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Datang Environment Industry Group Co., Ltd.*
大唐環境產業集團股份有限公司

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

(Stock Code: 1272)

ANNOUNCEMENT

CONTINUING CONNECTED TRANSACTIONS –

- (1) RENEWED INTEGRATED PRODUCT AND SERVICE FRAMEWORK AGREEMENT;**
(2) PROPERTY LEASING FRAMEWORK AGREEMENT;

CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTIONS –

- (3) FINANCIAL SERVICES FRAMEWORK AGREEMENT; AND**
(4) DEPOSIT SERVICES UNDER THE RENEWED FINANCIAL SERVICES AGREEMENT

(1) RENEWED INTEGRATED PRODUCT AND SERVICE FRAMEWORK AGREEMENT

On 3 December 2021, the Company entered into the Renewed Integrated Product and Service Framework Agreement with China Datang. According to the Renewed Integrated Product and Service Framework Agreement, (i) the Group provides China Datang Group with products and services including service provision business such as environmental protection facility concession operation, water treatment operation and energy management contracting business, product business such as the denitrification catalyst business, and engineering business such as environmental protection facilities engineering business, renewable energy engineering and other services; and (ii) the products and services procured by the Group from China Datang Group include service procurement business such as operational ancillary business, technology and information service, and other services and equipment and raw material procurement business such as supply of water, electricity and steam, procurement of equipment and raw materials and other products and services.

(2) PROPERTY LEASING FRAMEWORK AGREEMENT

The Company entered into the Property Leasing Framework Agreement with China Datang on 1 December 2015 which took effect upon the listing of the Company, with a term of 20 years thereafter, pursuant to which China Datang Group will provide certain leased properties to the Group. As the Company and China Datang will continue to conduct transactions under the Property Leasing Framework Agreement, the Company discussed with China Datang and determined on the proposed annual caps of the transactions under such agreement for 2022 to 2024.

(3) FINANCIAL SERVICES FRAMEWORK AGREEMENT

On 3 December 2021, the Company entered into the Financial Services Framework Agreement with Datang Capital, which renews the financial leasing service and commercial factoring service of the Preceding Financial Services Agreement and include certain new services. According to the Financial Services Framework Agreement, Datang Capital agreed to provide the Company with commercial factoring service, asset securitization service, financial leasing, sales and leaseback service, entrusted loan service, operating lease, brokerage and consultation service in relation to transfer of property rights and assets and bespoke financial service solution. Both parties agreed that such agreement shall be effective from 1 January 2022 and expiring on 31 December 2024.

(4) DEPOSIT SERVICES UNDER THE RENEWED FINANCIAL SERVICES AGREEMENT

On 3 December 2021, the Company entered into the Renewed Financial Services Agreement with Datang Finance for a term from 1 January 2022 to 31 December 2024, pursuant to which Datang Finance has agreed to provide the Group with loan services, the Deposit Services and the Other Financial Services subject to the terms and conditions provided therein. Both parties agreed that such agreement shall be effective from 1 January 2022 and expiring on 31 December 2024.

LISTING RULES IMPLICATIONS

(a) Renewed Integrated Product and Service Framework Agreement

As China Datang directly held approximately 78.96% of the issued share capital of the Company as at the date of this announcement, it is a controlling shareholder of the Company. Pursuant to Chapter 14A of the Listing Rules, China Datang is therefore a connected person of the Company. Accordingly, the Renewed Integrated Product and Service Framework Agreement and respective transactions contemplated thereunder constitute continuing connected transactions of the Company under the Listing Rules.

As for the transactions contemplated under the Renewed Integrated Product and Service Framework Agreement (including (i) the provision of products and services including service provision business such as environmental protection facility concession operation, water treatment operation and energy management contracting business, product business such as the denitrification catalyst business, and engineering business such as environmental protection facilities engineering business, renewable energy engineering and other services by the Company to China Datang; and (ii) the procurement of products and services by the Company from China Datang including service procurement business such as operational ancillary business, technology and information service, and other services and equipment and raw material procurement business such as supply of water, electricity and steam, procurement of equipment and raw materials and other products and services. Given that one or more of the applicable percentage ratios of each of such transactions calculated with reference to their respective proposed annual caps is more than 5%, each of such transactions and their respective proposed annual caps are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

(b) Property Leasing Framework Agreement

As China Datang directly held approximately 78.96% of the issued share capital of the Company as at the date of this announcement, it is a controlling shareholder of the Company. Pursuant to Chapter 14A of the Listing Rules, China Datang is therefore a connected person of the Company. Accordingly, the Property Leasing Framework Agreement and respective transactions contemplated thereunder constitute continuing connected transactions of the Company under the Listing Rules.

Given that one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) of the transactions calculated with reference to the relevant proposed annual caps under the Property Leasing Framework Agreement are more than 0.1% but all are less than 5%, the transactions contemplated under the Property Leasing Framework Agreement and the relevant proposed annual caps are subject to reporting, annual review and announcement but exempted from Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

(c) Financial Services Framework Agreement

As China Datang directly held approximately 78.96% of the issued share capital of the Company as at the date of this announcement, it is a controlling shareholder of the Company. Datang Capital is a wholly-owned subsidiary of China Datang. Pursuant to Chapter 14A of the Listing Rules, Datang Capital is therefore a connected person of the Company. Accordingly, the Financial Services Framework Agreement and the transactions thereunder constitute continuing connected transactions of the Company under the Listing Rules.

Given that one or more of the relevant percentage ratios (as defined in Rule 14.07 of the Listing Rules) of the transactions (including financial leasing services, commercial factoring services and entrusted loan services) calculated with reference to the relevant proposed annual caps under the Financial Services Framework Agreement are more than 5%, the Financial Services Framework Agreement, the transactions thereunder and the proposed annual caps thereunder are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Further, given that one or more of the relevant percentage ratios (as defined in Rule 14.07 of the Listing Rules) of the transactions (including commercial factoring services, financial leasing services and entrusted loan services) calculated with reference to the relevant proposed annual caps under the Financial Services Framework Agreement exceed 25% but less than 100%, the transactions contemplated under the Financial Services Framework Agreement constitute a major transaction of the Company under Chapter 14 of the Listing Rules.

(d) Deposit Services under the Renewed Financial Services Agreement

As China Datang directly held approximately 78.96% of the issued share capital of the Company as at the date of this announcement, it is a controlling shareholder of the Company as defined under the Listing Rules and thus a connected person of the Company. Datang Finance is a non-wholly owned subsidiary of China Datang, and is therefore a connected person of the Company. Accordingly, the Renewed Financial Services Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under the Listing Rules.

The loan services to be provided by Datang Finance to the Group will constitute financial assistance to be provided by a connected person for the benefit of the Group. As such services are on normal commercial terms which are similar to or more favorable than those offered by independent third parties for comparable services in the PRC, and no security over the assets of the Group will be granted in respect of the loan services, the loan services are exempt from reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.90 of the Listing Rules.

As each of the percentage ratio(s) (as defined in Rule 14.07 of the Listing Rules) applicable to the Deposit Services is more than 5%, such Deposit Services are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements as set out in Chapter 14A of the Listing Rules. The Company will disclose the relevant details in the annual report and accounts of the Company to be published in the next year in accordance with the relevant requirements as set out in Rule 14A.71 of the Listing Rules.

Further, given that one or more of the relevant percentage ratios (as defined in Rule 14.07 of the Listing Rules) of the Deposit Services under the Renewed Financial Services Agreement calculated with reference to the relevant proposed annual caps under the Financial Services Framework Agreement is more than 100%, the Deposit Services under the Renewed Financial Services Agreement is not a very substantial acquisition but constitutes a major transaction of the Company under Chapter 14 of the Listing Rules.

In respect of the Other Financial Services, each of the percentage ratio(s) will fall within the *de minimis* threshold set out in Rule 14A.76 of the Listing Rules, therefore the provision of the Other Financial Services is exempt from reporting, announcement and Independent Shareholders' approval requirements of the Listing Rules.

The Directors (excluding the Directors who are required to abstain, but including the independent non-executive Directors) are of the view that the Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Company on normal commercial terms; the Continuing Connected Transactions and the proposed annual caps are fair and reasonable and are in the interest of the Company and the Shareholders as a whole. Mr. Wang Junqi, Mr. Wu Daqing and Mr. Chen Kan, being the Directors holding various positions with China Datang, have abstained from voting on the respective resolutions regarding Continuing Connected Transactions at the Board meeting. Save as disclosed above, none of the Directors has any material interest in the Continuing Connected Transactions.

The Independent Board Committee was formed to advise the Independent Shareholders in connection with the Renewed Integrated Product and Service Framework Agreement, the Financial Services Framework Agreement, the Deposit Services under the Renewed Financial Services Agreement, the transactions contemplated thereunder and the relevant proposed annual caps. Trinity Corporate Finance Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the same. A circular containing, amongst other things, further details of the Renewed Integrated Product and Service Framework Agreement, the Financial Services Framework Agreement and the Deposit Services under the Renewal Financial Services Agreement and a letter from the Independent Board Committee to the Independent Shareholders and a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, together with a notice of the EGM will be dispatched to the Shareholders on 8 December 2021.

INTRODUCTION

Reference is made to the Existing Integrated Product and Service Framework Agreement and the Property Leasing Framework Agreement, both entered into between the Company and China Datang.

Renewed Integrated Product and Service Framework Agreement

As the Existing Integrated Product and Service Framework Agreement will expire on 31 December 2021, and the Company will continue to conduct the transactions under the Existing Integrated Product and Service Framework Agreement and will provide certain new services for 2022 to 2024. Therefore, the Company entered into the Renewed Integrated Product and Service Framework Agreement with China Datang on 3 December 2021 in order to renew the relevant continuing connected transactions and provide certain new services for 2022 to 2024. Both parties agreed that such agreement shall be effective from 1 January 2022 and expiring on 31 December 2024.

Property Leasing Framework Agreement

The Company entered into the Property Leasing Framework Agreement with China Datang on 1 December 2015 which took effect upon the listing of the Company, with a term of 20 years thereafter, pursuant to which China Datang Group will provide certain leased properties to the Group. As the Company and China Datang will continue to conduct transactions under the Property Leasing Framework Agreement, the Company discussed with China Datang and determined on the proposed annual caps of the transactions under such agreement for 2022 to 2024.

Financial Services Framework Agreement

On 3 December 2021, the Company entered into the Financial Services Framework Agreement with Datang Capital, which renews the financial leasing service and commercial factoring service of the Preceding Financial Services Agreement and provide certain new services. According to the Financial Services Framework Agreement, Datang Capital agreed to provide the Company with commercial factoring service, asset securitization service, financial leasing, sales and leaseback service, entrusted loan service, operating lease, brokerage and consultation service in relation to transfer of property rights and assets and bespoke financial service solution (collectively, the “**Financial Framework Services**”). Both parties agreed that such agreement shall be effective from 1 January 2022 and expiring on 31 December 2024.

Deposit Services under the Renewed Financial Services Agreement

On 3 December 2021, the Company entered into the Renewed Financial Services Agreement with Datang Finance for a term from 1 January 2022 to 31 December 2024, pursuant to which Datang Finance has agreed to provide the Group with loan services, the Deposit Services and the Other Financial Services subject to the terms and conditions provided therein. Both parties agreed that such agreement shall be effective from 1 January 2022 and expiring on 31 December 2024.

I. RENEWED INTEGRATED PRODUCT AND SERVICE FRAMEWORK AGREEMENT

The principal terms of the Renewed Integrated Product and Service Framework Agreement are summarized as follows:

Date: 3 December 2021

Parties: (1) China Datang; and
(2) the Company

Term: Effective from 1 January 2022 and expiring on 31 December 2024, and may be extended or renewed for three years as agreed by both parties within three months prior to expiry and subject to relevant laws, regulations, regulatory documents and the Listing Rules.

Principal terms: According to the Renewed Integrated Product and Service Framework Agreement, (i) the Group provides China Datang Group with products and services including service provision business such as environmental protection facility concession operation, water treatment operation and energy management contracting business, product business such as the denitrification catalyst business, and engineering business such as environmental protection facilities engineering business, renewable energy engineering and other services; and (ii) the products and services procured by the Group from China Datang Group include service procurement business such as operational ancillary business, technology and information service, and other services and equipment and raw material procurement business such as supply of water, electricity and steam, procurement of equipment and raw materials and other products and services.

In respect of the abovementioned transactions under the Renewed Integrated Product and Service Framework Agreement, the Company and/or its subsidiaries and China Datang and/or its subsidiaries may enter into separate specific contract in compliance with the Renewed Integrated Product and Service Framework Agreement as stipulated in the Renewed Integrated Product and Service Framework Agreement. If the terms and conditions of similar products and services provided by independent third parties are not favorable than that provided by one of the parties, then another party shall prioritize the procurement of products and services needed from the counterparty.

Proposed Annual Caps

The proposed annual caps of each transaction under the Renewed Integrated Product and Service Framework Agreement for each of the year ending 31 December 2022, 31 December 2023 and 31 December 2024 are as follows:

	Type of transactions	Proposed annual caps for the year ending 31 December		
		2022	2023	2024
		<i>(RMB'000)</i>		
Provided by the Group to China Datang Group	Service provision business ⁽¹⁾	4,132,000	4,086,000	4,029,000
	Product business ⁽²⁾	270,000	271,000	272,000
	Engineering business ⁽³⁾	3,691,000	4,005,000	4,346,000
Procured by the Group from China Datang Group	Service procurement business ⁽⁴⁾	437,000	464,000	481,000
	Equipment and raw material procurement business ⁽⁵⁾	2,054,000	2,088,000	2,197,000

Notes:

- (1) Service provision business mainly includes environmental protection facility concession operation, water treatment operation and energy management contracting business. The proposed annual caps of this transaction are renamed and re-categorized from environmental protection and energy conservation solutions under the Existing Integrated Product and Service Framework Agreement.
- (2) Product business mainly includes denitrification catalyst business. The proposed annual caps of this transaction are renamed and re-categorized from environmental protection and energy conservation solutions under the Existing Integrated Product and Service Framework Agreement.
- (3) Engineering business mainly includes environmental protection facilities engineering business, renewable energy engineering and other services. The proposed annual caps of this transaction are renamed and re-categorized from renewable energy engineering and thermal power engineering under the Existing Integrated Product and Service Framework Agreement.
- (4) Service procurement business includes operational ancillary business, information and technology service and other services. The proposed annual caps of this transaction are renamed and re-categorized from operational ancillary service and technology and information service and other services under the Existing Integrated Product and Service Framework Agreement.

- (5) Equipment and raw material procurement business includes supply of water, electricity and steam, raw materials and other products. The proposed annual caps of this transaction are renamed and re-categorized from supply of water, electricity and equipment and raw material procurement service under the Existing Integrated Product and Service Framework Agreement.

In determining the abovementioned proposed annual caps for 2022 to 2024, the Board has taken into account the following factors:

Basis for the calculation of proposed annual caps: In determining the above proposed annual caps, the Directors have considered: (i) the terms of the existing purchase and sale agreements; (ii) the historical amounts of various purchase and sale transactions; (iii) outstanding contracts of the Group and new contracts to be entered into by the Group in the coming three years and the value of such new contracts; and (iv) the expected future market price of relevant products and services based on market condition.

Specifically for various transactions under the Renewed Integrated Product and Service Framework Agreement, the determination of respective proposed annual caps are based on the followings:

(a) Products and services to be provided by the Group to China Datang Group

Service provision business

The service provision business of the Group mainly includes environmental protection facility concession operation, water treatment operation and energy management contracting business.

In terms of environmental protection facility, the cumulative installed capacity in operation for desulfurization and denitrification concession operations of the Group as of 31 December 2020 reached 48,000MW and 40,550MW, respectively. The Group's business segments developed steadily, with its environmental protection facility concession operation business consolidating its leading position in the industry. Based on the cumulative operating unit capacity as of 31 December 2020, the Group continued to maintain its position as the largest flue gas desulfurization and denitrification concession operator in China. All of the Group's desulfurization concession operation and denitrification concession operation projects under construction have transferred into operational stage in respect of the environmental protection facility concession operation business. While consolidating its leading position in the environmental protection field of thermal power segment, the Group actively developed environmental protection and management businesses in steel, cement, metallurgy and other non-electric fields to grow the environmental protection market and expand its business influence.

In terms of water treatment operation, it is expected that the transaction amounts between the Group and China Datang Group in the next three years will maintain a similar level as compared with that in 2020, while its percentage in the total operating income of the Group will still be relatively low.

In terms of energy management contracting business, it is expected that the transaction amounts between the Group and China Datang Group in the next three years will maintain a similar level as compared with that in 2020. It is a business model that the energy conservation companies provide energy-conservation services to customers according to the energy conservation service contracts entered into with customers, and recover the investment and gain profit from the energy efficiency achieved upon the completion of energy conservation facilities refurbishment.

The proposed annual caps of the service provision business mainly include the ones of environmental protection facility concession operation, water treatment operation and energy management contracting business. The environmental protection facility concession operation is estimated to remain at a constant rate for the three years ending 31 December 2024, where its proposed annual caps are calculated on the basis of an annual reduction by 3% in the coal-fired power generation output in the PRC. In addition, it is expected that there will be two additional projects for water treatment operation each year starting from 2023, where each project could contribute approximately RMB25 million to RMB35 million, yielding approximately 2% growth in the annual transaction amount. Similarly, with the existing projects in energy management contracting business, the estimated transaction value will remain the same for the three years ending 31 December 2024.

Product business

The product business mainly includes denitrification catalyst business.

It is expected that the sales volume of denitrification catalysts of the Group to China Datang Group in the next three years will maintain a similar level as compared with that in 2020, with an annual sales volume of approximately 13,500.00 m³ to 13,550.00 m³, while the unit sale price will also remain stable between RMB14,800/m³ and RMB15,000/m³. In addition, it is expected that 8,002.06 m³ to 8,012.42 m³ of renewable catalysts will be sold by the Group to China Datang Group each year in the next three years with the unit sale price of renewable catalysts being approximately RMB8,500/m³.

Engineering business

The engineering business mainly includes environmental protection facilities engineering business, renewable energy engineering and other services. The Directors believe that the proposed annual caps will have a steady growth.

In terms of environmental protection facilities engineering business, although it is expected that the number of construction projects of desulfurization and denitrification to be undertaken by the Group in the future three years will decrease due to the overall situation of the industry, given the influence of national policies that were recently introduced to strengthen pollution prevention and control as well as develop circular economy, it is expected that the number of construction projects such as dust control, water treatment, sludge disposal, noise control and environmental restoration to be undertaken by the Group in the future three years will steadily increase.

At the same time, impacted by the goal of “emission peak and carbon neutrality” and the supporting national policies recently introduced, China Datang Group is vigorously developing wind power, photovoltaic and other renewable energy projects, so as to enhance its installed capacity of renewable energy in the coming years and meet the policy requirements of emission peak and carbon neutrality. Due to the long-term business relationship between the Group and China Datang Group, it is expected that the number of renewable energy projects of the Group will increase significantly in coming years. The proposed annual caps for this business segment were determined based on the market share held by China Datang Group with its overall business volume and future development plan. The Group expected that in 2022, 2023 and 2024, it will undertake 50MW, 50MW and 50MW wind power projects and 400MW, 500MW and 600MW photovoltaic power generation projects from China Datang Group, respectively.

The proposed annual caps of engineering business mainly include the ones of water engineering business, environmental protection facilities engineering business, industrial site dust management, renewable energy engineering business and thermal power engineering. In determining the proposed annual caps for the three years ending 31 December 2024, the Board has taken into account the following factors:

- (i) the expected amount to be generated from seven to nine projects regarding the water engineering business per year at the estimated value of RMB25 million each;
- (ii) the expected amount to be generated from three to four new projects in the coming three years regarding the environmental protection facilities engineering business;

- (iii) the expected amount to be generated from industrial site dust management which includes the upgrade engineering of estimated five bucket wheel excavators per year at RMB9 million each and three to four industrial site dust management projects per year at RMB60 million each;
- (iv) the expected amount to be generated from estimated six to eight photovoltaic projects regarding the renewable energy engineering business per year at RMB100 million each;
- (v) the expected amount to be generated from one to two projects of engineering procurement construction services regarding the thermal power engineering business per year; and
- (vi) the expected amount to be generated from soil restoration, mine rehabilitation and energy storage etc.

(b) *Products and services to be procured by the Group from China Datang Group*

Service procurement business

The service procurement business includes operational ancillary business, information and technology service and other services.

In respect of operational ancillary business to be procured by the Group from China Datang Group, the Directors believe that the proposed annual caps will have a steady and stable growth as compared with historical results, which is expected to be in line with the steady and stable increase in the volume of the desulfurization and denitrification concession operation business to be provided by the Group to China Datang Group for the next three years.

The technology and information service to be procured by the Group from China Datang Group for the next three years mainly includes the feasibility study, design, completion acceptance, settlement, assessment and relevant technical services of projects, software design, construction of information system and relevant information service. For the technology and information service to be procured by the Group from China Datang Group, the Directors expect that the transaction amounts since 2022 will increase steadily along with the increasing demand for such services by the Group.

Other services to be procured by the Group from China Datang Group for the next three years include bidding services, conference service and training and relevant services. For other products and services to be procured by the Group from China Datang Group, the Directors expect that the transaction amounts will have a steady increase for the next three years due to the expected steady increase of such services by the Group.

The proposed annual caps of the service procurement business are highly correlated to the transaction value under the service provision business, the product business and the engineering business.

Equipment and raw material procurement business

Equipment and raw material procurement business includes supply of water, electricity and steam, procurement of equipment and raw materials and other products.

In respect of water, electricity and steam to be procured by the Group from China Datang Group, the Directors believe that the proposed annual caps for the next three years will continuously and steadily increase as the demand for water and electricity arising from the business operation of the Group.

The transaction amount of procurement of equipment and raw materials is mainly determined based on the scale of the abovementioned environmental protection facilities engineering, water treatment operation, energy management constructing business, renewable energy engineering and other engineering business. As it is expected that the overall scale of the abovementioned business segments of the Group in the coming years will increase steadily, it is expected that the procurement of equipment and raw materials will also increase accordingly. In the meantime, as China Datang Group is able to effectively reduce purchasing price of part of equipment and raw materials through centralized procurement and distribution process, the Group may also purchase part of the equipment and raw materials from China Datang Group through bidding process.

Other products and services to be procured by the Group from China Datang Group for the next three years include office supplies and chemicals supplies in relation to water treatment operation. For other products and services to be procured by the Group from China Datang Group, the Directors expect that the transaction amounts will have steady increase for the next three years due to the expected steady increase of such services by the Group.

The proposed annual caps of the equipment and raw material procurement business are highly correlated to the transaction value under the service provision business, the product business and the engineering business.

Historical transaction amounts

The historical transaction amounts of each transaction under the Renewed Integrated Product and Service Framework Agreement for the last two years ended 31 December 2020 and six months ended 30 June 2021 are as follows:

		Historical transaction amounts		
		For the year ended 31 December 2019	For the year ended 31 December 2020	For the six months ended 30 June 2021
Type of transactions		<i>(RMB'000)</i>		
Provided by the Group to China Datang Group	Environmental protection and energy conservation solutions ⁽¹⁾	5,080,257	4,438,787	1,907,153
	Renewable energy engineering ⁽²⁾	677,775	1,773,369	39,419
	Thermal power engineering ⁽³⁾	113,597	1,135	–
	Other services	45,334	9,177	–
Procured by the Group from China Datang Group	Operational ancillary service ⁽⁴⁾	131,218	84,801	108,956
	Supply of water, electricity and steam ⁽⁵⁾	859,643	796,908	400,109
	Technology and information service and other services ⁽⁶⁾	92,758	65,108	14,256
	Equipment and raw material procurement service ⁽⁷⁾	403,658	1,346,098	67,901

Notes:

- (1) Environmental protection and energy conservation business mainly includes flue gas desulfurization and denitrification facility concession operation for coal-fired power plants, the manufacture and sale of denitrification catalysts, engineering for coal-fired power plants, and energy conservation including energy conservation facility engineering and energy management contracting. It is renamed and re-categorized as and included in part of the service provision business, part of the product business and part of the engineering business under the Renewed Integrated Product and Service Framework Agreement.
- (2) Renewable energy engineering business mainly includes the engineering general contract for newly-built wind power plants, biomass power plants and photovoltaic power plants. It is renamed and re-categorized as and included in part of the engineering business under the Renewed Integrated Product and Service Framework Agreement.
- (3) Thermal power engineering mainly includes the engineering procurement construction services for thermal power plants. It is renamed and re-categorized as and included in part of the engineering business under the Renewed Integrated Product and Service Framework Agreement.
- (4) Operational ancillary service is renamed and re-categorized as and included in part of the service procurement business under the Renewed Integrated Product and Service Framework Agreement.
- (5) Supply of water, electricity and steam is renamed and re-categorized as and included in part of the equipment and raw material procurement business under the Renewed Integrated Product and Service Framework Agreement.
- (6) Technology and information service and other services are renamed and re-categorized as and included in part of the service procurement business under the Renewed Integrated Product and Service Framework Agreement.
- (7) Equipment and raw material procurement service is renamed and re-categorized as and included in part of the equipment and raw material procurement business under the Renewed Integrated Product and Service Framework Agreement.

Pricing policy

Under the Renewed Integrated Product and Service Framework Agreement, the pricing policy of various products and services are as follows:

(a) Products and services to be provided by the Group to China Datang Group

In most circumstances where China Datang Group purchases products and/or services from the Group, bidding procedures shall be applied for the determination of prices. Only in exceptional circumstances, bidding procedures can be skipped by China Datang Group. These circumstances primarily include (a) reoccurrence of lack of sufficient number of bidders attending the bidding procedure; and (b) urgent purchase by China Datang Group that does not allow the bidding procedure to be completed.

The pricing policy for service provision business under the concession operations (desulfurization and denitrification) services: The Measures for the Supervision and Administration of Prices of Electricity from Coal-Fired Generating Units with Environmental Protection Facilities and the Operation of the Environmental Protection Facilities (《燃煤發電機組環保電價及環保設施運行監管辦法》) issued by the NDRC and the Ministry of Environmental Protection of the PRC (中華人民共和國環境保護部) on 28 March 2014 specify that environmental price-increasing policies are implemented to the newly-built or retrofitted environmental protection facilities of the coal-fired generating units. In addition, The Opinions on Promoting the Third-Party Treatment of Environmental Pollution (《關於推行環境污染第三方治理的意見》) issued by the General Office of the State Council on 27 December 2014 specify the comprehensive implementation of environmental electricity tariffs of desulfurization, denitrification and dust removal for all coal-fired generating units. In order to implement the supportive policies on electric tariff of “promoting the refurbishment of ultra-low emission of coal-fired power plants”, the NDRC, MEP (the Ministry of Environmental Protection), currently known as MEE and NEA (the National Energy Administration) promulgated the Notice on the Implementation of Coal-fired Power Plants Ultra-low Emission Tariff Supportive Policy Related Issues (《關於實行燃煤電廠超低排放電價支持政策有關問題的通知》) on 2 December 2015, and the policy became effective on 1 January 2016. Thus, the tariff for desulfurized and denitrified electricity under the concession operation services shall be determined based on government-prescribed price, which shall be formulated and adjusted by the NDRC. Provincial environmental protection administrative department shall send written document to the provincial pricing department to implement environmental electricity tariffs on the coal-fired generating companies installed with environmental protection facilities from the approval date of acceptance check on the facilities. Benchmarking prices including environmental electricity process issued by the NDRC are implemented for the entities with synchronized constructions of new coal-fired generating units and environmental protection facilities. The price of by-products shall be determined based on market price (which is obtained through quotations from public market and three independent service providers through bidding process and other negotiated prices through market mechanism in relation to provision of similar types of services in similar industries, having taken into account comparable conditions including but not limited to the technology and quality of the services).

The pricing policy for other service provision business: The price of the services other than the concession operation (desulfurization and denitrification) to be provided by the Group to China Datang Group in accordance with the Renewed Integrated Product and Service Framework Agreement shall be determined based on the following policy:

If a bidding procedure is conducted by China Datang Group, the bidding price offered by the successful bidder shall be implemented. Prior to the bidding procedures, China Datang will publish announcements on its bidding invitation on public websites. There must be at least three bidders attending the bidding procedure, otherwise the bidding will be cancelled. The review panel for any bidding consists of experts selected by China Datang who have no interest in the bidding, who will score the bids by categories where bidding price is an important but not the only factor to be considered (other factors include the requisite qualifications of production and operation of the bidders, the results and credentials of similar types of projects, overall technical capabilities, provision of technical plans, commercial goodwill). The bidder with the highest score comprehensively determined by the review panel wins and the bidding price offered by the bidder will be implemented. Therefore, only in the event that the Group wins the bidding with the highest score determined by the review panel, China Datang Group will enter into agreements with the Group under the Renewed Integrated Product and Service Framework Agreement.

Only in exceptional circumstances, such as in case of reoccurrence of lack of sufficient number of bidders attending the bidding procedure and urgent procurement demand by China Datang Group, bidding procedures can be skipped by China Datang Group where China Datang Group will search in its database for projects of a similar nature and make reference to recent bidding prices for comparable services. Usually the price is ascertained as the averaged amount of these recent bidding prices with reasonable fluctuations. However, if no recent bidding prices for comparable services can be found in its database, China Datang Group will make reference to prices of services of the similar nature published on official bidding websites operated by the Chinese government to ascertain the price.

Meanwhile, if no bidding process is conducted, apart from making reference to prices on official bidding websites, the Group will also make reference to the price quotes offered by, or available from, three third party customers so as to make relevant comparison with the price quotes offered by China Datang Group. The Group will consider providing relevant services to such third party customers if their terms are more favourable than that offered by China Datang Group after taking into account various factors including but not limited to price quotes, other commercial terms, level of synergy to be achieved and historical transactional records with such parties.

Pricing policy for product business: In accordance with the Renewed Integrated Product and Service Framework Agreement, the products, primarily denitrification catalysts, to be provided by the Group to China Datang Group will be determined based on the following pricing policy:

If a bidding procedure is conducted by China Datang Group, the bidding price offered by the successful bidder shall be implemented. Prior to the bidding procedures, China Datang Group will publish announcements on its bidding invitation on public websites. There must be at least three bidders attending the bidding procedure, otherwise the bidding will be cancelled. The review panel for any bidding consists of experts selected by China Datang Group who have no interest in the bidding, who will score the bids by categories where bidding price is an important but not the only factor to be considered (other factors include the requisite qualifications of production and operation of the bidders, the results and credentials of similar types of projects, overall technical capabilities, provision of technical plans, commercial goodwill). The bidder with the highest score comprehensively determined by the review panel wins and the bidding price offered by the bidder will be implemented. Therefore, only in the event that the Group wins the bidding with the highest score determined by the review panel, China Datang Group will enter into agreements with the Group under the Renewed Integrated Product and Service Framework Agreement.

Only in exceptional circumstances, such as in case of reoccurrence of lack of sufficient number of bidders attending the bidding procedure and urgent procurement demand by China Datang Group, bidding procedures can be skipped by China Datang Group where China Datang Group will search in its database for projects of a similar nature and make reference to recent bidding prices for comparable products. Usually the price is ascertained as the averaged amount of these recent bidding prices with reasonable fluctuations. However, if no recent bidding prices for comparable products can be found in its database, China Datang Group will make reference to prices of products of the similar nature published on official bidding websites operated by the Chinese government to ascertain the price.

Meanwhile, if no bidding process is conducted, apart from making reference to prices on official bidding websites, the Group will also make reference to the price quotes offered by, or available from, three third party customers so as to make relevant comparison with the price quotes offered by China Datang Group. The Group will consider providing relevant products to such third party customers if their terms are more favourable than that offered by China Datang Group after taking into account various factors including but not limited to price quotes, other commercial terms, level of synergy to be achieved and historical transactional records with such parties.

Pricing policy for engineering business: If a bidding procedure is conducted by China Datang Group, the bidding price offered by the successful bidder shall be implemented. Prior to the bidding procedures, China Datang Group will publish announcements on its bidding invitation on public websites. There must be at least three bidders attending the bidding procedure,

otherwise the bidding will be cancelled. The review panel for any bidding consists of experts selected by China Datang Group who have no interest in the bidding, who will score the bids by categories where bidding price is an important but not the only factor to be considered (other factors include the requisite qualifications of production and operation of the bidders, the results and credentials of similar types of projects, overall technical capabilities, provision of technical plans and commercial goodwill). The bidder with the highest score comprehensively determined by the review panel wins and the bidding price offered by the bidder will be implemented. Therefore, only in the event that the Group wins the bidding with the highest score determined by the review panel, China Datang Group will enter into agreements with the Group under the Renewed Integrated Product and Service Framework Agreement.

Only in exceptional circumstances, such as in case of reoccurrence of lack of sufficient number of bidders attending the bidding procedure and urgent procurement demand by China Datang Group, bidding procedures can be skipped by China Datang Group where China Datang Group will search in its database for projects of a similar nature and make reference to recent bidding prices for comparable products. Usually the price is ascertained as the averaged amount of these recent bidding prices with reasonable fluctuations. However, if no recent bidding prices for comparable products can be found in its database, China Datang Group will make reference to prices of products of the similar nature published on official bidding websites operated by the Chinese government to ascertain the price.

Meanwhile, if no bidding process is conducted, apart from making reference to prices on official bidding websites, the Group will also make reference to the price quotes offered by, or available from, three third party customers so as to make relevant comparison with the price quotes offered by China Datang Group. The Group will consider providing relevant products to such third party customers if their terms are more favourable than that offered by China Datang Group after taking into account various factors including but not limited to price quotes, other commercial terms, level of synergy to be achieved and historical transactional records with such parties.

(b) Products and services to be procured by the Group from China Datang Group

In most circumstances where the Group purchases products and/or services from China Datang Group, bidding procedures shall be applied for determination of the price. Only in exceptional circumstances, bidding procedures can be skipped by the Group. These circumstances primarily include (a) reoccurrence of lack of sufficient number of bidders attending the bidding procedure; and (b) urgent purchase by the Group that does not allow the bidding procedure to be completed.

Pricing policy for products:

- *The pricing policy for service procurement business:* In respect of the ancillary services under the concession operations of desulfurization and denitrification, the price shall be determined based on cost of human resources involved, the relevant management expenses and the maintenance fees of the equipment of relevant power plants after taking into account the average level of the industry. If no bidding process is conducted, apart from making reference to prices on official bidding websites, the Group will also make reference to the price quotes offered by, or available from, third party customers so as to make relevant comparison with the price quotes offered by China Datang Group. The Group will consider purchasing relevant ancillary services from such third party customers if their terms are more favourable than that offered by China Datang Group after taking into account various factors including but not limited to price quotes, other commercial terms, level of synergy to be achieved and historical transactional records with such parties.
- *The pricing policy for other service businesses:* In most circumstances where the Group purchases services from China Datang Group, bidding procedures shall be applied for the determination of prices. Only in exceptional circumstances, bidding procedures can be skipped by the Group where the purchasing price shall be determined by experts of the Group based on fair market value and historical records of procurement price.
- *The pricing policy for supply of water, electricity and steam:* In accordance with the Renewed Integrated Product and Service Framework Agreement, the products, primarily, water, electricity and steam, supplied by power plants under China Datang Group to the Group, will be determined based on the actual costs which reflect the market price of water and power for the supply of water and power by power plants to third-party desulfurization and denitrification concession operation service providers per the government's prescribed requirements.
- *The pricing policy for procurement of equipment and raw materials:* In respect of the procurement of equipment and raw materials, in most circumstances, bidding procedures shall be applied for determination of the price. China Datang Group will charge a fee (the "Service Fee") not exceeding 6% of the purchasing price, which shall be determined on the basis of the actual scope of services provided by an independent third party service provider and the pricing standard of the relevant services and materials. The Service Fee shall be fairly agreed between

the parties and shall not exceed the fee charged for similar services provided by China Datang Group to an independent third party or its affiliated entities. Upon the execution of the relevant procurement contract, the Materials Management Department (物資管理部) will review and approve the Service Fee and ensure that it will not exceed 6% of the relevant purchasing price. Only in exceptional circumstances, such as in case of urgent procurement demand of the Group, bidding procedures can be skipped by the Group where the purchasing price shall be determined by experts of the Group based on fair market value and historical records of procurement price.

Reasons for and benefits of entering into the Renewed Integrated Product and Service Framework Agreement

China Datang Group and the Group have a long-term, stable business relationship. The parties are mutually familiar with each other's business demands and are able to supply the products and services needed by each other. The Directors believe that maintaining a stable and quality business relationship with China Datang Group will facilitate its current and future business operations.

Based on the previous experience in business dealings with China Datang Group, the Company believes that the Group and China Datang Group are capable of effectively satisfying each other's stable and high-quality demands for relevant businesses, which is in the interests of the Group and the Shareholders as a whole.

Based on the above, the Directors (including independent non-executive Directors) are of the view that the terms of the Renewed Integrated Product and Service Framework Agreement and the transactions thereunder are entered into based on arm's length negotiations, in the ordinary and usual course of business of the Group and on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In addition, we believe that the Renewed Integrated Product and Service Framework Agreement would not give rise to reliance issue of the Company with its connected persons and controlling shareholder in that (i) deriving the majority of revenue from the holding company is in line with the general market practice of other leading market players of concession operations in the environmental protection industry; (ii) the historical transaction amounts of the environmental protection and energy conservation solution which composed of the major part of the re-categorized service provision business have been decreasing from RMB5,080.26 million (representing approximately 79.20% of total revenue) for the year ended 31 December 2019 to RMB4,438.79 million (representing approximately 65.07% of total revenue) for the year ended 31 December 2020, and further down to RMB1,907.15 million (representing approximately 86.82% of total revenue) for the six months ended 30 June 2021, whereas the relevant

proportions to the total revenue were floating within a range of 65% to 87%; (iii) the historical transaction amounts of the renewable energy engineering and thermal power engineering which composed of the major part of the re-categorized engineering business increased from RMB791.37 million (representing approximately 12.34% of total revenue) for the year ended 31 December 2019 to RMB1,774.50 million (representing approximately 26.01% of total revenue) for the year ended 31 December 2020, but down to only RMB39.42 million (representing approximately 1.79% of total revenue) for the six months ended 30 June 2021; (iv) the steadily decreasing proposed annual caps of the service provision business from RMB4,132 million for the year ending 31 December 2022 to RMB4,086 million for the year ending 31 December 2023 and RMB4,029 million for the year ending 31 December 2024 reflects the Company's intention not to further increase its transactions with China Datang Group; and (v) the steadily increasing proposed annual caps of the engineering business from RMB3,691 million for the year ending 31 December 2022 to RMB4,005 million for the year ending 31 December 2023 and RMB4,346 million for the year ending 31 December 2024 results from the general thriving market opportunities in the environmental protection industry, driven by favourable state policies.

The Group has been actively expanding its client base. For example, during January to June 2021, the Group entered into contracts in the amount of RMB 153 million with clients other than China Datang Group, representing 18.18% of the total contracts entered into during January to June 2021. In the second half of 2021, the Group has been engaged by independent third party clients for four new photovoltaic power generation projects. The Group expects to continue to diversify its revenue source in the future.

The revenue ratios, under the Listing Rules, of the service provision business for the three years ending 31 December 2024 are in the range of 59% to 61%. The revenue ratios are based on the historical figure of revenue for the year ended 31 December 2020. Thus, with the estimated increase in the share of the transactions with independent third party clients in the coming three years, we expect the revenue ratios (if forward revenue amount were to be considered instead) of the service provision business to fall below 50%. Similarly, the revenue ratios of the engineering business for the three years ending 31 December 2024 are in the range of 54% to 64%. Thus, with the estimated increase in the share of the transactions with independent third party clients, we expect the revenue ratios (if forward revenue amount were to be considered instead) of the engineering business to fall below 50%.

Based on the above, the Directors (including independent non-executive Directors) are of the view that the transactions contemplated under the Renewed Integrated Product and Service Framework Agreement will not result in any undue reliance by the Company on its connected persons or controlling shareholder.

II. PROPERTY LEASING FRAMEWORK AGREEMENT

The principal terms of the Property Leasing Framework Agreement are summarized as follows:

Date: 3 December 2021

Parties (1) China Datang; and
(2) the Company

Term : The Property Leasing Framework Agreement is for a term of 20 years commencing from the date of the listing of the Company.

Subject matters of transactions: According to the Property Leasing Framework Agreement, China Datang Group will lease certain properties to the Group for purpose of business operation.

Proposed annual caps:

For the transactions under the Property Leasing Framework Agreement, for the respective years ending 31 December 2022, 31 December 2023 and 31 December 2024, the total amount of the property rental paid to China Datang Group and its associate(s) by the Group shall not exceed RMB100 million for each of the three years.

Basis for the calculation of proposed annual caps:

When determining the proposed annual caps mentioned above, the Directors have taken into account: (i) the terms of existing property lease agreements; (ii) historical quantity and condition of leased properties and amount of rentals provided by the Group to China Datang Group each year; (iii) the expected quantity and condition of leased properties and amount of rentals the Group needs to pay under the uncompleted contracts; and (iv) the expected market prices of properties in similar conditions. The Directors believe that renting instead of acquiring the relevant properties from China Datang Group provides us a cost-efficient way to better safeguard the Group's daily operations and is in line with industry practice. We expect that the total property rents will remain stable for the coming three years.

Historical transaction amounts:

For the transactions under the Property Leasing Framework Agreement, for the years ended 31 December 2019, 2020 and six months ended 30 June 2021, the total rentals were approximately RMB34,320,000, RMB34,394,000 and RMB3,060,000, respectively.

Pricing policy:

The rental of any leased property shall be ascertained through negotiation between the Group and China Datang Group primarily based on the actual costs of the property and taking into consideration the market price of similar properties in the same region where applicable and the relevant depreciation cost. The rental shall be provided as a fixed amount in the separate lease agreement to be executed in writing and between the Group and China Datang Group under the Property Leasing Framework Agreement. If, due to any change of national policies or market fluctuation that affects the fairness and reasonableness of the rental of a leased property under any lease agreement, the Group and China Datang Group may adjust the rental based on arm's length negotiations with reference to the new market price, and ensure the compliance with relevant requirements of the Listing Rules (if necessary).

Reasons for and benefits of the transactions under the Property Leasing Framework Agreement

The Company has historically leased certain properties from the members of China Datang Group as domicile. Compared with independent third party, China Datang Group has a better understanding of the Company's business needs. In addition, relocating the Company's domicile to other premises will cause unnecessary disruptions to the operation and incur unnecessary costs.

Based on the above, the Directors (including independent non-executive Directors) are of the view that the terms of the Property Leasing Framework Agreement and the transactions contemplated thereunder are entered into based on arm's length negotiations, in the ordinary and usual course of business of the Group and on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Relevant Internal Control Measures of the Renewed Integrated Product and Service Framework Agreement and the Property Leasing Framework Agreement

We have implemented the following internal control procedures to closely monitor and manage new and on-going connected transactions with China Datang Group:

- The Board has approved the estimated annual caps of connected transactions with China Datang Group for each of its business segments for the three years ending 31 December 2022, 2023 and 2024, which were proposed by the Securities and Capital Department (證券資本部) based on the Group's business demands and China Datang Group's projects planning and their estimated completion time and progress.
- At the beginning of each calendar year, the Securities and Capital Department will issue an internal notice circulating the annual caps of connected transactions with China Datang Group for this particular year and remind each member and department of the Group to follow internal control procedures for the control of transaction value with China Datang Group in daily business operations.
- The Securities and Capital Department is responsible for maintaining and updating the list of connected persons of the Group. Such list will be circulated to members and relevant departments of the Group on a regular basis.
- Business contracts of the Group are negotiated by the relevant business departments which are subject to review and approval by the Market Development Department (市場開發部) before execution. Before submitting any new business contract to the Market Development Department, the relevant business department is required to check the identity of each party to such contract against the latest list of connected persons of the Group. If any party is identified as a connected person, the relevant business department will initiate special application procedures ("**Connected Transaction Identification Process**") with required information of the proposed transaction to the Market Development Department for review and approval. In addition, the Materials Management Department (物資管理部) and the Market Development Department will screen the Connected Transaction Identification Process and ensure all connected transactions will be submitted to the Market Development Department for approval. The Market Development Department has adopted stringent control policies in reviewing and approving connected transactions, including, cross checking relevant information of the projects (e.g. transaction amounts, expected project completion date and progress) against the annual caps. If the

proposed transaction is generally consistent with the Market Development Department's planning, usually such contract can proceed to execution. If there exists significant difference between the annual caps and the value of proposal contract, the Market Development Department will check against the monthly report provided by the Finance Department for assessment on whether the value of the proposed contract would potentially cause the actual total transaction value to exceed the annual caps of that year. In the case that the proposed contract is expected to potentially cause the total actual transaction value to exceed the annual caps of that year, the Market Development Department usually will not approve such contract to proceed to execution. However, in case of any proposed transaction that potentially cause the actual total transaction value to exceed the annual caps, if the Market Development Department considers such transaction has great commercial value or other significant benefits to the Group, it may escalate to senior management of the Company or the Board for decision making by going through corporate governance procedures and complying with relevant rules and regulatory requirements. In the event that the Company decides to proceed with the proposed transactions, it would be required to seek Shareholders' approval for revision of the annual caps in accordance with the requirements under the Listing Rules.

- The Securities and Capital Department has set up a monthly reporting system for connected transactions, where it requires all members and departments of the Group to report in the beginning of each month, among others, (i) the amount of connected transactions occurred in the previous months; (ii) the accumulative connected transaction amount occurred in that year; and (iii) the expected transaction amount for the rest of the year. If the accumulative connected transaction amount has proportionately exceeded the annual caps of the year in a substantial manner or if the accumulative connected transaction amount occurred together with the expected transaction amount for the rest of the year will exceed the annual caps, the relevant member or department of the Group is required to report to the Securities and Capital Department the reasons for deviation and the proposed rectification measures. Subsequently, the Securities and Capital Department will notify the Market Development Department of such deviation or potential deviation by relevant member or department, and the Market Development Department will closely monitor and control the approval of new business contracts for relevant member or department.
- Furthermore, the Group has adopted relevant assessment standards in its employee performance evaluation system, where each department and employee will be evaluated on their contribution in terms of exploring independent contracts and controlling the amount and ratio of connected transactions, which has direct impact on their remuneration.

- The independent non-executive Directors and the Company’s auditors will review annually the enforcement of relevant continuing connected transactions under the Renewed Integrated Product and Service Framework Agreement and the Property Leasing Framework Agreement and provide annual confirmations in accordance with the Listing Rules that relevant continuing connected transactions are conducted in accordance with the terms of the Renewed Integrated Product and Service Framework Agreement and the Property Leasing Framework Agreement, on normal commercial terms and are in the interest of the Company and the Shareholders as a whole.

INDEPENDENCE OF BUSINESS OPERATIONS OF THE GROUP

The Group possesses sufficient capital, property, equipment, technology and human resources to operate its business independently, and holds qualifications that are necessary for the Group’s principal businesses.

As stated in this announcement, the Group conducted certain continuing connected transactions with China Datang Group. In addition, we expect that the Group will continue to carry out certain continuing connected transactions with China Datang Group in the future. Notwithstanding such continuing connected transactions between the Group and China Datang Group, the Directors believe that the Group is able to operate independently from China Datang Group and the Company should continue to maintain a strong relationship with China Datang Group for the following reasons:

- **Industry landscape/mutual and complementary relationship**

In the area of environmental protection, the Group’s customers are mainly large-size state-owned power groups in the coal-fired power industry. In China market, the coal-fired power industry is highly concentrated, with the top five power groups (“**Big Five**”), contributing more than 50% of the total market share in terms of accumulated installed capacity, and China Datang Group ranked the fourth largest power company with approximately 9% of market share in terms of accumulated installed capacity as of 2020. It is common for the Big Five to establish their own affiliates engaging in concession operations, EPC services and other environmental protection and energy conservation services to perform activities within their respective groups. For example, among the Big Five, China Huadian Corporation (中國華電集團公司), China Power Investment Corporation (中國電力投資集團公司) and China Guodian Corporation (中國國電集團公司) have all established their own affiliates engaging in concession operations, EPC services and other environmental protection and energy conservation services which primarily transacted with entities within their respective groups. Therefore, China Datang Group is one of the largest potential customers in the industry that the Group is operating in. On the other hand,

the Group is a leading environmental protection and energy conservation solutions provider in the PRC. Therefore, the historical amounts of connected transactions between the Group and China Datang Group reflect the market position of both parties in the respective industries and it is important that the Group continues to maintain a healthy business relationship with China Datang Group given its market position as one of the leading groups in its industry in China.

Furthermore, coal-fired power plants have increasing demands for environmental protection and energy conservation from market players, primarily large-size state-owned power groups in the coal-fired power industry including China Datang Group, along with the more and more stringent standards for target emission in the environmental protection and energy conservation industry established by the Chinese government. Given the Group's established relationship with China Datang Group, its experience with the quality of the Group's services and market position of the Group in the environmental protection and energy conservation solutions industry, the Company believes that it is commercially sensible for China Datang Group to continue to purchase products and services from the Group. Also, as China Datang Group is one of the largest customers in the industry of environmental protection and energy conservation solutions, the Company believes that it would not be commercially sensible for the Group to reduce its amount of products and services provided to China Datang Group.

Therefore, the business relationship between China Datang Group and the Group is a mutually beneficial arrangement.

- **Nature of business**

The Group's entire revenue under the desulfurization and denitrification concession operations was derived from transactions with China Datang Group since its listing, which is in line with the general market practice of other leading market players of concession operations in the environmental protection industry. Further, the Big Five occupied more than 50% of coal-fired power industry in terms of accumulated installed capacity and have their own subsidiary companies to conduct the concession operation business, which has become the market practice in this industry as few projects are being operated by independent third party companies. Furthermore, the business model of concession operations has been encouraged by national policies in the PRC. Under such a business model, professional service providers invest in the construction and installation or acquisition of desulfurization and denitrification equipment of power plants in exchange for (i) on-grid tariff for electricity generated by the power plants based on the fixed rate of the grid operator; and (ii) revenue from the sales of by-products produced by the operation of desulfurization and denitrification

equipment in light of a series of policies promulgated by NDRC and/or MEE. Under the unique business model of concession operations, according to the relevant policies, on-grid tariff subsidies for the electricity generated by the power plant are government-prescribed prices paid by the power grid operator to the Group through the power plant. Consistent with the general market practice in the environmental protection and energy conservation industry, the Group has adopted such a business model in the provision of desulfurization and denitrification concession operation services to power plants affiliated to China Datang Group. Given the unique business model of concession operations which differentiates from other connected transactions, if not taking into account of revenue generated from the concession operations, the Group's revenue generated from transactions with China Datang Group represented approximately 40.80%, 41.27% and 38.26%, respectively, of the Group's total revenue for each of the three years ended 31 December 2018, 2019 and 2020, respectively.

- **Largest customer on an aggregated basis**

Although the Company has aggregated the revenue derived from transactions with China Datang Group, there were actually more than 250 different legal entities under the China Datang Group's umbrella who were the Group's customers. Multiple subsidiaries or power plants of China Datang Group select their own suppliers independently by going through their own internal evaluation and bidding procedures. For the years ended 31 December 2018, 2019 and 2020, revenue from the top five customers accounted for approximately 78%, 92% and 90% of the total revenue of the Group, respectively.

- **Expansion of customer base**

The Group has established its own marketing capabilities to focus on building and reinforcing its image and reputation in the industry for a larger market share and has independent access to customers which are independent third parties through its own marketing network and has achieved continuous success in exploring independent third party customers.

For the year ended 31 December 2020, the total value of products and services provided by the Group to China Datang Group (other than concession operations) was approximately RMB2,598.94 million, representing only approximately 38% of the total revenue of the Group. For the year ended 31 December 2020, the total value of the services provided by the Group to China Datang Group under the concession operations (desulfurization and denitrification) was approximately RMB3,516.54 million, representing only approximately 51.2% of the total revenue of the Group.

In addition, the Group has been actively expanding its independent third party customer base. For instance, during 2020, the Group has entered into contracts with customers other than China Datang Group, amounting to RMB347 million, representing an increase of 28.4%. The Group has also made significant progress in developing and expanding overseas business.

- **Diversification of business and adaptability of business model**

The Group has four business segments, and products and services provided by the Group to China Datang Group cover all these business segments. As a result, the diversification of business lowers the Group's customer concentration risk. In addition, the Group's business model has been adapted to accommodate business dealings with independent customers. For instance, in environmental protection and energy conservation industries in the PRC, customers increasingly consider suppliers' professional expertise, technological capabilities and quality of comprehensive services. We believe that the Group has built up its own brand name and market position in the industries it conducts business, with its research and development abilities, technology support, quality and reputation of products and services, as well as marketing capabilities, which would facilitate the Group to continue to source independent customers.

In addition, the Company has also adopted a series of Code on Corporate Governance Practices, such as the Rules of Procedures of Shareholders Meeting, Rules of Procedures for the Board Meeting, Rules of Procedures for the Supervisory Committee's Meeting and the management system for connected transactions and others.

Based on the foregoing grounds, the Directors believe that the Group can operate its business independently from China Datang Group.

III. FINANCIAL SERVICES FRAMEWORK AGREEMENT

The principal terms of the Financial Services Framework Agreement are summarized as follows:

Date: 3 December 2021

Parties: (1) Datang Capital; and
(2) the Company

Term: Effective from 1 January 2022 until 31 December 2024.

Principal terms: According to the Financial Services Framework Agreement, Datang Capital agreed to provide the Company with commercial factoring service, asset securitization service, financial leasing, sales and leaseback service, entrusted loan service, operating lease, brokerage and consultation service in relation to transfer of property rights and assets and bespoke financial service solution.

In respect of the abovementioned transactions under the Financial Services Framework Agreement, the Company and/or its subsidiaries and Datang Capital and/or its subsidiaries may enter into separate specific contract in compliance with the Financial Services Framework Agreement as stipulated in the Financial Services Framework Agreement.

Proposed annual caps

Commercial Factoring

The proposed annual caps of commercial factoring service under the Financial Services Framework Agreement for each of the years ending 31 December 2022, 31 December 2023 and 31 December 2024 are RMB2,000 million, RMB2,000 million and RMB2,000 million respectively.

Financing Leasing

The proposed annual caps of financial leasing service under the Financial Services Framework Agreement for each of the years ending 31 December 2022, 31 December 2023 and 31 December 2024 are as follows:

	Proposed annual caps for the year ending 31 December		
	2022	2023	2024
	<i>(RMB'000)</i>		
Maximum daily balances of leasing principal	1,000,000	1,000,000	1,000,000
Annual interests and other payments:			
Outstanding interest fee and handling fee	60,000	60,000	60,000

Entrusted Loan Service

The proposed annual caps of entrusted loan service under the Financial Services Framework Agreement for each of the years ending 31 December 2022, 31 December 2023 and 31 December 2024 are RMB1,000 million, RMB1,000 million and RMB1,000 million respectively.

As of 30 June 2021, the payable principal and interests of bank loans of the Group due within 1 year amounted to approximately RMB1,744 million in aggregate, and the payable principal and interests of bank loans of the Group due between 1–2 years amounted to approximately RMB465 million in aggregate. The total amount of banks loans due within 1 year and between 1–2 years will be approximately RMB2,209 million. Upon maturity of such bank loans, the Group expects to perform refinancing to cover the abovementioned bank loans as well as the fresh working capital for expanding the business of the Group. As the Group is gradually promoting business transformation with its capital expenditure is growing rapidly, it needs to expand financing channels to meet its financing needs.

The rest of the services under the Financial Services Framework Agreement, namely, asset securitization service, sales and leaseback service, operating lease, brokerage and consultation service in relation to transfer of property rights and assets and financial service solution (the “**Other FSFA Financial Services**”) will have proposed annual caps with relevant applicable percentage ratio less than 0.1%.

Given the above, taking into account (i) the abovementioned amount of principal and interests to be repaid upon maturity of the bank loans of the Group; (ii) the expected decreasing amount of bank loans and higher interest rate level to be obtained by the Group in the future for refinancing the abovementioned bank loans and for expanding business of the Group; and (iii) the relevant terms of the Financial Framework Services provided by Datang Capital to accommodate the Group’s need for financing, the Group has determined the proposed annual caps of the Financial Framework Services under the Financial Services Framework Agreement, respectively.

Historical transaction amounts

The Financial Services Framework Agreement renews the financial leasing service and commercial factoring service under the Preceding Financial Services Agreement. The historical transaction amounts of each transaction under the Preceding Financial Services Agreement for the years ended 31 December 2018, 2019 and 2020 are as follows:

Type of transactions	Historical transaction amounts		
	For the year ended 31 December 2018	For the year ended 31 December 2019 (RMB'000)	For the year ended 31 December 2020
Financial leasing service			
Actual maximum daily balances of leasing principal	265,000	135,000	394,000
Outstanding interest fee and handling fee	2,200	19,000	600
Commercial factoring service			
Service fee	161,400	106,000	73,000

There was no historical transaction amount between the Company and Datang Capital for the entrusted loan service under the Preceding Financial Services Agreement.

Pricing policy

(1) Commercial factoring service under the Financial Services Framework Agreement

The comprehensive interest rate relating to the commercial factoring service provided by Datang Capital to the Group shall be based on fair and reasonable market pricing and normal commercial terms. In particular, the rate shall not be higher than the interest rate level provided via email by independent third parties to the Group for the same type of service during the same period or the interest rate of the same type of service provided by Datang Capital to third parties with same credit rating.

(2) Financial leasing service under the Financial Services Framework Agreement

The rent paid by the Group to Datang Capital includes (i) procurement costs; and (ii) interests. The relevant interests are determined based on the benchmark interest rates for loan as implemented by the PBOC.

(3) Entrusted loan service under the Financial Services Framework Agreement

The entrusted loan interest paid by the Group to Datang Capital includes (i) procurement costs; and (ii) interests. The relevant interests are determined based on the benchmark interest rates for loan as implemented by the PBOC.

Reasons for and benefits of the transactions under the Financial Services Framework Agreement

(1) Commercial factoring service and asset securitization service

The transactions under the commercial factoring service and asset securitization service will help the Company optimize its asset structure, accelerate the efficiency of asset turnover, save costs, improve the efficiency of capital use, broaden the financing channels, and reduce financing costs, which is in line with the overall development strategies of the Company and is in the interests of the Company and the Shareholders as a whole.

(2) Financial leasing service, sales and leaseback service, entrusted loan service and operating lease service

Datang Capital is a professional financial leasing service, sales and leaseback service, entrusted loan service and operating lease service provider. Based on the needs of business operations, the Group negotiated with Datang Capital in respect of the abovementioned service arrangements on normal commercial terms.

(3) Brokerage and consultation service in relation to the transfer of property rights and assets and bespoke financial service solution service

Datang Capital provides professional brokerage and consultation service in relation to the transfer of property rights and assets and financial service solution. Based on the needs of business operations, the Group negotiated with Datang Capital in respect of the abovementioned service arrangements on normal commercial terms.

Based on the above, the Directors (including independent non-executive Directors) are of the view that the terms of the Financial Services Framework Agreement and the transactions contemplated thereunder are entered into based on arm's length negotiations, in the ordinary and usual course of business of the Group and on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Relevant Internal Control Measures of Continuing Connected Transactions

For the Company's internal control procedures that implemented to closely monitor and manage new and ongoing connected transactions with China Datang Group, please refer to the information provided under the subsection headed "Relevant internal control measures of the Renewed Integrated Product and Service Framework Agreement and the Property Leasing Framework Agreement" on page 26 of this announcement.

IV. DEPOSIT SERVICES UNDER THE RENEWED FINANCIAL SERVICES AGREEMENT

The major contents of the Renewed Financial Services Agreement are as follows:

Date: 3 December 2021

Parties: (1) Datang Finance; and
(2) the Group

Term: From 1 January 2022 to 31 December 2024.

Nature of transaction: The services to be provided by Datang Finance to the Group include loan services, the Deposit Services, and the Other Financial Services, including financial and financing consultation and training services, transfer and settlement services, insurance agency services, entrustment loan and entrustment investment services, note financing services, guarantee services, and underwriting services for the issuance of corporate bonds to the Group. Datang Finance has agreed to provide financial services to the Group at the Company's request or instruction provided that Datang Finance has obtained the relevant approval from the CBIRC. Datang Finance shall ensure the stable operation of fund management system to safeguard the fund, and to supervise the credit risk so as to satisfy the payment demands of the Group. The Group, with information of market rates and in view of its own interests, has the discretion to determine whether or not to maintain business relationship with Datang Finance, or to obtain financial services from other financial institutions in the meanwhile.

- Scope of service:**
- (1) loan services;
 - (2) Deposit Services; and
 - (3) Other Financial Services.

Pricing Policy: Datang Finance has undertaken to provide the aforementioned financial services to the Group based on the following pricing principles:

- (1) Loan services – Datang Finance, based on the interest rate quotation of the loan market and taking into comprehensive considerations of the factors such as the terms, classifications and industrial policies, determines the pricing. Under the same condition, the loan interest rate shall not be higher than the applicable interest rate for the same type of loan service provided by state-owned banks to the Group;
- (2) Deposit Services – Under the same condition, the deposit interest rate provided by Datang Finance to the Group shall not be lower than the interest rate for the same type of deposit placed in state-owned banks by the Group; and
- (3) Other Financial Services – Datang Finance provides other financial services to the Group at the rates which shall not be higher than those charged by other financial institutions in the PRC for the same or similar financial services.

Capital risk control measures

Pursuant to the Renewed Financial Services Agreement, Datang Finance undertakes to take the following measures to control the capital risks:

- (1) Datang Finance will ensure the safe and stable operation of the fund management information system, which has undergone the security test in respect of connection to the online commercial banking and has reached the national security standards for commercial banks. The system is equipped with the model awarded with CA safety certificate to secure the funds of the Group;

- (2) Datang Finance will ensure that it is in strict compliance with the risk monitoring indicators for financing companies issued by the CBIRC and that its major regulatory indicators such as gearing ratio and liquidity ratio will also comply with the requirement by the CBIRC; and
- (3) Any balance in the Group's deposits (after deducting the amount used for making entrusted loans and the loans made to the Group by Datang Finance) will be redeposited into one or more commercial banks in the PRC. The interests for the Group's call deposits will be settled at the negotiated savings interest rate as announced by the PBOC, which is higher than the interest rate for call deposits that the Group currently secures from other PRC commercial banks.

The Company will also adopt, among others, the following internal control and risk management measures to mitigate the financial risks which may be exposed to the Company under the Renewed Financial Services Agreement:

- i. Before entering into any transactions with Datang Finance, the Company will obtain and review quotes (i.e. savings interest rate, loan interest rate or fee quotes for the Other Financial Services) from at least four other independent financial institutions and the then savings interest rate, negotiated savings interest rate and loan interest rate as published by the PBOC.

For the Deposit Services, in the event that the Company notes the then negotiated savings interest rate as announced by the PBOC is less than the then savings interest rate as published by the PBOC or the then savings interest rate as offered by other independent financial institutions in the PRC, the Company will enter into an agreement with Datang Finance to ensure the deposit interest rate of the Deposit Services will be no less favourable than the then savings interest rate as published by the PBOC or offered by other independent financial institutions in the PRC. In the event that the Company notes that the actual deposit interest rate of the Deposit Services is less than the then negotiated savings interest rate as announced by the PBOC or offered by other independent financial institutions in the PRC, the Company will require Datang Finance to compensate the differences to the Company.

For the loan services provided by Datang Finance to the Group under the Renewed Financial Services Agreement, in the event that the Company notes that the actual loan interest rate of relevant loan services is higher than the then loan interest rate as announced by the PBOC or charged by other independent financial institutions in the PRC, the Company will require Datang Finance to compensate the differences to the Company.

For the Other Financial Services, in the event that the Company notes that the actual fee standards charged for provision of such financial services are higher than the then fee standards as offered by other independent financial institutions in the PRC, the Company will require Datang Finance to compensate the differences to the Company.

- ii. Before placing deposit, the finance department of the Company will check daily balance of the deposits placed with Datang Finance to avoid exceeding the proposed annual caps for the Deposit Services.

Before making any loan, the finance department of the Company will check with Datang Finance to ensure that no security over any assets will be granted in respect of the loan services provided by Datang Finance to the Group under the Renewed Financial Services Agreement.

Before provision of any of the Other Financial Services by Datang Finance, the finance department of the Company will check the transaction amount of the Other Financial Services. The Company will comply with the reporting, announcement and Independent Shareholders' approval requirements of the Listing Rules, where applicable, if the transaction amount of the Other Financial Services to be provided by Datang Finance to the Group exceeds the minimum amount under Rule 14A.76 of the Listing Rules.

- iii. On a monthly basis, the finance department of the Company will report to the management of the Company of any updates in relation to relevant continuing connected transactions. Such report principally covers: (1) the balance of deposits and loans as of the end of the preceding month; (2) interest rates for additional deposits and loans of the preceding month; (3) plan for usage and usage of deposit of the current month; and (4) loan principal and interest repayment plan and source of fund of the current month; and
- iv. The independent non-executive Directors and the Company's auditors will review annually the enforcement of relevant continuing connected transactions under the Renewed Financial Services Agreement and provide annual confirmations in accordance with the Listing Rules that relevant continuing connected transactions are conducted in accordance with the terms of the Renewed Financial Services Agreement, on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

The Directors (excluding the Directors who are required to abstain from voting, but including the independent non-executive Directors) consider that the above capital risk control measures are adequate to cover the risks involved in relevant continuing connected transactions with Datang Finance.

Proposed annual caps and the basis thereof

Loan services: In view of the loan services provided by Datang Finance to the Group are on normal commercial terms which are similar to or more favorable than those offered by independent third parties for comparable services in the PRC, and that no security over the assets of the Group will be granted in respect of the loan services, the loan services are exempt from reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.90 of the Listing Rules. As such, no cap has been set for such services.

Deposit Services: The Company estimates that the proposed annual cap of the Deposit Services for the maximum daily deposit balance (including any relevant interest accrued therefrom) with Datang Finance for each of the years ending 31 December 2022, 2023 and 2024 is RMB4,000 million, after taking into account of the following factors:

1. The balance of cash and cash equivalents of the Group amounted to RMB671.28 million as of 30 June 2021;
2. The Company has applied to the National Association of Financial Market Institutional Investors for registration and issuance of ultra short-term financing bonds of no more than RMB3,000 million. The balance of deposit is expected to be close to the proposed annual cap for the Deposit Services of RMB4,000 million if the Company issues one-off ultra short-term financing bonds of more than RMB2,400 million and temporarily places all the proceeds into the Group's deposit account opened at Datang Finance;

3. The balance of trade, bills receivables and contract assets of the Group amounted to RMB9,268.70 million as of 30 June 2021. The balance of deposit may also experience significant increase within a short term and will be close to the proposed annual cap for the Deposit Services of RMB4,000 million if the Group recovers a large amount of trade, bills receivables and contract assets within a short term and places the receivables and contract assets into the Group's deposit account opened at Datang Finance.

In view of the above, the maximum daily deposit balance with Datang Finance of RMB4,000 million is a reasonable cap.

**Other Financial
Services:**

The Company expects that each of the percentage ratios (as defined in Rule 14.07 of Listing Rules) of the total fees payable by the Group to Datang Finance in respect of the Other Financial Services will fall within the *de minimis* threshold as stipulated under Rule 14A.76 of the Listing Rules, for which the Other Financial Services are exempt from reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. As such, no cap has been set for such services. The Company will comply with the reporting, announcement and Independent Shareholders' approval requirements of the Listing Rules, where applicable, if the transaction amount of the Other Financial Services to be provided by Datang Finance to the Group under the Renewed Financial Services Agreement exceeds the *de minimis* threshold as stipulated under Rule 14A.76 of the Listing Rules. Among the Other Financial Services, Datang Finance will provide settlement services to the Group, free of charge. The Company confirms that there will not be any provision of financial assistance by the Company to Datang Finance under this arrangement. The Other Financial Services to be provided under the Renewed Financial Services Agreement will be on normal commercial terms and on terms comparable to or better than those for similar services provided by independent third parties in the PRC.

Historical transaction amounts

The Renewed Financial Services Agreement renews the loan services, the Deposit Services and the Other Financial Services under the Previous Financial Services Agreement. The historical transaction amounts of the Deposit Services under the Previous Financial Services Agreement for the years ended 31 December 2018, 2019 and 2020 are RMB1,444 million, RMB1,478 million and RMB1,478 million respectively.

Reasons for and benefits of entering into the Renewed Financial Services Agreement

Relevant continuing connected transactions will be conducted in the ordinary and usual course of business of the Company on normal commercial terms and on terms similar to or even more favourable than those available to the Company from independent third parties in the PRC. The Directors (including the independent non-executive Directors) are of the view that such transactions are beneficial to the Group and furthermore, the Group can earn interests or enjoy benefits through such transactions at the terms not less favourable to independent third parties.

Furthermore, due to the long-term relationship between the Group, China Datang and China Datang Group, the Directors (including the independent non-executive Directors) consider that it is beneficial to the Company to enter into continuing connected transactions with companies affiliated to China Datang. They are familiar with the Group's operation and requirement on the products and services, and will be able to respond more quickly and in a more cost efficient manner to the requirements that the Group may have as compared with other financial institutions unrelated to China Datang Group.

In addition, as the customers of Datang Finance are limited to entities affiliated to China Datang and its subsidiaries under applicable laws and regulations, it reduces the default risk and liquidity risk that Datang Finance may otherwise be exposed to if its customers include entities unrelated to China Datang. Moreover, the aforementioned risk control measures adopted by Datang Finance are adequate to address the default risk and liquidity risk involved in receiving financial services from Datang Finance. Security of capital of the Group may be undermined in case of breach of contract or illiquidity of Datang Finance as the Group plans to place cash into its deposit account opened at Datang Finance. As such, Datang Finance's effective control over the breach of contract and liquidity risk will be conducive to the reduction of the Group's capital risk.

Therefore, the Directors (excluding the Directors who are required to abstain, but including the independent non-executive Directors) are of the view that the terms of the Renewed Financial Services Agreement and the transactions contemplated thereunder are entered into based on arm's length negotiations, in the ordinary course of business and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

Renewed Integrated Product and Service Framework Agreement

As China Datang directly held approximately 78.96% of the issued share capital of the Company as at the date of this announcement, it is a controlling shareholder of the Company. Pursuant to Chapter 14A of the Listing Rules, China Datang is therefore a connected person of the Company. Accordingly, the Renewed Integrated Product and Service Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under the Listing Rules.

As for certain transactions contemplated under the Renewed Integrated Product and Service Framework Agreement (including (i) service provision business such as environmental protection facility concession operation, water treatment operation and energy management contracting business, product business such as the denitration catalyst business, and engineering business such as environmental protection facilities engineering business, renewable energy engineering and other services by the Company to China Datang; and (ii) the procurement of products and services by the Company from China Datang including service procurement business such as operational ancillary business, technology and information service, and other services and equipment and raw material procurement business such as supply of water, electricity and steam, procurement of equipment and raw materials and other products and services, given that one or more of the applicable percentage ratios of each of such transactions calculated with reference to their respective proposed annual caps is more than 5%, each of such transactions and their respective proposed annual caps are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Property Leasing Framework Agreement

As China Datang directly held approximately 78.96% of the issued share capital of the Company as at the date of this announcement, it is a controlling shareholder of the Company. Pursuant to Chapter 14A of the Listing Rules, China Datang is therefore a connected person of the Company. Accordingly, the Property Leasing Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under the Listing Rules.

Given that one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) of the transactions calculated with reference to the relevant proposed annual caps under the Property Leasing Framework Agreement are more than 0.1% but all are less than 5%, the transactions contemplated under the Property Leasing Framework Agreement and the relevant proposed annual caps are subject to reporting, annual review and announcement but exempted from Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Wang Junqi, Mr. Wu Daqing and Mr. Chen Kan are holding positions in China Datang or its subsidiaries and therefore have abstained from voting at relevant Board meeting approving the Renewed Integrated Product and Service Framework Agreement, the Property Leasing Framework Agreement and the respective transactions contemplated thereunder. Save as mentioned above, all Directors have confirmed that they have no material interests in the Renewed Integrated Product and Service Framework Agreement, the Property Leasing Framework Agreement and the respective transactions contemplated thereunder.

Financial Services Framework Agreement

As China Datang directly held approximately 78.96% of the issued share capital of the Company as at the date of this announcement, it is a controlling shareholder of the Company. Datang Capital is a wholly-owned subsidiary of China Datang. Pursuant to Chapter 14A of the Listing Rules, Datang Capital is therefore a connected person of the Company. Accordingly, the Financial Services Framework Agreement and the transactions thereunder constitute continuing connected transactions of the Company under the Listing Rules.

Given that one or more of the relevant percentage ratios (as defined in Rule 14.07 of the Listing Rules) of the transactions (including financial leasing service and commercial factoring service) calculated with reference to the relevant proposed annual caps under the Financial Services Framework Agreement are more than 5%, the Financial Services Framework Agreement, the transactions thereunder and the proposed annual caps thereunder are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Further, given that one or more of the relevant percentage ratios (as defined in Rule 14.07 of the Listing Rules) of the transactions (including commercial factoring service, financial leasing service and entrusted loan service) calculated with reference to the relevant proposed annual caps under the Financial Services Framework Agreement exceed 25% but less than 100%, the transactions contemplated under the Financial Services Framework Agreement constitute a major transaction of the Company under Chapter 14 of the Listing Rules.

The Other FSFA Financial Services to be provided by Datang Capital to the Group, each of the percentage ratio(s) is below the *de minimis* threshold set out in Rule 14A.76 of the Listing Rules, therefore the provision of the Other FSFA Financial Services by Datang Capital to the Group is exempt from the reporting, announcement and Independent Shareholders' approval requirements of the Listing Rules. The Company will comply with the reporting, announcement and Independent Shareholders' approval requirements of the Listing Rules, where applicable, if the transaction amount of the Other FSFA Financial Services to be provided by Datang Capital to the Group under the Financial Services Framework Agreement exceeds the *de minimis* threshold stipulated in Rule 14A.76 of the Listing Rules.

Mr. Wang Junqi, Mr. Wu Daqing and Mr. Chen Kan are holding positions in China Datang or its subsidiaries and therefore have abstained from voting at relevant Board meeting approving the Financial Services Framework Agreement and the transactions thereunder. Save as mentioned above, all Directors have confirmed that they have no material interests in the Financial Services Framework Agreement and the transactions thereunder.

Deposit Services under the Renewed Financial Services Agreement

As China Datang directly held approximately 78.96% of the issued share capital of the Company as at the date of this announcement, it is a controlling shareholder of the Company. Datang Finance is a subsidiary of China Datang, and is therefore a connected person of the Company. Accordingly, the Renewed Financial Services Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under the Listing Rules.

Loan services

The loan services to be provided by Datang Finance to the Group will constitute financial assistance to be provided by a connected person for the benefit of the Group. As such services are on normal commercial terms which are similar to or more favorable than those offered by independent third parties for comparable services in the PRC, and no security over the assets of the Group will be granted in respect of the loan services, the loan services are exempt from reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.90 of the Listing Rules.

Deposit Services

As each of the percentage ratio(s) (as defined in Rule 14.07 of the Listing Rules) applicable to the Deposit Services is more than 5%, the Deposit Services is subject to the reporting, annual review, announcement, and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company will disclose relevant details in the annual report and accounts of the Company to be published in the next year pursuant to the relevant requirements under Rule 14A.71 of the Listing Rules.

Further, given that one or more of the relevant percentage ratios (as defined in Rule 14.07 of the Listing Rules) of the Deposit Services under the Renewed Financial Services Agreement calculated with reference to the relevant proposed annual caps under the Financial Services Framework Agreement is more than 100%, the Deposit Service under the Renewed Financial Services Agreement is not a very substantial acquisition but constitutes a major transaction of the Company under Chapter 14 of the Listing Rules.

Other Financial Services

In respect of the Other Financial Services to be provided by Datang Finance to the Group, each of the percentage ratio(s) is below the *de minimis* threshold set out in Rule 14A.76 of the Listing Rules, therefore the provision of the Other Financial Services by Datang Finance to the Group is exempt from the reporting, announcement and Independent Shareholders' approval requirements of the Listing Rules. The Company will comply with the reporting, announcement and Independent Shareholders' approval requirements of the Listing Rules, where applicable, if the transaction amount of the Other Financial Services to be provided by Datang Finance to the Group under the Renewed Financial Services Agreement exceeds the *de minimis* threshold stipulated in Rule 14A.76 of the Listing Rules.

GENERAL INFORMATION

Information on the Company

The Company is a non-wholly owned subsidiary of China Datang, and is the sole platform for the development of environmental protection and energy conservation business under China Datang Group, one of the five (5) major state wholly-owned power generation groups in the PRC. The principal business of the Group includes environmental protection facility concession operation, denitrification catalysts, environmental protection facilities engineering, water treatment business, energy conservation business and renewable energy engineering business.

Information on China Datang

China Datang is a state-owned enterprise established in the PRC in April 2003 and is the controlling shareholder of the Company. China Datang is primarily engaged in the development, investment, construction, operation and management of power energy; organization of power (thermal) production and sales; manufacture, maintenance and commissioning of electric power equipment; power technology development and consultation; contracting and consulting of electric power engineering and environmental protection projects; development of renewable power; and self-operating and being an agent for import and export of any kind of goods and technology save for those where the import or export of the goods and technology are restricted or prohibited by national laws and regulations.

Information on Datang Capital

Datang Capital was established on 30 November 2011, and is a subsidiary of China Datang, the controlling shareholder of the Company. The main business scope is: investment management, asset management and investment consultation.

Information on Datang Finance

Datang Finance was officially established in the PRC as a non-bank financial institution in May 2005, and is a non-wholly owned subsidiary of China Datang. It is regulated by the CBIRC and in compliance with laws and regulations concerning the non-bank financial institutions. Its primary business scopes are as follows: providing consultancy and agency service in relation to financial advisory, credit, visa and related services; assisting intra-group members in realizing receipt and payment of transaction amount; providing approved insurance agency services; serving as guarantees for loans of intra-group members; handling entrusted loan and entrusted investment between intra-group members; handling bill acceptances and discounting for intra-group members; conducting internal transfer settlement between intra-group member and designing of corresponding settlement and liquidation plan; absorbing deposits from intra-group members; dealing with loan and financial leasing for intra-group members; dealing with inter-bank offered credit; issuing finance company bonds upon approval, underwrite corporate bonds of intra-group members, equity investments in financial institutions; and investment in negotiable securities, etc.

INDEPENDENT BOARD COMMITTEE, INDEPENDENT FINANCIAL ADVISER AND INDEPENDENT SHAREHOLDERS

Renewed Integrated Product and Service Framework Agreement, Property Leasing Framework Agreement, Financial Services Framework Agreement and Deposit Services under the Renewed Financial Services Agreement

The Independent Board Committee was formed to advise the Independent Shareholders in connection with the Renewed Integrated Product and Service Framework Agreement, the Financial Services Framework Agreement, the Deposit Services under the Renewed Financial Services Agreement, the transactions contemplated thereunder and the relevant proposed annual caps. Trinity Corporate Finance Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the same. The letter from the Independent Board Committee and the letter from the Independent Financial Adviser are included in the circular to be dispatched to the Shareholders with respect to the Renewed Integrated Product and Service Framework Agreement, the Financial Services Framework Agreement, the Deposit Services under the Renewed Financial Services Agreement and the EGM.

The Directors (excluding the Directors who are required to abstain, but including the independent non-executive Directors) are of the view that the Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Company on normal commercial terms; the Continuing Connected Transactions and the proposed annual caps are fair and reasonable and are in the interest of the Company and the Shareholders as a whole. Mr. Wang Junqi, Mr. Wu Daqing and Mr. Chen Kan, being the Directors holding various positions with China Datang, have abstained from voting on the respective resolutions regarding Continuing Connected Transactions at

the Board meeting. Save as disclosed above, none of the Directors has any material interest in the Continuing Connected Transactions.

In view of the interests of China Datang, which directly held approximately 78.96% of the issued share capital of the Company as at the date of this announcement and thus is a connected person of the Company, in the Continuing Connected Transactions, China Datang and its associates (including Datang Capital and Datang Finance) are required to abstain from voting on the resolutions to be proposed at the EGM to approve the Continuing Connected Transactions. As at the date of this announcement, to the best knowledge, information and belief of the Directors, save as disclosed in this announcement, no other Shareholders will be required to abstain from voting in respect of the relevant resolutions.

DISPATCH OF THE CIRCULAR

A circular containing, amongst other things, further details of the Renewed Integrated Product and Service Framework Agreement, the Financial Services Framework Agreement and the Deposit Services under the Renewed Financial Services Agreement, a letter from the Independent Board Committee to the Independent Shareholders and a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, together with a notice of the EGM will be dispatched to the Shareholders on 8 December 2021.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the meanings set out below:

“associate(s)”	has the meaning ascribed under the Listing Rules
“Board”	the board of Directors of the Company
“CA”	certificate authority
“China” or “PRC”	the People’s Republic of China excluding, for the purpose of this announcement, Hong Kong, Macau Special Administrative Region and Taiwan
“China Datang”	China Datang Corporation Ltd. (中國大唐集團有限公司), a state-owned enterprise established on 9 April 2003 in accordance with the PRC laws and the controlling shareholder and a promoter of the Company
“China Datang Group”	China Datang and its subsidiaries (excluding the Group)

“CBIRC”	China Banking and Insurance Regulatory Commission (中國銀行保險業監督管理委員會)
“Company”	Datang Environment Industry Group Co., Ltd.* (大唐環境產業集團股份有限公司), a joint stock company incorporated in the PRC with limited liability, the H Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1272)
“connected person(s)”	has the meaning ascribed under the Listing Rules
“continuing connected transaction(s)”	has the meaning ascribed under the Listing Rules
“Continuing Connected Transactions”	the connected transactions under the Renewed Integrated Product and Services Framework Agreement, the Property Leasing Framework Agreement, the Financial Services Framework Agreement and the Renewed Financial Services Agreement
“controlling shareholder”	has the meaning ascribed under the Listing Rules
“Datang Capital”	China Datang Group Capital Holding Co., Ltd. (中國大唐集團資本控股有限公司), a company established on 30 November 2011 in accordance with the PRC laws, and a subsidiary of China Datang, the controlling shareholder of the Company
“Datang Finance”	China Datang Finance Co., Ltd. (中國大唐集團財務有限公司), a company incorporated in the PRC with limited liability, and a non-wholly owned subsidiary of China Datang
“Deposit Services”	deposit services to be provided by Datang Finance to the Group under the Renewed Financial Services Agreement
“Director(s)”	director(s) of the Company
“Domestic Share(s)”	the ordinary shares in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for and paid up in RMB and have not been listed on any stock exchanges
“EGM”	the extraordinary general meeting of the Company to be held at 4:00 p.m. on Friday, 24 December 2021 at No. 120 Zizhuyuan Road, Haidian District, Beijing, the PRC

“EPC”	engineering, procurement and construction, a common form of contracting arrangement whereby the contractor is commissioned by the customer to carry out works, such as design, procurement, construction and trial operations, either through the contractor’s own employees or by subcontracting part or all of the works, and be responsible for the quality, safety, timely delivery and cost of the project
“Existing Integrated Product and Service Framework Agreement”	the integrated product and service framework agreement entered into by China Datang and the Company on 15 November 2018, which will expire on 31 December 2021
“Financial Services Framework Agreement”	the financial services framework agreement entered into by Datang Capital and the Company on 3 December 2021
“Group”	the Company and its subsidiaries
“H Share(s)”	the overseas listed foreign shares of the Company with a nominal value of RMB1.00 each, which are listed on the Main Board of the Stock Exchange
“Hong Kong” or “HK”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising Mr. Ye Xiang, Mr. Mao Zhuanjian and Mr. Gao Jiexiang, all being independent non-executive Directors
“Independent Financial Adviser”	Trinity Corporate Finance Limited, a corporation licensed to conduct type 6 (advising on corporate finance) regulated activities under the SFO, and is the independent financial adviser appointed for the purpose of advising the Independent Board Committee and the Independent Shareholders as to the Renewed Integrated Product and Service Framework Agreement, the Financial Services Framework Agreement, the Deposit Services under the Renewed Financial Services Agreement, the transactions and the proposed annual caps thereof

“Independent Shareholders”	the Shareholders who are not required to abstain from voting at the EGM for the resolutions with respect to the Renewed Integrated Product and Service Framework Agreement, the Financial Services Framework Agreement and the Deposit Services under the Renewed Financial Services Agreement, the transactions contemplated thereunder and the relevant annual caps
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“NDRC”	the National Development and Reform Commission of the PRC or its local counterparts
“MEE”	the Ministry of Ecology and Environment (中華人民共和國生態環境部)
“Other Financial Services”	other financial services which may be provided by Datang Finance to the Group in addition to loan services and the Deposit Services, including financial and financing consultation and training services, transfer and settlement services, insurance agency services, entrustment loan and entrustment investment services, note financing services, guarantee services and underwriting services for the issuance of corporate bonds to the Group
“PBOC”	the People’s Bank of China (中國人民銀行)
“Preceding Financial Services Agreement”	the financial services agreement entered into by Datang Capital and the Company on 14 June 2018, which expired on 31 December 2020
“Previous Financial Services Agreement”	the financial services agreement entered into by Datang Finance and the Company on 15 October 2019
“Property Leasing Framework Agreement”	the property leasing framework agreement entered into by China Datang and the Company on 1 December 2015
“Renewed Financial Services Agreement”	the renewed financial services agreement entered into between Datang Finance and the Company on 3 December 2021

“Renewed Integrated Product and Service Framework Agreement”	the renewed integrated product and service framework agreement entered into by China Datang and the Company on 3 December 2021 which will take effect from 1 January 2022 and be expiring on 31 December 2024
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	Domestic Share(s) and/or H Share(s)
“Shareholder(s)”	holder(s) of Share(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning ascribed under the Listing Rules
“%”	per cent

By order of the Board
Datang Environment Industry Group Co., Ltd.*
Wang Yanwen
Chairman

Beijing, the PRC, 3 December 2021

As of the date of this announcement, the executive Directors are Mr. Wang Yanwen and Mr. Tian Dan; the non-executive Directors are Mr. Wang Junqi, Mr. Wu Daqing, Mr. Chen Kan and Mr. Song Yunpeng; and the independent non-executive Directors are Mr. Ye Xiang, Mr. Mao Zhuanjian and Mr. Gao Jiexiang.

* *For identification purposes only*