
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in **Datang Environment Industry Group Co., Ltd.**, you should at once hand this supplemental circular together with the accompanying supplemental proxy form to the purchaser(s) or the transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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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)

CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTION – DEPOSIT SERVICES UNDER THE FINANCIAL SERVICES AGREEMENT AND DOMESTIC ISSUANCE OF CORPORATE BONDS

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



Gram Capital Limited
嘉林資本有限公司

This supplemental circular ("**Supplemental Circular**") should be read in conjunction with the circular ("**Original Circular**") of Datang Environmental Industry Group Co., Ltd. (the "**Company**") dated 2 September 2019.

A letter from the Board is set out on pages 1 to 14 of this Supplemental Circular. A letter from the Independent Board Committee is set out on pages 15 to 16 of this Supplemental Circular. A letter from Gram Capital, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 17 to 27 of this Supplemental Circular.

The date of the EGM is rescheduled to be convened at 10:00 a.m. on Wednesday, 30 October 2019 (instead of 4:00 p.m. on Friday, 18 October 2019).

The supplemental notice of the EGM and the supplemental proxy form will be despatched by the Company to the Shareholders in accordance with the Hong Kong Listing Rules. The supplemental notice of the EGM and the supplemental proxy form are also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.dteg.com.cn).

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DEFINITIONS

Unless the context otherwise requires, the following expressions shall have the following meanings in this Supplemental Circular:

“Articles of Association”	the articles of association of the Company (as amended, altered or otherwise supplemented from time to time)
“associate(s)”	has the meaning ascribed under the Listing Rules
“Board”	the board of Directors of the Company
“CA”	certificate authority
“CBIRC”	China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)
“China” or “PRC”	the People’s Republic of China excluding, for the purpose of this Supplemental Circular, 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 in the PRC on 9 April 2003 and the controlling shareholder and the promoter of the Company
“China Datang Group”	China Datang and its subsidiaries (excluding the Group)
“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”	has the meaning ascribed under the Listing Rules
“continuing connected transaction(s)”	has the meaning ascribed under the Listing Rules
“controlling shareholder”	has the meaning ascribed under the Listing Rules
“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 Financial Services Agreement

DEFINITIONS

“Director(s)”	director(s) of the Company
“Domestic Shares”	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, 18 October 2019 at No. 120 Zizhuyuan Road, Haidian District, Beijing, the PRC, which is rescheduled to be convened at 10:00 a.m. on Wednesday, 30 October 2019
“Financial Services Agreement”	the financial services agreement entered into between Datang Finance and the Company on 15 October 2019
“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
“H Share Registrar”	Computershare Hong Kong Investor Services Limited, the H Share registrar of the Company
“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 Jiayang, all being independent non-executive Directors
“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under SFO, and is the independent financial adviser appointed for the purpose of advising the Independent Board Committee and the Independent Shareholders as to the Deposit Services and the Proposed Caps of the Deposit Services
“Independent Shareholders”	the Shareholders who are not required to abstain from voting at the EGM for the relevant resolutions with respect to the Financial Services Agreement
“Latest Practicable Date”	15 October 2019, being the latest practicable date prior to the printing of this Supplemental Circular for the purpose of ascertaining certain information contained in this Supplemental Circular

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Proposed Cap(s)”	the proposed caps in respect of the continuing connected transactions under the Financial Services Agreement
“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
“Supervisor(s)”	supervisor(s) of the Company
“Transactions”	the transactions contemplated under the Financial Services Agreement, in relation to the provision of deposits, loans and other financial services by Datang Finance to the Company
“%”	per cent



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)

Non-executive Directors:

Mr. Jin Yaohua
Mr. Liu Chuandong
Mr. Liu Guangming
Mr. Li Yi
Mr. Deng Xiandong
Mr. Sheng Zhen

Independent Non-executive Directors:

Mr. Ye Xiang
Mr. Mao Zhuanjian
Mr. Gao Jiaxiang

*Registered Office and Head Office
in the PRC:*

No. 120 Zizhuyuan Road,
Haidian District,
Beijing,
the PRC

*Principal Place of Business
in Hong Kong:*

31/F, Tower Two,
Times Square,
1 Matheson Street,
Causeway Bay,
Hong Kong

16 October 2019

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTION –
DEPOSIT SERVICES UNDER THE FINANCIAL SERVICES AGREEMENT
AND
DOMESTIC ISSUANCE OF CORPORATE BONDS**

I. INTRODUCTION

Reference is made to the announcement of the Company dated 15 October 2019 (the “**Announcement**”), in relation to the entering into of the Financial Services Agreement between the Company and Datang Finance.

* For identification purpose only

LETTER FROM THE BOARD

Reference is also made to the announcement of the Company dated 15 October 2019, in relation to the domestic issuance of corporate bonds by the Company.

Details of relevant continuing connected transactions and major transaction (including annual caps) and domestic issuance of corporate bonds are set out in this supplemental circular.

This supplemental circular (the “**Supplemental Circular**”) shall be read in conjunction with the circular of the Company dated 2 September 2019 (the “**Original Circular**”). Unless the context otherwise requires, the terms used in the Supplemental Circular shall have the same meaning as those defined in the Original Circular.

The purposes of this Supplemental Circular are to provide you with, among other things: (i) further details of Financial Services Agreement and the proposed annual caps; (ii) further details of domestic issuance of corporate bonds; (iii) a letter of recommendation from the Independent Board Committee in relation to the matters set out in (i); (iv) the letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders in relation to the matters set out in (i); and (v) other information as required under the Listing Rules.

II. FINANCIAL SERVICES AGREEMENT

Reference is made to the announcement of the Company dated 15 October 2019. The Company and Datang Finance entered into a Financial Services Agreement on the same date, with a term commencing from 1 January 2020 and ending on 31 December 2021. Deposit Services contemplated under the Financial Services Agreement constitute continuing connected transactions and a major transaction of the Company and are subject to the reporting, annual review, announcement and/or Independent Shareholders’ approval requirements under Chapter 14 and Chapter 14A of the Listing Rules, where applicable.

(1) The major contents of the continuing connected transactions

Service Provider:	Datang Finance
Service Recipient:	The Group
Date:	15 October 2019
Term:	From 1 January 2020 to 31 December 2021

LETTER FROM THE BOARD

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, bill acceptances and discounting 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:

- i. Loan services;
- ii. Deposit Services; and
- iii. Other financial services.

Pricing Policy:

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

- i. Loan services – within the floating interval for the deposit and loan interests rates published by the PBOC and by reference to the benchmark interest rates published by the PBOC, the interest rate for loans granted to the Group by Datang Finance shall not be higher than the equivalent loan interest rate as charged by other financial institutions in the PRC;

LETTER FROM THE BOARD

- ii. Deposit Services – within the floating interval for the deposit and loan interests rates published by the PBOC and by reference to the benchmark interest rates published by the PBOC, the interest rate for the Group's deposits with Datang Finance shall not be lower than the equivalent deposit interest rate as provided by other financial institutions in the PRC; and
- iii. Other financial services – the fees charged by Datang Finance for the provision of the other financial services to the Group shall not be higher than the rate charged by the other financial institutions in the PRC for the same or similar type of services.

(2) Capital risk control measures

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

- i. 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;
- ii. 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 of the CBIRC; and
- iii. 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.

LETTER FROM THE BOARD

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 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 or loan interest rate as published by PBOC.

For the Deposit Services, in the event that the Company notes the then negotiated savings interest rate as announced by PBOC is less than the then savings interest rate as published by PBOC or the then savings interest rate as offered by other independent financial institutions in the PRC, the Company will enter into a supplemental 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 PBOC or offered by any other independent financial institution 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 PBOC or offered by any other independent financial institution 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 Financial Services Agreement, in the event that the Company notes that the actual loan interest rate of such loan services is higher than the then loan interest rate as announced by PBOC or charged by any other independent financial institution 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 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 the outstanding daily balance of the deposits placed with Datang Finance to avoid exceeding the Proposed Caps for the Deposit Services.

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Before making any loan, the finance department of the Company will check with Datang Finance to ensure that no security over the assets of the Group will be granted in respect of the loan services provided by Datang Finance to the Group under the 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 the continuing connected transactions. Such report principally covers (1) deposit balance and loan balance as of the end of the previous month; (2) new deposit and loan interest of the previous month; (3) plans and use of the deposit of this month; (4) loan repayment of principal and interest of this month and the source of funds; and
- iv. The independent non-executive Directors and the Company's auditors will review annually the enforcement of relevant continuing connected transactions under the 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 Financial Services Agreement, on normal commercial terms and are in the interest of the Company and the Shareholders as a whole.

The Directors (excluding the Directors who are required to abstain, 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.

LETTER FROM THE BOARD

(3) Proposed 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 favourable 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 Caps for 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 2020 and 2021 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 RMB1,543.74 million as of 30 June 2019;
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 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 and bills receivables of the Group amounted to RMB8,424.93 million as of 30 June 2019. The balance of deposit may also experience significant increase within a short term and will be close to the Proposed Cap for the Deposit Services of RMB4,000 million if the Group recovers a large amount of trade and bills receivables within a short term and places the receivables into the Group's deposit account opened at Datang Finance.

LETTER FROM THE BOARD

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 the 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 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 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.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF ENTERING INTO THE 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 among 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 operations 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 default risk and liquidity the risks 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 mitigate 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) believe that relevant continuing connected transactions under the Financial Services Agreement and the Proposed Caps are fair and reasonable.

LISTING RULES IMPLICATIONS

As China Datang directly held approximately 78.17% of the issued share capital of the Company as at the Latest Practicable Date, 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 Financial Services Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under the Listing Rules.

LETTER FROM THE BOARD

Moreover, as one or more of the applicable percentage ratio(s) (as defined in Rule 14.07 of the Listing Rules) of the Proposed Cap for the Deposit Services exceed 25% but less than 100%, the Deposit Services to be provided under the Financial Services Agreement also constitute a major transaction of the Company under Chapter 14 of 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 favourable 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 are 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.

Moreover, as one or more of the applicable percentage ratio of the Proposed Caps for the Deposit Services exceed 25% but less than 100%, the Deposit Services to be provided under the Financial Services Agreement also constitute the major transactions 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 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 Financial Services Agreement exceeds the *de minimis* threshold stipulated in Rule 14A.76 of the Listing Rules.

LETTER FROM THE BOARD

GENERAL INFORMATION ON THE PARTIES

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 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 realising 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 members 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.

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 and Datang Finance. China Datang is primarily engaged in the development, investment, construction, operation and management of power energy; organisation 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.

LETTER FROM THE BOARD

OPINIONS OF THE DIRECTORS

Mr. Jin Yaohua, Mr. Liu Chuandong, Mr. Liu Guangming and Mr. Li Yi of the Company, who hold positions with China Datang, have abstained from voting on the Financial Services Agreement and relevant continuing connected transactions at the Board meeting. Save as disclosed above, none of the Directors has any material interest in relevant continuing connected transactions.

The Directors (excluding the Directors who are required to abstain, but including the independent non-executive Directors) are of the view that the Financial Services Agreement and relevant continuing connected transactions are conducted in the ordinary and usual course of business of the Company on normal commercial terms; relevant continuing connected transactions and the Proposed Caps are fair and reasonable and are also in the interest of the Company and the Shareholders as a whole.

The Independent Board Committee has been formed by the Company to advise the Independent Shareholders in connection with the Deposit Services and the Proposed Caps for the Deposit Services. Your attention is drawn to the letter from the Independent Board Committee on pages 15 to 16 of this circular, which contains their opinion and recommendations in respect of the Deposit Services and the Proposed Caps for the Deposit Services.

Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the Deposit Services. Your attention is drawn to the letter from Gram Capital on pages 17 to 27 of this circular, which set out the advice and recommendations of Gram Capital to the Independent Board Committee and Independent Shareholders with respect to the Deposit Services and the Proposed Caps for the Deposit Services.

APPROVAL BY THE INDEPENDENT SHAREHOLDERS

In view of the interests of China Datang, which directly held approximately 78.17% of the issued share capital of the Company as at the Latest Practicable Date and thus is a connected person of the Company, in the continuing connected transactions, China Datang and its associates (including China Datang Group Capital Holding Co., Ltd. (中國大唐集團資本控股有限公司)) are required to abstain from voting on the resolution to be proposed at the EGM to approve the Deposit Services. As at the date of this circular, to the best knowledge, information and belief of the Directors, save as disclosed in this circular, no other Shareholders will be required to abstain from voting in respect of the relevant resolutions.

LETTER FROM THE BOARD

III. DOMESTIC ISSUANCE OF CORPORATE BONDS

The Board announces that in order to expand financing channels and to satisfy capital requirements, the Company intends to carry out domestic issue corporate bonds. In accordance with the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China and other relevant regulations, the specific plan is set out as below:

1. Issuance type: corporate bonds (including green corporate bonds);
2. Issuance size: no more than RMB2,000 million in total and not exceeding 40% of net asset of the Company;
3. Issuance period: shall not exceed 10 years;
4. Use of proceeds: proceeds raised will be used to, including but not limited to, replenish the working capital of the Company, repay debts, adjust debt structure and invest in projects;
5. Interest rate of issuance: fixed interest rate is determined based on the result of the issuance, with interest paid annually, without compound interest.

The following will be submitted to the EGM for consideration and approval:

1. to approve the issuance of corporate bonds (including green corporate bonds) of no more than RMB2,000 million in total and not exceeding 40% of net asset of the Company within 24 months after the date of approval by the general meeting;
2. to authorise the Board, which then sub-authorise the senior management of the Company, to determine the specific use of proceeds within the aforesaid scope based on the Company's capital requirements by the general meeting; and
3. to authorise the Board, which then sub-authorise the senior management of the Company, to deal with the matters related to this issuance.

LETTER FROM THE BOARD

IV. THE EGM

The date of the EGM is rescheduled to be convened at 10:00 a.m. on Wednesday, 30 October 2019 (instead of 4:00 p.m. on Friday, 18 October 2019).

Please refer to the Original Circular and the notice of the EGM of the Company dated 2 September 2019 for details of other resolutions to be considered at the EGM, qualification for attendance of the EGM, registration procedures, closure of register of members, voting and other related matters.

In accordance with the Listing Rules, any connected person or Shareholder and its associates with a material interest in the Financial Services Agreement and the Transactions must abstain from voting on the resolutions to approve the Deposit Services under the Financial Services Agreement (including the Proposed Caps) at the EGM.

China Datang and its associates are required to abstain from voting on the relevant resolutions in respect of the Deposit Services under the Financial Services Agreement (including the Proposed Caps) to be proposed at the EGM, and no other Shareholders are required to abstain from voting on the ordinary resolutions in relation to the Deposit Services under the Financial Services Agreement (including the Proposed Caps) to be proposed at the EGM.

V. RECOMMENDATION

The Board (excluding the Directors who are required to abstain, but including independent non-executive Directors) recommends the Independent Shareholders to vote in favour of all resolutions set out in the supplemental notice of the EGM as it is in the interests of the Company and the Shareholders as a whole.

Yours faithfully,

By order of the Board

Datang Environment Industry Group Co., Ltd.*

Jin Yaohua

Chairman

* *For identification purpose only*



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)

16 October 2019

To the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS –
DEPOSIT SERVICES UNDER THE FINANCIAL SERVICES AGREEMENT**

We refer to the supplemental circular issued by the Company to the Shareholders dated 16 October 2019 (the “**Supplemental Circular**”) of which this letter forms part. Terms defined in the Supplemental Circular shall have the same meaning in this letter unless the context otherwise requires.

Under the Listing Rules, the Transactions (including Deposit Services) constitute continuing connected transactions for the Company, among which, Deposit Services under the Financial Services Agreement are subject to the approval of the Independent Shareholders at the EGM.

We have been appointed by the Board as the members of the Independent Board Committee to advise the Independent Shareholders as to whether, in our opinion, the terms of Deposit Services under the Financial Services Agreement and the Proposed Caps are fair and reasonable so far as the Independent Shareholders are concerned. Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the fairness and reasonableness of the terms of Deposit Services under the Financial Services Agreement and the Proposed Caps. Details of its advice, together with the principal factors taken into consideration in arriving at such, are set out in its letter set out on pages 17 to 27 of the Supplemental Circular.

* For identification purpose only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We wish to draw your attention to the Letter from the Board and the Letter from Gram Capital as set out in the Supplemental Circular. Having considered the terms of Deposit Services under the Financial Services Agreement and the Proposed Caps, and taken into account the advice of Gram Capital, we consider that the Deposit Services under the Financial Services Agreement are in the ordinary and usual course of business of the Group and the Financial Services Agreement have been negotiated on an arm's length basis and on normal commercial terms and that the terms of Deposit Services under the Financial Services Agreement and the Proposed Caps are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Financial Services Agreement and the Transactions (including the terms of Deposit Services under the Financial Services Agreement) and the Proposed Caps.

Yours faithfully,

for and on behalf of

Independent Board Committee

Datang Environment Industry Group Co., Ltd.*

Mr. Ye Xiang

Independent non-executive

Director

Mr. Mao Zhuanjian

Independent non-executive

Director

Mr. Gao Jiaxiang

Independent non-executive

Director

* *For identification purpose only*

LETTER FROM GRAM CAPITAL

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Deposit Services contemplated under the Financial Services Agreement for the purpose of inclusion in this circular.



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

16 October 2019

*To: The independent board committee and the independent shareholders
of Datang Environment Industry Group Co., Ltd.**

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTION

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the deposit services contemplated under the Financial Services Agreement (the “**Deposit Services**”), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the supplemental circular dated 16 October 2019 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 15 October 2019, the Company and Datang Finance entered into the Financial Services Agreement with a term commencing from 1 January 2020 and ending on 31 December 2021.

With reference to the Board Letter, the Deposit Services contemplated under the Financial Services Agreement constitute continuing connected transactions and a major transaction of the Company and are subject to the reporting, annual review, announcement and/or Independent Shareholders’ approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

LETTER FROM GRAM CAPITAL

The Independent Board Committee comprising Mr. Ye Xiang, Mr. Mao Zhuanjian and Mr. Gao Jiaxiang (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Deposit Services are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Deposit Services are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution to approve the Deposit Services at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

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

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

LETTER FROM GRAM CAPITAL

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Datang Finance and each of their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Deposit Services. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. If there are any material changes before EGM, Shareholders will be notified as soon as possible. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Deposit Services, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for the Deposit Services

Information on the Group

With reference to the Board Letter, 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 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.

LETTER FROM GRAM CAPITAL

Set out below are the financial information of the Group for the two years ended 31 December 2018 and the six months ended 30 June 2019 as extracted from the Company's annual report for the year ended 31 December 2018 (the “**2018 Annual Report**”) and the Company's interim report for the six months ended 30 June 2019 (the “**2019 Interim Report**”) respectively:

	For the six months ended 30 June 2019 (unaudited) RMB'000	For the year ended 31 December 2018 (audited) RMB'000	For the year ended 31 December 2017 (audited) RMB'000	Change from FY2017 to FY2018 %
Revenue	2,418,489	8,588,070	8,024,494	7.02
Gross profit	511,932	1,349,957	1,599,730	(15.61)
Profit for the year/period	91,277	783,223	914,912	(14.39)

As illustrated in the above table, the Group's revenue amounted to approximately RMB8.59 billion for the year ended 31 December 2018 (“**FY2018**”), representing an increase of approximately 7.02% as compared to that for the year ended 31 December 2017 (“**FY2017**”). With reference to the 2018 Annual Report, the aforesaid increase in the Group's revenue was primarily due to that the Group undertook the thermal power engineering business in 2018 and is actively pursuing market expansion in the non-electrical field. Despite the increase in the Group's revenue, the Group's profit for FY2018 decreased by approximately 14.39% as compared to that for FY2017. With reference to the 2018 Annual Report and as confirmed by the Directors, the aforesaid decrease in the Group's profit was mainly due to (i) decrease in gross profit; and (ii) impairment losses on financial and contract assets.

With reference to the 2019 Interim Report, encountering complexity of and constant changes in the industry and development environment, the Group will focus on four aspects: (i) continuing promoting high quality development and further advancing the profitability; (ii) taking full advantage of the “Double Hundred Actions” of reform to strengthen reform and innovation of system and mechanism; (iii) adhering to the strategy of “going out” to explore the external market of China Datang Group; and (iv) adhering to technology and innovation-driven development to further improve technical output capacity.

LETTER FROM GRAM CAPITAL

Information on Datang Finance

With reference to the Board Letter, Datang Finance has been duly 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 realising 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 members 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.

Reasons for and benefits of the Deposit Services

With reference to the Board Letter, the Directors are of the view that the Deposit Services are beneficial to the Group and the Group can earn interests or enjoy benefits through the Deposit Services at the terms not less favourable to independent third parties. Furthermore, due to the long-term relationship among the Group, China Datang and China Datang Group, the 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 operations 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.

As advised by the Directors, Datang Finance is required to operate in compliance with 《企業集團財務公司管理辦法》(Measures for the Administration of the Finance Companies of Enterprise Groups*) (the “**Measures**”) promulgated and revised by CBIRC to standardize the activities of the finance companies of enterprise groups, to prevent financial risk, and to facilitate the stable and sound operation and healthy development of finance companies. We noted that the Measures set out certain supervision, administration and risk control requirements/measures in relation to the operation of finance companies of enterprise groups.

LETTER FROM GRAM CAPITAL

According to the Measures, when applying to set up a finance company, the board of directors of the parent company shall give a written undertaking that the parent company will increase capital as appropriate in line with actual need of the finance company if the finance company is in a critical situation of making payment. We noted from Datang Finance's articles of association that should Datang Finance be in a critical situation of making payment, China Datang will increase capital as appropriate in line with actual need. In addition, Datang Finance undertakes to take certain measures to control capital risks (the "**Undertaking**"). Details of the Undertaking are set out in the section headed "(2) Capital risk control measures" of the Board Letter.

Having considered the above, we concur with the Directors that the Deposit Services are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group.

2. Principal terms of the Deposit Services

Date: 15 October 2019

Service recipient: The Group

Service provider: Datang Finance

Nature of transaction: The services to be provided by Datang Finance to the Group include loan services, the Deposit Services, and other financial services. 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 monitor 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.

LETTER FROM GRAM CAPITAL

Pricing policy: Within the floating interval for the deposit and loan interests rates published by the PBOC and by reference to the benchmark interest rates published by the PBOC, the interest rate for the Group's deposits with Datang Finance shall not be lower than the equivalent deposit interest rate as provided by other financial institutions in the PRC.

Term: From 1 January 2020 to 31 December 2021

We understand that the Group adopted a series of internal control and risk management measures (the “**Internal Control Measures**”) to mitigate the financial risks which may be exposed to the Company under the Financial Services Agreement, details of which is set out under the section headed “(2) Capital risk control measures” of the Board Letter. We consider that the effective implementation of the Internal Control Measures would help to ensure compliance with the pricing policy of the Deposit Services as set out above.

As advised by the Directors, the Company entered into a deposit contract with Datang Finance in 2011, which is still in effect. For our due diligence purpose, we obtained and noticed from such contract that in the any agreement deposit placed by the Company with Datang Finance exceeding RMB100,000 will be entitled to an interest rate as published by the PBOC on the interest settlement date.

We noted that interest rate for RMB agreement deposit as published by the PBOC has been 1.15% per annum since 24 October 2015, which is higher the prevailing agreement deposit interest rates offered by Agricultural Bank Of China Limited (stock code: 1288), Bank of China Limited (stock code: 3988), China Construction Bank Corporation (stock code: 939) and Industrial and Commercial Bank of China Limited (stock code: 1398) (being four major banks in the PRC).

With reference to the 2018 Annual Report and as confirmed by the Directors, the independent non-executive Directors have reviewed, among other things, the Deposit Services for FY2018 and confirmed that (i) the transactions and proposed annual caps have been generated during the Group's ordinary and usual course of business on normal commercial terms (or more favorable than normal commercial terms available for the Group); (ii) the terms of such transactions are fair and reasonable, and are in the interests of the Company and its Shareholders as a whole.

LETTER FROM GRAM CAPITAL

With reference to the 2018 Annual Report and as confirmed by the Directors, the Company's auditor was engaged by the Board to report on, among other things, the Deposit Services. Based on its work, the auditor provided the Board with a letter confirming that, with respect to, among other things, the Deposit Services: (i) nothing has come to the their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Board; (ii) nothing has come to the their attention that causes the them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and (iii) with respect to the aggregate amount of the continuing connected transactions, nothing has come to the their attention that causes the auditor to believe that the disclosed continuing connected transactions have exceeded the annual cap of the above disclosed continuing connected transactions set by the Company.

Having considered the above, we concur with the Directors that the terms of the Deposit Services are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

3. The proposed annual caps

The table below set out are (i) the historical maximum daily deposit balance (including any interest accrued therefrom) and the existing annual caps of the Deposit Services for the three years ending 31 December 2019; and (ii) the proposed annual caps of the Deposit Services (the “**Proposed Deposit Caps**”) for the two years ending 31 December 2021:

	For the year ended 31 December 2017 <i>(in RMB'million)</i>	For the year ended 31 December 2018 <i>(in RMB'million)</i>	For the year ending 31 December 2019 <i>(in RMB'million)</i>
Historical maximum daily balances of the deposits (including any interest accrued therefrom)	782.2	1,444.6	1,444.2
Existing annual caps	4,000.0	4,000.0	4,000.0
	For the year ending 31 December 2020 <i>(in RMB'million)</i>	For the year ending 31 December 2021 <i>(in RMB'million)</i>	
Proposed Deposit Caps	4,000.0	4,000.0	

Note: The figure was recorded during the six months ended 30 June 2019.

LETTER FROM GRAM CAPITAL

With reference to the Board Letter, the Company estimates that the Proposed Deposit Caps for the maximum daily deposit balance (including any interest accrued therefrom) with Datang Finance for each of the years ending 31 December 2020 and 2021 to be RMB4,000 million, after taking into account of the following factors:

1. the balance of cash and cash equivalents of the Group amounted to RMB1,543.74 million as of 30 June 2019;
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 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 and bills receivables of the Group amounted to RMB8,424.93 million as of 30 June 2019. The balance of deposit may also experience significant increase within a short term and will be close to the Proposed Cap for the Deposit Services of RMB4,000 million if the Group recovers a large amount of trade and bills receivables within a short term and places the receivables into the Group's deposit account opened at Datang Finance.

To assess the fairness and reasonableness of the Proposed Deposit Caps, we discussed with the Company's management regarding the basis of determination of the maximum daily balance of the deposits to be placed by the Group with Datang Finance for the two years ending 31 December 2021 as aforementioned.

We noted that the utilisation rates of the existing annual caps for FY2017 and FY2018 reached only approximately 19.56% and 36.12% respectively. As advised by the Directors, the low utilization rates for FY2017 and FY2018 were mainly due to the fact that the high coal price caused the decline in the operating results of domestic coal-fired power companies (i.e. the Group's customers), which in turn prolonged the collection of trade and bills receivables by the Group and therefore resulted in decrease in the Group's net cash flows from operating activities for FY2017 and FY2018. The Group plans to adopt various measures, including accelerating settlement process of EPC projects (i.e. engineering, procurement and construction projects) and legal proceedings, to collect receivables in order to improve operating cash flow.

We noticed from the 2019 Interim Report that as at 30 June 2019, the Group recorded (i) cash and cash equivalents of approximately RMB1,543.74 million; and (ii) trade and bills receivable of approximately RMB8,424.93 million, which are consistent with the aforesaid basis of the Proposed Deposit Caps.

LETTER FROM GRAM CAPITAL

We also noticed from the Company's announcement dated 15 November 2018 that the Company intended to apply to National Association of Financial Market Institutional Investors for registration and issuance of ultra short-term financing bonds, short-term commercial paper and medium term note. We also noticed from the Debt Capital Market Filing Analysis Notification System (非金融企業債務融資工具註冊信息系統) of the PRC that the registration of the issuance of ultra short-term financing bonds up to RMB3,000 million was completed and the final proof of the Company's prospectus for such issuance was published on 9 September 2019.

Having considered the above factors and our observations, we consider that the Proposed Deposit Caps to be fair and reasonable.

4. Listing Rules implication

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Listing Rules pursuant to which (i) the maximum value of the Deposit Services must be restricted by the Proposed Deposit Caps for the two years ending 31 December 2021; (ii) the terms of the Deposit Services must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the Deposit Services must be included in the Company's subsequent published annual reports and financial accounts. Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that the Deposit Services (i) have not been approved by the Board; (ii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iii) have exceeded the Proposed Deposit Caps. In the event that the maximum amount of the Deposit Services are anticipated to exceed the Proposed Deposit Caps, or that there is any proposed material amendment to the terms of the Financial Services Agreement, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Listing Rules governing continuing connected transaction.

With the stipulation of the above requirements for continuing connected transactions pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the Deposit Services and hence the interest of the Independent Shareholders would be safeguarded.

LETTER FROM GRAM CAPITAL

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Deposit Services are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Deposit Services are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Deposit Services and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

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

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three years ended 31 December 2016, 2017 and 2018 are disclosed in the 2018 annual report of the Company dated 29 April 2019. There was no qualified audit opinion expressed on the financial statements of the Group for the three years ended 31 December 2016, 2017 and 2018.

The said 2018 annual report of the Company is published on both the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (www.dteg.com.cn).

2. INDEBTEDNESS

The Group's borrowings amounted to RMB5,702 million, none of which was secured or guaranteed, as at 31 August 2019, being the latest practicable date for the purpose of the indebtedness statement prior to the printing of this circular. Save as disclosed above and apart from intra-group liabilities, the Group did not have any outstanding debt securities issued and outstanding or authorised or otherwise created but unissued, term loans, other borrowings or indebtedness in the nature of borrowing including bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits, material hire purchase commitments, mortgages and charges, material contingent liabilities and guarantees outstanding. The Directors confirm that there was no material change in the indebtedness of the Group since 31 August 2019 up to the date of this circular.

3. WORKING CAPITAL

Taking into account the financial resources available to the Group, including cash and cash equivalents, cash generated from operations and unutilised financial facilities, the Directors are of the view that, the Group will have sufficient working capital for its present requirements, which is for at least 12 months from the date of this circular, in the absence of unforeseeable circumstances.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group plans to focus on the four aspects in the next stage of development:

First, we will unswervingly strive for high quality development. Currently, the Group is experiencing a period of development transformation, from a stage of rapid development into a stage of high quality development. Such transformation meets the general outlook of national reform and development as well as industry development trend. For us, we should take an efficiency-oriented approach and improve our core competitiveness through hard work while striving for high quality development. That is to say, we should, with the attitude of being responsible for clients, improve our management capability and service standard in all aspects including safety, quality, construction period, reputation and customer satisfaction with service. In respect of concession operation

business, we will further improve intensive management level as well as value contribution to power generation enterprises and service guarantee efficiency, in order to maintain its dominant position in the industry in terms of key production indicators. In respect of denitrification catalysts business, we will accelerate upgrading and updating of products and improve product performance and quality, in order to meet international leading standard. In respect of environmental protection facility business, we will build a standard project management system, develop a high quality core project management team that is competent in, skilled at and capable of management, in order to further enhance profitability.

Second, we will channel every effort to explore in various markets. The Group will continue to develop existing business in potential electric power environmental protection market, and intensively explore non-electric power environmental protection market, facilitate sound development of enterprises, and continue to make great effort to develop international businesses by taking the opportunity of the “Belt and Road”. Currently, the Group is coping with difficulties in market development, and the cause lies in insufficient core competitiveness, poor analysis on market condition and insufficient technological upgrade and reserve. In the future, industry segments of the Group will, in the light of their actual conditions, focus on target markets and main directions, accelerate business transformation and upgrading, and establish new competitive advantages. The Company will focus on priorities during development as well as project profitability and risk prevention and control, improve screening of projects and tracking management of key businesses and projects, in an effort to achieve market breakthroughs in key areas.

Third, we will deepen the reform of institutional mechanisms in all aspects. The Group will deepen the reform of institutional mechanisms in all aspects by focusing on two core corporate positions of “technology” and “environmental protection” as well as corporate development perspectives. Next, the Group will, by taking the opportunity of “Double Hundred Actions”, further optimize organization, and build a market-oriented operation mechanism. Business segments will continue to “focus on major businesses, and highlight speciality” and further reinforce its major businesses. Meanwhile, we will continue to advance work on business management and market development, properly integrate reform and development by making overall arrangement, so as to enjoy the benefits brought by the reform.

Fourth, we will continue to improve technological innovation. Over recent years, the Company has developed and introduced a number of high quality and highly educated technical talents by building post-doctoral research centers. The Company continued to increase investment in technology development, but was subject to poor performance in transferring research achievements into productivity and lacking of core technologies with market competitiveness in areas other than air pollution control. Next, the Company will increase its efforts in developing industrializable technology and absorb and innovate on existing technologies through both introduction and independent R&D, to accelerate completion of technology reserve. The Company will focus on the research on manufacture of products relating to environmental protection industry and facilitate the

development of emerging markets. The Company will fully utilize its brand advantage as a central enterprise to promote cooperation with domestic and international scientific research institutions and colleges and universities, improve research on cutting-edge technologies and transformation of research achievements, and control the commanding height of the industry.

Looking forward, the Group will unswervingly strive for high quality development, make every effort to advance each task, continue to provide clients with quality and efficient package of environmental protection solutions, and make arduous efforts to develop the Group into a world-class technology-based environmental protection enterprise!

5. EFFECT OF THE DEPOSIT SERVICES ON THE EARNINGS AND ASSETS AND LIABILITIES OF THE GROUP

The Group expects that the Deposit Services under the Financial Services Agreement will not have any material effect on its earnings, assets or liabilities.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS AND CONFIRMATIONS

- (1) as at the Latest Practicable Date, none of the Directors, Supervisors or senior management of the Company had any interest or short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO), which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provision of the SFO); or are required pursuant to section 352 of the SFO to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers;
- (2) the Company has not granted its Directors, Supervisors, senior management of the Company or their respective spouses or children below 18 any rights to subscribe for its equity securities or debt securities;
- (3) as at the Latest Practicable Date, three Directors held the following positions with China Datang: (a) Mr. Jin Yaohua served as the deputy general manager of China Datang; (b) Mr. Liu Guangming served as the chief economist of China Datang and executive director and general manager of China Datang Corporation Renewable Power Co., Ltd.; (c) Mr. Li Yi served as the general manager of the renewable power business department of China Datang. Save as disclosed above, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group since 31 December 2018, being the date to which the latest published audited annual financial statements of the Company were made up, and which was subsisting as at the Latest Practicable Date and significant in relation to the business of the Group;
- (4) none of the Directors had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group, since 31 December 2018, being the date to which the latest published audited annual financial statements of the Company were made up;

- (5) save as disclosed in the section “Interests of Directors in Competing Business” of Appendix II to this Supplemental Circular, none of the Directors or, so far as is known to them, any of their respective associates was interested in any business (apart from the Group’s business) which competes or is likely to compete either directly or indirectly with the Group’s business (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a controlling shareholder);
- (6) The Directors are not aware of any material adverse change in the financial or trading positions of the Company since 31 December 2018, the date to which the latest published audited annual financial statements of the Company were made up;
- (7) none of the Directors had entered into any service contract with the Company or any member of the Group (excluding contracts expiring or terminable by the employer within one year without payment of compensation (other than statutory compensation)); and
- (8) the Board confirms that, after making all reasonable enquires and to the best of their knowledge, information and belief, there are no voting trust or other agreement or arrangement or understanding (other than an outright sale) entered into by or binding upon any Shareholders, or any obligation or entitlement of any Shareholders as at the Latest Practicable Date, whereby such Shareholders have or may have temporarily or permanently passed control over the exercise of the voting right in respect of his Shares, either generally or on a case-by-case basis.

3. INTERESTS OF DIRECTORS IN COMPETING BUSINESS

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

4. SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS HOLDING DISCLOSEABLE INTERESTS IN THE COMPANY

As at the Latest Practicable Date, to the best of the Directors' knowledge, having made all reasonable enquiries, the following persons (other than the Directors, Supervisors or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and, which were entered in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholders	Class of Shares	Capacity	Number of Shares/ underlying Shares directly or indirectly held (Shares)	Percentage in the relevant class of Share capital ⁽¹⁾ (%)	Percentage in the total Share capital ⁽²⁾ (%)
China Datang	Domestic Shares	Beneficial owner	2,343,245,800 (Long position)	100	78.96
Anbang Investment Holdings Co., Limited (安邦投資控股有限公司) ⁽³⁾	H Shares	Beneficial owner	120,540,000 (Long position)	19.31	4.06
Anbang Group Holdings Co., Limited (安邦集團控股有限公司) ⁽³⁾	H Shares	Interest in controlled corporation	120,540,000 (Long position)	19.31	4.06
Anbang Life Insurance Co., Ltd. (安邦人壽保險股份有限公司) ⁽³⁾	H Shares	Interest in controlled corporation	120,540,000 (Long position)	19.31	4.06
Anbang Insurance Group Co., Ltd. (安邦保險集團股份有限公司) ⁽³⁾	H Shares	Interest in controlled corporation	120,540,000 (Long position)	19.31	4.06
China Chengtong Investment Company Limited ⁽⁴⁾	H Shares	Beneficial owner	61,557,000 (Long position)	9.86	2.07
China Chengtong Holdings Group Ltd. ⁽⁴⁾	H Shares	Interest in controlled corporation	61,557,000 (Long position)	9.86	2.07
China Energy Engineering Corporation Limited (中國能源建設集團有限公司)	H Shares	Beneficial owner	61,557,000 (Long position)	9.86	2.07
State Grid International Development Limited (國家電網國際發展有限公司) ⁽⁵⁾	H Shares	Beneficial owner	61,467,000 (Long position)	9.85	2.07
State Grid Corporation of China (國家電網公司) ⁽⁵⁾	H Shares	Interest in controlled corporation	61,467,000 (Long position)	9.85	2.07
Three Gorges Capital Holdings Co., Ltd. (三峽資本控股有限責任公司) ⁽⁶⁾	H Shares	Beneficial owner	59,506,000 (Long position)	9.53	2.01
China Three Gorges Corporation (中國長江三峽集團公司) ⁽⁶⁾	H Shares	Interest in controlled corporation	59,506,000 (Long position)	9.53	2.01

Name of Shareholders	Class of Shares	Capacity	Number of Shares/	Percentage in	Percentage in
			underlying Shares directly or indirectly held (Shares)	the relevant class of Share capital ⁽¹⁾ (%)	
China Huaneng Group Hong Kong Limited (中國華能集團香港有限公司) ⁽⁷⁾	H Shares	Beneficial owner	49,002,000 (Long position)	7.85	1.65
China Huaneng Group (中國華能集團公司) ⁽⁷⁾	H Shares	Interest in controlled corporation	49,002,000 (Long position)	7.85	1.65
China Huadian Hong Kong Limited (中國華電香港有限公司) ⁽⁸⁾	H Shares	Beneficial owner	48,628,000 (Long position)	7.79	1.64
China Huadian Corporation (中國華電集團公司) ⁽⁸⁾	H Shares	Interest in controlled corporation	48,628,000 (Long position)	7.79	1.64
Taiping General Insurance Co., Ltd. (太平財產保險有限公司) ⁽⁹⁾	H Shares	Beneficial owner	41,038,000 (Long position)	6.57	1.38
China Taiping Insurance Holdings Company Limited (中國太平保險控股有限公司) ⁽⁹⁾	H Shares	Interest in controlled corporation	41,038,000 (Long position)	6.57	1.38
China Taiping Insurance (HK) Company Limited (中國太平保險集團(香港)有限公司) ⁽⁹⁾	H Shares	Interest in controlled corporation	41,038,000 (Long position)	6.57	1.38
China Taiping Insurance Group Ltd. (中國太平保險集團有限責任公司) ⁽⁹⁾	H Shares	Interest in controlled corporation	41,038,000 (Long position)	6.57	1.38
China Life Franklin Asset Management Co., Limited (中國人壽富蘭克林資產管 理有限公司) ⁽¹⁰⁾	H Shares	Beneficial owner	41,038,000 (Long position)	6.57	1.38
China Life Asset Management Company Limited (中國人壽資產管理有限公司) ⁽¹⁰⁾	H Shares	Interest in controlled corporation	41,038,000 (Long position)	6.57	1.38
China Life Insurance Company Limited (中國人壽保險股份有限公司) ⁽¹⁰⁾	H Shares	Beneficial owner	20,519,000 (Long position)	3.29	0.69
		Interest in controlled corporation	41,038,000 (Long position)	6.57	1.38
China Life Insurance (Group) Company 中國人壽保險(集團)公司 ⁽¹⁰⁾	H Shares	Beneficial owner	41,038,000 (Long position)	6.57	1.38
		Interest in controlled corporation	20,519,000 (Long position)	3.29	0.69
		Interest in controlled corporation	41,038,000 (Long position)	6.57	1.38

Notes:

- (1) The calculation is based on the percentage of shareholding in a total of 2,343,245,800 Domestic Shares and a total of 624,296,200 H Shares respectively as at the Latest Practicable Date.
- (2) The calculation is based on the percentage of shareholding in a total of 2,967,542,000 Shares as at the Latest Practicable Date.
- (3) Anbang Investment Holdings Co., Limited is a wholly-owned subsidiary of Anbang Group Holdings Co., Limited. Anbang Group Holdings Co., Limited is a wholly-owned subsidiary of Anbang Life Insurance Co., Ltd., which is wholly-owned by Anbang Insurance Group Co., Ltd..
- (4) China Chengtong Investment Company Limited is a wholly-owned subsidiary of China Chengtong Holdings Group Ltd..
- (5) State Grid International Development Limited is a wholly-owned subsidiary of State Grid Corporation of China.
- (6) Three Gorges Capital Holdings Co., Ltd. is the wholly-owned subsidiary of China Three Gorges Corporation.
- (7) China Huaneng Group Hong Kong Limited is a wholly-owned subsidiary of China Huaneng Group.
- (8) China Huadian Hong Kong Company Limited is a wholly-owned subsidiary of China Huadian Corporation.
- (9) Taiping General Insurance Co., Ltd. is a subsidiary of China Taiping Insurance Holdings Company Limited. China Taiping Insurance Holdings Company Limited is a subsidiary of China Taiping Insurance (HK) Company Limited, which is a wholly-owned subsidiary of China Taiping Insurance Group Ltd..
- (10) China Life Asset Management Company Limited is a controlling shareholder of China Life Franklin Asset Management Co., Limited. China Life Asset Management Company Limited is a subsidiary of China Life Insurance Company Limited, which is controlled by China Life Insurance (Group) Company.

Save as disclosed above, as at the Latest Practicable Date, to the best knowledge of the Directors, the Directors were not aware of any persons who had interests and/or short positions in the Shares or underlying Shares which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and which were entered in the register required to be kept by the Company pursuant to section 336 of the SFO.

5. MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business of the Group, were entered into by the Company or its subsidiaries during the period commencing two years preceding the date of this circular which are or may be material:

- (1) The Company entered into the Equity Transfer Agreement with the China Datang Technologies & Engineering Co., Ltd. (中國大唐集團科技工程有限公司) on 18 December 2017, pursuant to which the Company has agreed to acquire and China Datang Technologies & Engineering Co., Ltd. has agreed to transfer the 80% of the equity interests of Beijing Datang Hengtong Mechanical Transport Co., Ltd. (北京大唐恒通機械輸送技術有限公司) held by it to the Company at a consideration of RMB14,606,630.56;
- (2) On 12 March 2018, the Company entered into the supplemental agreement with China Datang to revise certain terms of the Integrated Product and Service Framework Agreement, pursuant to which the Company proposes to provide China Datang with product and service in relation to thermal power plant contracting business, with a revised annual cap of RMB1,200 million for 2018;
- (3) The Company entered into the Financial Services Agreement with China Datang Group Capital Holding Co., Ltd. (中國大唐集團資本控股有限公司) on 14 June 2018, pursuant to which China Datang Group Capital Holding Co., Ltd. agreed to provide the Company with financial leasing and commercial factoring service from the date of agreement until 31 December 2020;
- (4) The Company entered into the Renewed Integrated Product and Service Framework Agreement with China Datang on 15 November 2018, pursuant to which (i) the Group provides China Datang Group with products and services including environmental protection and energy conservation business, renewable energy engineering, thermal power engineering and other services; and (ii) the products and services procured by the Group from China Datang Group include operational ancillary business, supply of water, electricity and steam, procurement of equipment and raw materials, technology and information service and other products and services, with a term effective from 1 January 2019 and expiring on 31 December 2021; and
- (5) 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, on 15 November 2018, the Company discussed with China Datang and determined on the proposed annual caps, being RMB100 million, of the transactions under such agreement for 2019 to 2021.

6. QUALIFICATION EXPERT AND CONSENT

The following are the qualifications of the expert who has provided opinions or advice contained in this Supplemental Circular:

Name	Qualification
Gram Capital Limited	A corporation licensed to conduct Type 6 (advising on corporate finance) regulated activity under the SFO

- (1) As at the Latest Practicable Date, the expert listed above did not hold any beneficial interest in the share capital of any member of the Group, nor did it have the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (2) The expert listed above has given and has not withdrawn its written consent to the issue of this Supplemental Circular with inclusion of its letter (as the case may be) and the reference to its name included herein in the form and context in which they currently appear.
- (3) As at the Latest Practicable Date, the expert listed above did not have any interest in any assets which have been, since 31 December 2018 (being the date to which the latest published audited annual accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.
- (4) The letter and recommendation given by Gram Capital are given as of the date of this Supplemental Circular for incorporation herein.

7. LITIGATION

As at the Latest Practicable Date, save as disclosed in this Supplemental Circular, no member of the Group was engaged in any litigation, arbitration or claim of material importance and, so far as the Directors are aware, no litigation, arbitration or claim of material importance was pending or threatened against any member of the Group.

8. OTHER INFORMATION

- (1) The joint company secretaries of the Company are Ms. Zhu Mei, who is the authorised representative of the Company, and Ms. Wong Sau Ping, who is a member of The Hong Kong Institute of Chartered Secretaries.

- (2) The registered office of the Company is No. 120 Zizhuyuan Road, Haidian District, Beijing, the PRC.
- (3) The head office of the Company in the PRC is No. 120 Zizhuyuan Road, Haidian District, Beijing, the PRC, and the principal place of business in Hong Kong is 31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong.
- (4) H Share Registrar of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.
- (5) The English text of this Supplemental Circular shall prevail over the Chinese text in the event of inconsistency.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hour at the Company’s principal place of business in Hong Kong at 31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong from the date of this Supplemental Circular up to and including 30 October 2019:

- (1) Articles of Association;
- (2) the letter from the Independent Board Committee, full text of which is set out on pages 15 to 16 of this Supplemental Circular;
- (3) the letter from Gram Capital, full text of which is set out on pages 17 to 27 of this Supplemental Circular;
- (4) the written consent of the expert referred to paragraph 6 of Appendix II;
- (5) this Supplemental Circular;
- (6) Financial Services Agreement; and
- (7) the material contracts referred to in the section headed “Material Contracts” in this Appendix II.