option Scheme or (where the context so permits) his Personal Representative(s) who is entitled to any Option in consequence of the death of the original Grantee
“Group”	the Company and its subsidiaries
“Guangdong Huaxia Electric”	Guangdong Huaxia Electric Development Co., Ltd (廣東華夏電力發展有限公司), a limited liability company established in the PRC on 11 November 2003, a company owned and controlled by the brother of Mr. Zhu
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors, namely Mr. Liu Genyu, Dr. Xie Guozhong and Mr. Lu Zhifang, which has been formed by the Board to advise the Independent Shareholders in respect of (i) the 2020 Supplemental Agreement and transactions contemplated thereunder; and (ii) the Proposed Annual Caps
“Independent Shareholders”	Shareholder(s), other than Mr. Zhu and his associates, and any Shareholder who has a material interest in the transactions under the Yangxi Agreements and the 2020 Supplemental Agreement
“kWh”	kilowatt hours
“Listing Date”	the date on which the Shares initially commenced their dealings on the Stock Exchange, i.e. 16 March 2018
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange as amended from time to time
“Main Board”	the Main Board of the Stock Exchange
“Mr. Zhu”	朱偉航(ZHU Weihang), our non-executive Director and substantial shareholder

“O&M”	operation and maintenance
“Offer”	an offer for the grant of an Option
“Offer Date”	the date, which must be a Business Day, on which an Offer is made to an Eligible Participant
“Option”	an option to subscribe for the Shares granted pursuant to the Share Option Scheme
“Personal Representative(s)”	the person or persons who, in accordance with the laws of succession applicable in respect of the death of a Grantee (being an individual), is or are entitled to exercise the Option granted to such Grantee (to the extent not already exercised)
“PRC”	the People’s Republic of China (for the purpose of this announcement, excluding Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan)
“Proposed Annual Caps”	the annual caps for the continuing connected transactions under the Yangxi Agreements and the 2020 Supplemental Agreement with Guangdong Huaxia Electric and Yangxi Electric, for the three years ending 31 December 2023
“Prospectus”	the prospectus of the Company dated 28 February 2018
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	holders of the Share(s)
“Shares”	shares of USD0.00001 each in the ordinary share capital of the Company, or, if there has been a sub-division, consolidation, re-classification, reduction or reconstruction of the share capital of the Company, shares being the ordinary shares of the Company of such other nominal amount as shall result from any such subdivision, consolidation, re-classification or reconstruction
“Share Option Scheme”	the share option scheme in its present form or as may be amended from time to time
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Subsidiaries”	the companies which are for the time being and from time to time the subsidiaries (within the meaning given to it in the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)) of the Company, whether incorporated in Hong Kong, the British Virgin Islands, the People’s Republic of China or elsewhere, and “Subsidiary” shall be construed accordingly

“Upgrade Units”	the “ultra-low emission” upgrade units to the #1-#2 facilities
“US\$”	United States dollars, the lawful currency of the United States
“Yangxi Agreements”	the Yangxi management service agreement entered into by Beijing Boqi and Guangdong Huaxia Electric and Yangxi Electric on 31 December 2016, the Yangxi service pricing agreement and the Yangxi supplemental management service agreement entered into by Beijing Boqi and Guangdong Huaxia Electric and Yangxi Electric on 1 January 2017 and the supplemental agreements entered into by Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric on 8 March 2018 and 20 July 2018
“Yangxi Electric”	Yangxi Haibin Electric Power Development Co., Ltd (陽西海濱電力發展有限公司), a limited liability company established in the PRC on 5 February 2004, a wholly-owned subsidiary of Guangdong Huaxia Electric
“Yangxi Facilities”	#1-4 desulfurization and denitrification facilities owned by Yangxi Electric; and
“%”	Percentage

By Order of the Board  
**China Boqi Environmental (Holding) Co., Ltd.**  
**Zeng Zhijun**

*Vice Chairman, Executive Director and Chief Executive Officer*

Beijing, PRC, 30 November 2020

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