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If you have sold or transferred all your shares in Guodian Technology & Environment Group Corporation Limited*, you should at once hand this circular, together with the Proxy Form to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.



國電科技環保集團股份有限公司

GUODIAN TECHNOLOGY & ENVIRONMENT GROUP CORPORATION LIMITED*

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

(Stock code: 01296)

**MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTION
ENTERING INTO THE FINANCE SERVICES
FRAMEWORK AGREEMENT**

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



Gram Capital Limited
嘉林資本有限公司

The Company will convene the EGM at the Conference Room, 12th Floor, Building 1, Yard 16, W. 4th Ring Middle Road, Haidian District, Beijing, the PRC at 10 a.m. on Tuesday, 10 November 2020. The notice of the EGM, the form of proxy and the reply slip for the EGM have been despatched and published on 23 October 2020.

23 October 2020

* *For identification purposes only*

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DEFINITIONS

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

“Articles”	the articles of association of the Company, as amended from time to time
“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors of the Company
“CBIRC”	China Banking and Insurance Regulatory Commission
“China Energy”	China Energy Investment Corporation Limited (國家能源投資集團有限責任公司), a company incorporated in the PRC with limited liability, being the controlling shareholder of the Company
“China Energy Finance”	China Energy Finance Co., Ltd.* (國家能源集團財務有限公司), a limited company incorporated in the PRC
“Company”	Guodian Technology & Environment Group Corporation Limited* (國電科技環保集團股份有限公司), a joint stock limited liability company incorporated in the PRC, the H shares of which are listed on the Stock Exchange (stock code: 1296)
“connected person”	has the meaning ascribed to it under the Listing Rules
“connected transaction”	has the meaning ascribed to it under the Listing Rules
“continuing connected transaction”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“Domestic Shares”	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

DEFINITIONS

“EGM” or “Extraordinary General Meeting”	an extraordinary general meeting to be held on 10 November 2020 by the Company to consider and, if thought fit, approve, among other things, entering into the Finance Services Framework Agreement and the proposed annual caps of the deposit services and the credit services thereunder
“Finance Services Framework Agreement”	the framework agreement on provision of finance services by China Energy Finance to the Group dated 29 September 2020 entered into by and between the Company and China Energy Finance
“Four Major Domestic Commercial Banks”	the four state-owned banks, directly controlled by the State (Ministry of Finance, Central Huijin Investment Co., Ltd.), including Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China and China Construction Bank
“GD Power”	GD Power Development Co., Ltd. (國電電力發展股份有限公司), a joint stock limited company incorporated in the PRC, whose A shares are listed on the Shanghai Stock Exchange (stock code: 600795)
“Gram Capital” or “Independent Financial Adviser”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the deposit services and the credit services under the Finance Services Framework Agreement and the proposed annual caps thereof to be considered at the Extraordinary General Meeting
“Group”	the Company and its subsidiaries
“Guodian Capital Holdings”	China Guodian Capital Holding Ltd. (國電資本控股有限公司), a limited liability company incorporated in the PRC and a subsidiary of Guodian Group
“Guodian Group”	China Guodian Corporation Ltd. (中國國電集團有限公司), a limited liability company incorporated in the PRC, was the controlling shareholder of the Company prior to its merger with Shenhua Group

DEFINITIONS

“Guodian Finance Corporation”	Guodian Finance Corporation Limited (國電財務有限公司), a limited liability company incorporated in the PRC, is a finance company subordinated to Guodian Group
“H Shares”	the overseas-listed foreign shares in the ordinary share capital of the Company, with a RMB denominated par value of RMB1.0 each, which are subscribed for and traded in Hong Kong dollars and listed on the Stock Exchange
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board composed of all independent non-executive Directors, namely Mr. Shen Xiaoliu, Mr. Qu Jiuhui, Mr. Xie Qiuye and Mr. Yeung Chi Tat, formed to advise the Independent Shareholders on the fairness and reasonableness of entering into the Finance Services Framework Agreement and the proposed annual caps of the deposit services and the credit services thereunder to be considered at the Extraordinary General Meeting
“Independent Shareholders”	the Shareholders who are not required to abstain from voting in favor of approving the proposed resolutions under the Listing Rules
“Latest Practicable Date”	21 October 2020, being the latest practicable date prior to the issuance of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Previous Finance Services Framework Agreement”	the framework agreement on provision of finance services by Guodian Capital Holdings and its subsidiaries to the Group dated 9 November 2017 entered into by and between the Company and Guodian Capital Holdings
“PRC”	the People’s Republic of China excluding, for the purpose of this circular, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“SASAC”	the State-owned Assets Supervision and Administration Commission of the State Council

DEFINITIONS

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Shareholder(s)”	holder(s) of shares of the Company
“Shenhua Finance”	Shenhua Finance Co., Ltd. (神華財務有限公司), a limited liability company incorporated in the PRC, a finance company subordinated to the legacy Shenhua Group
“Shenhua Group”	Shenhua Group Corporation Limited (神華集團有限責任公司), a limited liability company incorporated in the PRC, the predecessor of China Energy
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“%”	percentage

LETTER FROM THE BOARD OF DIRECTORS



國電科技環保集團股份有限公司

GUODIAN TECHNOLOGY & ENVIRONMENT GROUP CORPORATION LIMITED*

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

(Stock code: 01296)

Executive Directors:

Mr. Chen Dongqing (*Chairman*)

Mr. Zhang Jun

Mr. Tang Chaoxiong

Legal Address:

Suite 1101, 11/F, Building 1

Yard 16, W. 4th Ring Middle Road

Haidian District, Beijing, the PRC

Non-executive Directors:

Mr. Wang Zhongqu

Mr. Zhang Wenjian

Mr. Gu Yuchun

Ms. Ge Xiaojing

Principal Office in the PRC:

Building 1

Yard 16, W.4th Ring Middle Road

Haidian District, Beijing, the PRC

Independent non-executive Directors:

Mr. Shen Xiaoliu

Mr. Qu Jiuhui

Mr. Xie Qiuye

Mr. Yeung Chi Tat

Principal Place of Business in Hong Kong:

Flat L, 15/F, Hong Kong Mansion

1 Yee Wo Street, Causeway Bay

Hong Kong

23 October 2020

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTION ENTERING INTO THE FINANCE SERVICES FRAMEWORK AGREEMENT

1. INTRODUCTION

Reference is made to the announcement of the Company dated 29 September 2020 in relation to entering into the Finance Services Framework Agreement.

The purpose of this circular is to provide details of the resolutions, to be proposed at the EGM, in relation to entering into the Finance Services Framework Agreement and the proposed annual caps of the deposit services and the credit services thereunder.

LETTER FROM THE BOARD OF DIRECTORS

2. ENTERING INTO THE FINANCE SERVICES FRAMEWORK AGREEMENT

A. Summary of the Terms of the Finance Services Framework Agreement

Date

29 September 2020

Parties

- (1) The Company; and
- (2) China Energy Finance

Material Terms

Below is a summary of the material terms of the Finance Services Framework Agreement:

The services to be provided by China Energy Finance to the Group will include:

- (1) deposit services, including but not limited to demand deposits, agreement deposits, call deposits and time deposits;
- (2) credit services, including but not limited to fixed asset loans, project financing loans, working capital loans, financing loans for temporary working capital, bill issuance, acceptance, discount, financial guarantee service (including guarantee business within the business scope of financial enterprises, such as performance guarantee and quotation sharing), bill discount and commercial factoring; and
- (3) other finance services, including but not limited to intra-group transfer and settlement services; assistance in the receipt and payment of transaction proceeds; handling of entrusted loans and entrusted investment between the Group and the members of China Energy; financial and financing consultation, credit appraisal and other related consultation and agency services; underwriting or distribution of financial instruments such as debt financing instruments, corporate bonds and enterprise bonds; provision of other financial services (letter of credit, online banking and entrusted loans) and charging of agency fee, handling fee, consulting fee or other service fee.

Under the Finance Services Framework Agreement, China Energy Finance has promised that the terms of the finance services provided to the Group will not be less favorable than those offered to other members of China Energy for the same category of finance services, nor less favorable than those offered to the Group by the Four Major Domestic Commercial Banks for the same category of finance services.

LETTER FROM THE BOARD OF DIRECTORS

The Group uses the finance services provided by China Energy Finance on a voluntary and non-compulsory basis and is not obliged to engage China Energy Finance for any particular service. China Energy Finance may, from time to time, enter into separate individual finance services agreement with the Company and its subsidiaries for the provision of specific finance services, subject to the terms and conditions of the Finance Services Framework Agreement.

The Finance Services Framework Agreement has a term from the date of consideration and approval at this general meeting of the Company to 31 December 2022.

Pricing Policy

The services to be provided under the Finance Services Framework Agreement will be based on the following pricing policies:

Subject to compliance with laws and regulations and relevant provisions of People's Bank of China, CBIRC and other relevant regulatory authorities:

- (1) Deposit services: the interest rates for deposits placed by the members of the Group with China Energy Finance shall be, under the same conditions, no less than the interest rates paid by the Four Major Domestic Commercial Banks for the same category of deposit services provided to the members of the Group and shall be determined in accordance with normal commercial terms. Under the same conditions, China Energy Finance will provide the Group with corresponding interest rates for the same category of deposits based on the principle of equal treatment for the members of China Energy.
- (2) Credit services: the interest rates for loans granted by China Energy Finance to the members of the Group shall be, under the same conditions, no more than the interest rates charged by the Four Major Domestic Commercial Banks for the same category of loan services provided to the members of the Group and shall be determined in accordance with normal commercial terms. Under the same conditions, China Energy Finance will provide the Group with corresponding interest rates for the same category of loans based on the principle of equal treatment for the members of China Energy.
- (3) Other finance services: the service fees charged by China Energy Finance for the provision of finance services to the members of the Group shall be, under the same conditions, no more than the service fees charged by the Four Major Domestic Commercial Banks and other financial institutions for the same category of finance services provided to the members of the Group and shall be determined in accordance with normal commercial terms. Under the same conditions, China Energy Finance will charge the Group with corresponding service fees for the same category of finance services based on the principle of equal treatment for the members of China Energy.

LETTER FROM THE BOARD OF DIRECTORS

Internal Control Measures

In order to ensure that the terms offered by China Energy Finance are not less favorable than those offered by Four Major Domestic Commercial Banks, before every deposit transaction, the finance departments of the Company or relevant subsidiaries will make inquiries to the Four Major Domestic Commercial Banks providing deposit services to the Group to obtain relevant information, including the same type of deposit rates and period. Before conducting a loan transaction or other finance services, the finance departments of the Company or relevant subsidiaries will make inquiries to the Four Major Domestic Commercial Banks providing financial services to the Group to obtain relevant information under the same conditions including loan rates/fees, scale and period of the same type.

In order to ensure that the deposit terms offered by China Energy Finance are not less favorable than those offered to other members of China Energy, since China Energy Finance has a unified interest rate pricing plan, the members of China Energy can log on China Energy Finance's online banking platform for inquiry. The pricing plan is updated from time to time according to market conditions. In order to ensure that the terms of the loans or other finance services offered by China Energy Finance are not less favorable than those offered to other members of China Energy, before conducting a transaction, the finance departments of the Company or relevant subsidiaries will consult with China Energy Finance to obtain relevant information under the same conditions including loan rates/fees, scale and period of the same type.

A fund coordination meeting, in charge of the financial work by the Company with the attendance of finance departments of subsidiaries, is convened on a quarterly basis by the Group, to consider the deposits placed with China Energy Finance by the Group, keep abreast of the loans granted by China Energy Finance in a timely manner, and reasonably coordinate fund deposit and financing arrangements of the Company for the next quarter, which shall also be reported to the management of the Company.

In this manner, the Group ensures that it obtains the best price from the financial institutions, irrespective whether such financial institutions are connected persons or independent third parties.

China Energy Finance will assist in monitoring the maximum daily deposit balance(including interests accrued thereon), in order to ensure that relevant balance does not exceed the proposed annual caps. If the deposit of the Group placed with China Energy Finance is expected to exceed the proposed caps, China Energy Finance shall inform the Company in a timely manner and assist in transferring the excessive deposit to the designated bank accounts of the Company.

LETTER FROM THE BOARD OF DIRECTORS

China Energy Finance is a major domestic non-banking financial institution under the supervision of the CBIRC. Competent authority delegated by the CBIRC conducts daily supervision on it, including on-site and off-site inspections. China Energy Finance shall ensure that it is in strict compliance with the risk control indicators and risk monitoring indicators issued by the CBIRC. For instance, the deposit rate shall not be lower than the deposit rate of the same period and same category issued by the People's Bank of China from time to time, and the loan rate of China Energy Finance shall be determined with reference to the Loan Prime Rate (LPR), which is calculated and published by the National Inter-bank Funding Center authorized by the People's Bank of China. In the event that the major regulatory indicators of China Energy Finance are found to be inconsistent with relevant regulatory requirements and may lead to material risks, the Group will be entitled to discontinue its business with China Energy Finance.

In addition, China Energy Finance, as a financial institution regulated by the CBIRC, shall comply with the regulations of applicable laws and provisions and requirements of the CBIRC, such as the Administrative Measures on Financial Companies of Group Enterprises (the “**Measures**”). The Company may only conduct business with China Energy Finance on condition that the risk is confirmed to be controllable. For example, according to the Measures, China Energy Finance shall meet the following requirements in respect of asset-liability ratio:

- (a) the capital adequacy ratio is not less than 10%;
- (b) the balance of the borrowing funds shall not exceed the total capital;
- (c) the balance of guarantees shall not exceed the total capital;
- (d) the ratio of short-term securities investment and long-term investments to total capital shall not be more than 70%; and
- (e) the self-owned fixed assets to total capital ratio is not more than 20%.

The Company regularly monitors the operation of China Energy Finance, such as the above asset-liability ratio requirements, by accessing the audited financial statements and other relevant operating data of China Energy Finance via the website of China National Association of Finance Companies. To the best knowledge of the Company, China Energy Finance is in compliance with the applicable requirements as set out in the Measures. As at the 31 August 2020, for China Energy Finance, (a) capital adequacy ratio is 14.74%; (b) borrowing funds ratio is 0.00%; (c) guarantee ratio is 0.00%; (d) long-term and short-term investment ratio is 65.10%; and (e) self-owned fixed assets ratio is 0.00%. In addition, prior

LETTER FROM THE BOARD OF DIRECTORS

to the commencement of any transaction with China Energy Finance, the Group is entitled to review whether valid financial license and business license are obtained by China Energy Finance. The Group shall not engage in relevant business with China Energy Finance in the event that the foregoing licenses concerned are absent or expired.

In occurrence of material events in China Energy Finance which may affect its normal operation, including changes in significant institution, equity transaction or operation risks and other matters, or occurrence of the run of depositors, unpaid due debts, overdue large loans or guarantee advance, serious malfunction in computer system, robbed or defrauded, or when directors or the senior management are involved in severe violation of discipline or criminal cases, China Energy Finance shall inform the Group in a timely manner, and if necessary, the Group is entitled to terminate the business in China Energy Finance, and negotiate the subsequent matters with China Energy Finance.

China Energy Finance agrees that the Group and its auditor review the records of transactions of China Energy Finance under the Finance Services Framework Agreement, in order to facilitate the performance of disclosure obligations of the Group under the Listing Rules.

The Group takes the above-mentioned measures to ensure capital safety at China Energy Finance.

B. Proposed Annual Caps for 2020, 2021 and 2022 and Basis of Determination

Deposit Services

The table below sets out the proposed annual caps for the maximum daily deposit balance (including interests accrued thereon) placed by the Group with China Energy Finance under the Finance Services Framework Agreement for the years ending 31 December 2020, 2021 and 2022.

	Years ending 31 December		
	2020	2021	2022
	<i>(RMB million)</i>		
Proposed annual caps for the maximum daily deposit balance (including interests accrued thereon) placed by the Group with China Energy Finance	4,500	4,500	4,500

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The proposed annual caps for the maximum daily deposit balance (including interests accrued thereon) placed by the Group with China Energy Finance for the years ending 31 December 2020, 2021 and 2022 are calculated after taking into account:

- (1) The current balance of monetary funds and account receivables of the Group: as of 30 June 2020, the bank deposits and cash in hand of the Group amounted to RMB4.86 billion (as at 31 December 2019: RMB4.19 billion), and trade and bills receivables amounted to RMB9.29 billion (as at 31 December 2019: RMB9.81 billion); and the balance of additional monetary funds brought about by the business development in the future;
- (2) The historical transaction amounts in relation to the maximum daily deposit balance (including any interests accrued thereon) placed by the Group with Guodian Finance Corporation for the years ended 31 December 2018 and 2019, and six months ended 30 June 2020, being RMB1,836 million, RMB2,585 million and RMB2,999 million, respectively;
- (3) Customers, which are also members of China Energy, tend to make settlement payments to the Group by making deposits into the Group's account managed by China Energy Finance; as the aggregate amounts of certain payments for the Group's products or services may be large at certain points of time, the Group needs to ensure enough buffer for such payments which will become deposits;
- (4) The scale of the proposed annual caps for the credit services provided by China Energy Finance to the Group amounted to RMB2.50 billion, which will also constitute the deposit balance of the Group placed with China Energy Finance at certain points of time; and
- (5) The Group is committed to gradually reducing connected transactions while setting the proposed annual caps of continuing connected transactions. The Company is of the view that when proposing annual caps of continuing connected transactions, flexibility shall be taken into account to accommodate the maximum limits under various possibilities. Setting the annual caps for continuing connected transactions does not mean that members of the Group and China Energy Finance will transact such amounts, and the proposed annual caps are not indications for the actual transaction amounts. Members of the Group and China Energy Finance will conduct continuing connected transactions in strict accordance with the actual demand amount and reasonable interest rates. The Company will disclose the actual transaction amounts in each year's annual report, and the independent non-executive Directors and auditors will opine on the continuing connected transaction to receive supervision of the Independent Shareholders.

LETTER FROM THE BOARD OF DIRECTORS

Credit Services

The table sets out the proposed annual caps for the credit services provided by China Energy Finance to the Group for the years ending 31 December 2020, 2021 and 2022 under the Finance Services Framework Agreement.

	Years ending 31 December		
	2020	2021	2022
	<i>(RMB million)</i>		
Proposed annual caps for the credit services provided by China Energy Finance to the Group ^(Note)	2,500	2,500	2,500

The credit services under the Finance Services Framework Agreement will be provided on normal commercial terms or such similar or better terms offered by independent third parties for similar services in the PRC. The Group confirmed that it will not provide any financial assistance to China Energy Finance according to such arrangement.

The proposed annual caps for the credit services provided by China Energy Finance to the Group for the years ending 31 December 2020, 2021 and 2022 are calculated after taking into account:

- (1) Pursuant to the Finance Services Framework Agreement, China Energy Finance will provide, among other things, exchange of quality guarantee deposits to a guarantee letter business (質量保證金換保函業務, the “**Exchanging Business**”), to the Group. Normally, for certain subsidiaries of the Group engaging in (i) total solutions for wind turbine generator system and focuses on the green energy industry; (ii) water treatment services; and (iii) power station engineering, procurement and construction (EPC) services, certain percentage of the relevant contract values as quality guarantee deposits (the “**Quality Guarantee Deposits**”) to cover potential expenses from quality defects should be retained by such subsidiaries’ clients (being members of China Energy, the “**Relevant Clients**”) until the expiration of warranty period and the passing of final examination. In order to support the development of the Group’s subsidiaries and reduce capital pressure, China Energy agreed to coordinate members of China Energy, which are also the clients of subsidiaries of the Group, to accept the exchange of quality guarantee deposits within the warranty period to a guarantee letter issued by China Energy Finance, upon payment of a reasonable percentage of guarantee deposit by subsidiaries of the Group. By using the Exchanging Business, the Group is able to recover the Quality Guarantee Deposits in advance from the Relevant Clients.

To be specific, the operational model of the Exchanging Business is as follows: (i) upon the commencement of the warranty period, the Relevant Clients retained Quality Guarantee Deposits; (ii) the Group requires the Exchanging Business from China Energy Finance; (iii) China Energy Finance provides guarantee letter to the Relevant

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Clients and may also require the Group to place certain cash deposits (as a certain percentage of Quality Guarantee Deposits) as security deposits and (if any) to pay handling fees; (iv) subject to the Relevant Clients' acceptance of the arrangement, the Relevant Clients settle the Quality Guarantee Deposits in advance upon receiving the guarantee letter; and (v) China Energy Finance will, on demand, compensate Relevant Clients according to the guarantee letter should there be any quality defects and subsequently require the recourse of same amount from the Group. Alternatively, the Group can directly compensate Relevant Clients should there be any quality defects without requiring China Energy Finance to compensate Relevant Clients according to the guarantee letter.

In the event of any quality defects under the Exchanging Business, (i) if one or more of the applicable percentage ratios (as defined under the Listing Rules) of the aggregated compensation amount exceeds 0.1% but all are lower than 5%, the Company will issue announcement(s) as required under Chapter 14A of the Listing Rules to make disclosure; (ii) if one or more of the applicable percentage ratios of the compensation amount exceed 5%, the Group will compensate Relevant Clients directly without requiring China Energy Finance to compensate Relevant Clients according to the guarantee letter.

It is expected that the Exchanging Business will be amounted to RMB2.35 billion, primarily comprising of an aggregate amount of RMB2.10 billion quality guarantee deposits of a subsidiary of the Group engaging in wind turbine generators manufacture, and RMB0.25 billion for potential business needs; and

- (2) According to the needs of future business development, the demand of the Group's subsidiaries to issue bills and guarantee letters and use current loans will increase. Compared with Guodian Finance Corporation, a finance company subordinated to Guodian Group, the enlarged registered capital of China Energy Finance will considerably enhance its comprehensive strength especially in terms of scope and scale of financial services offerings. China Energy Finance will, taking into consideration of the needs of members of China Energy, expand the scope of existing business and intend to provide letter of credit and guarantee services. The Group will also make greater use of the credit services provided by China Energy Finance.

Note:

The above credit services exclude fixed asset loans, project financing loans, working capital loans, financing loans for temporary working capital, bill issuance, acceptance and financial guarantee service (including guarantee business within the business scope of financial enterprises, such as performance guarantee and quotation sharing) which are not pledged, secured or guaranteed. Such services, if conducted on normal commercial terms or better, are fully exempt connected transactions.

LETTER FROM THE BOARD OF DIRECTORS

Other Finance Services

The table sets out the proposed annual caps for other finance services provided by China Energy Finance to the Group for the years ending 31 December 2020, 2021 and 2022 under the Finance Services Framework Agreement.

	Years ending 31 December		
	2020	2021	2022
	<i>(RMB million)</i>		
Proposed annual caps for other finance services provided by China Energy Finance to the Group	40	40	40

Other finance services under the Finance Services Framework Agreement will be provided on normal commercial terms or such similar or better terms offered by independent third parties for similar services in the PRC. The Group confirmed that it will not provide any financial assistance to China Energy Finance according to such arrangement.

C. Background, Reasons and Benefits of Entering into the Agreement

The Company entered into the Previous Finance Services Framework Agreement with Guodian Capital Holdings, a subsidiary of Guodian Group, on 9 November 2017, pursuant to which, Guodian Capital Holdings and its subsidiaries shall provide finance services to the Group for a term from 1 January 2018 to 31 December 2020.

As approved by the Notice regarding the Reorganization of China Guodian Corporation and Shenhua Group Corporation Limited (Guo Zi Fa Gai Ge [2017] No. 146) issued by SASAC, Shenhua Group and Guodian Group were reorganized. Shenhua Group has changed its company name to China Energy Investment Corporation Limited. As the parent company after the reorganization, China Energy was merged with Guodian Group by way of merger by absorption (“**Group Reorganization**”). According to the requirements under the Implementation Measures of the China Banking and Insurance Regulatory Commission for the Administrative Licensing Items concerning Non-Banking Financial Institutions, upon Group Reorganization, only one finance company shall be retained. Therefore, Guodian Finance Corporation, the finance company subordinated to the Guodian Group, shall cancel its registration, and China Energy made capital contribution to and acquired control of the legacy Shenhua Finance and renamed Shenhua Finance as China Energy Finance Co., Ltd.* to provide service to members of China Energy. As part of the Group Reorganization, Guodian Finance Corporation will cease to provide any finance service to the Group commencing from November 2020 in preparation for its cancellation by the end of 2020. The rights and obligations of each party under the Previous Finance Services Framework Agreement shall be terminated upon approval of the Finance Services Framework Agreement at the Extraordinary General Meeting. As such, the Group shall enter into the Finance Services Framework Agreement with China Energy Finance.

LETTER FROM THE BOARD OF DIRECTORS

The Directors consider the following factors as the reasons for, and benefits of, entering into the Finance Services Framework Agreement:

Deposit Services:

- (1) Institutional risk: China Energy Finance is a platform company authorized by China Energy to conduct fund collection, settlement, monitoring and service, with a registered capital of RMB12.50 billion. China Energy Finance shall comply with all relevant laws, regulations, requirements and guidelines formulated by the CBIRC and the People's Bank of China including requirements for the capital adequacy, provision coverage, liquidity and guarantee ratio of China Energy Finance. In addition, according to the requirements of the CBIRC, if China Energy Finance encounters any liquidity issues, China Energy, as its parent company, shall provide sufficient liquidity support for China Energy Finance in conformity with applicable laws, regulations and internal regulations.

In addition, China Energy Finance is not allowed to have inter-bank loan balances that exceed its total capital. The operating performance and financial position of China Energy Finance have been satisfactory, with prescribed risk monitoring, good performance in supervision and management, and security level of its settlement system has reached the level of domestic commercial banks. Compared with typical commercial banks, the account supervision of China Energy Finance such as substantial payment is more stringent, and the use of its deposit services provides higher fund security.

According to the Fund Settlement Supervision Measures (trial) of China Energy, China Energy has established a multiple isolated review system for fund settlement within members of China Energy, where any payment application of the Group would only be approved upon isolated review respectively conducted by responsible finance department of members of the Group and China Energy Finance, and handled by at least three levels of personnel from responsible finance department of members of the Group and China Energy Finance. In addition, China Energy has strengthened the real-time monitoring and management of significant payment in order to ensure settlement security. China Energy Finance shall, for each significant payment (exceeding RMB3 million) of the Group, monitor and review the payment information and amount by way of referencing to the relevant internal receipts and vouchers through the centralized settlement system of China Energy Finance so as to ensure the completeness of the settlement documents, the accuracy of settlement information, the compliance of the approval procedures and the reasonableness of the payment method. As settlement center of commercial banks did not have access to the aforesaid internal receipts and vouchers, settlement center of commercial banks would not be able to perform such payment security check for the Group.

LETTER FROM THE BOARD OF DIRECTORS

- (2) Achieving centralized fund management and efficient fund management: the deposit placed with China Energy Finance facilitates the settlement within the subsidiaries of the Group and between the members of China Energy, and shortens the time required for transfer and turnover of funds. China Energy Finance will enable the Company to lower the cost of funds by improving the efficiency of the internal settlement and help realize optimization of cost and operational efficiency. In addition, deposits placed by the subsidiaries of the Group with China Energy Finance would be conducive to realizing centralized fund management of subsidiaries of the Group, and the Group will be able to withdraw cash to satisfy their flexible needs of funds in a timely manner without limitation.
- (3) Good commercial terms: China Energy Finance offers the Group relatively good commercial terms as compared with a domestic commercial bank. For example, China Energy Finance does not charge the Group settlement fees, which are typically charged by domestic commercial banks. The deposit rates the Group received from China Energy Finance is not lower than the rates it would receive from the Four Major Domestic Commercial Banks.

Credit Services:

- (1) Compared with typical commercial banks in the PRC, China Energy Finance could provide the Group with stronger support and more flexible loan conditions. The collaboration between the Group and China Energy Finance may reduce finance costs, ensure the security of the capital chain and help monitor risks for the Group. China Energy Finance shall promptly notify the Group in the event that it is aware of any interest or principal redemption risks of the Group, which is conducive to detecting internal liquidity risks at an early stage and avoiding defaults with commercial banks;
- (2) Familiar with the Company's business, providing more flexible and convenient services: China Energy Finance is familiar with the capital structure, business operation, capital requirements and cash flow pattern of subsidiaries of the Group, enabling it to better forecast the capital requirements of subsidiaries of the Group. Therefore, China Energy Finance can provide flexible, convenient and low-cost services to subsidiaries of the Group at any time; and
- (3) The Group's ability to choose service providers: by entering into the Finance Services Framework Agreement with China Energy Finance, the Group opens another channel of service providers. The Group is able to cooperate with China Energy Finance at its discretion, whilst not prohibited from selecting other financial and

LETTER FROM THE BOARD OF DIRECTORS

insurance institutions, including commercial banks in the PRC. The Group may freely cooperate with any institutions selected and obtain the best terms offered. Moreover, the credit services provided by the China Energy Finance for the Group may increase credit for the credit provided by domestic commercial banks for the Group.

The Directors are of the view that the transactions contemplated under the Finance Services Framework Agreement do not have negative effects on the assets or liabilities of the Group.

D. Listing Rules Implications

As at the date of this circular, China Energy directly and indirectly holds approximately 78.40% of the issued share capital of the Company, and is the controlling shareholder of the Company. As China Energy Finance is a subsidiary of China Energy, China Energy Finance is therefore a connected person of the Company under Chapter 14A of the Listing Rules, the Finance Services Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company.

As one or more of the applicable percentage ratios of the proposed annual caps for the deposit services and the credit services under the Finance Services Framework Agreement exceed 5%, such transactions are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Further, as one or more of the applicable percentage ratios (as defined under the Listing Rules) of the proposed annual caps for the deposit services under the Finance Services Framework Agreement exceed 25%, such transaction also constitutes a major transaction of the Company, and shall comply with the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As the highest applicable percentage ratio of the proposed annual caps for other finance services under the Finance Services Framework Agreement is higher than 0.1% but lower than 5%, such transaction shall comply with the reporting and announcement requirements, but shall be exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

The Extraordinary General Meeting will be held to seek the approval from the Independent Shareholders on resolutions on, among other things, entering into the Finance Services Framework Agreement and the proposed annual caps for the deposit services and the credit services thereunder.

LETTER FROM THE BOARD OF DIRECTORS

As at the Latest Practicable Date, China Energy directly held 2,377,500,000 Domestic Shares of the Company, accounting for approximately 39.21% of the total issued share capital of the Company, and through its associate, GD Power, it held 2,376,500,000 Domestic Shares of the Company, accounting for approximately 39.19% of the total issued share capital of the Company. China Energy, directly or indirectly, held an aggregate of 4,754,000,000 Domestic Shares of the Company, accounting for approximately 78.40% of the total issued share capital of the Company, and therefore China Energy is the controlling shareholder of the Company. China Energy and its associate, GD Power, will abstain from voting at the Extraordinary General Meeting for approving resolutions on entering into the Finance Services Framework Agreement and the proposed annual caps for the deposit services and the credit services thereunder.

An Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders in relation to the fairness and reasonableness of the deposit services and the credit services under the Finance Services Framework Agreement and the proposed annual caps thereof, taking into account the recommendations concerning same matters provided by an independent financial adviser. Gram Capital has been appointed as the independent financial adviser of the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

E. Directors' Opinion

The Directors (including the independent non-executive Directors, but excluding Mr. Wang Zhongqu, Mr. Zhang Wenjian and Mr. Gu Yuchun) confirm that the terms of the Finance Services Framework Agreement (including the proposed annual caps for the transactions contemplated thereunder) are on normal commercial terms that are fair and reasonable, and the transactions contemplated thereunder were entered into in the ordinary and usual course of business of the Company, and were and are in the interest of the Company and the Shareholders as a whole.

Directors associated with China Energy and other associates of China Energy, namely Mr. Wang Zhongqu, Mr. Zhang Wenjian and Mr. Gu Yuchun, as the connected Directors, have abstained from voting on the board resolution regarding entering into the Finance Services Framework Agreement. Except as disclosed above, none of the Directors has any material interests in the Finance Services Framework Agreement and the proposed annual caps under such agreement and hence no other Director has abstained from voting on such board resolutions.

LETTER FROM THE BOARD OF DIRECTORS

3. INFORMATION OF THE PARTIES

China Energy

As a state-owned enterprise established in accordance with the laws of the PRC, China Energy is the controlling shareholder of the Company, and operates eight business segments including coal, thermal power, new energy, hydropower, transportation, chemicals, environmental technology and finance. It is the world's largest producer of coal, thermal power, wind power, as well as coal-to-liquids and coal chemical products.

The Group

The Group mainly conducts business within the PRC through its two main business segments, namely the business of environmental protection and energy conservation solutions and the business of renewable energy equipment manufacturing and services.

China Energy Finance

China Energy Finance, formerly known as Shenhua Finance, was established on 27 November 2000. On 28 August 2020, CBIRC Beijing Bureau officially approved the capital increase and shareholding structure adjustment of Shenhua Finance. China Energy became the controlling shareholder of Shenhua Finance and its registered capital increased from RMB5.0 billion to RMB12.50 billion. On 25 September 2020, Shenhua Finance was renamed as China Energy Group Finance Co., Ltd.. It is principally engaged in (domestic and foreign currency services) the provision of financial and financing consultation services, credit appraisal and other related consultation and agency services to members; assistance to members in the collection and payment of transaction amounts; authorized insurance agency services; provision of guarantee between members; provision of entrusted loans and entrusted investments between members; provision of bill acceptance and discount services to members; provision of internal fund transfer and settlement services and corresponding settlement planning to members; accepting deposits from members; provision of loans and finance leasing to members; provision of inter-bank lending; authorized issuance of bonds; underwriting of corporate bonds of members; equity investments in financial institutions; investments in negotiable securities; provision of consumption credit, buyers' credit and finance leasing for products of members. As of the date of this circular, China Energy directly holds approximately 60% of the equity interest in China Energy Finance, while China Shenhua Energy Company Limited, Shuohuang Railway Development Co., Ltd., Shenhua Zhunge'er Energy Co., Ltd. and Shenhua Baoshen Railway Co., Ltd. directly hold 32.57%, 2.86%, 2.86% and 1.71% of the equity interest in China Energy Finance, respectively.

LETTER FROM THE BOARD OF DIRECTORS

4. EGM

Notice of the EGM

The Company will convene the EGM at the Conference Room, 12th Floor, Building 1, Yard 16, W. 4th Ring Middle Road, Haidian District, Beijing, the PRC at 10 a.m., on Tuesday, 10 November 2020, to approve entering into the Finance Services Framework Agreement and the proposed annual caps of the deposit services and credit services thereunder. The notice of the EGM has been despatched and published on 23 October 2020.

Closure of register of members

The register of members of the Company will be closed from Monday, 9 November 2020 to Tuesday, 10 November 2020, both days inclusive, during which period no transfer of shares will be registered. In order to qualify to attend and vote at the EGM, all transfers, together with relevant share certificates, must be lodged with the H Share registrar of the Company, namely Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong (for holders of H Shares) or the head office of the Company (for holders of Domestic Shares) at Building 1, Yard 16, W. 4th Ring Middle Road, Haidian District, Beijing, the PRC no later than 4:30 p.m. on Friday, 6 November 2020.

Reply slip and Proxy Form

If you are eligible and intend to attend the EGM, please complete and return the reply slip dated 23 October 2020 in accordance with the instructions printed thereon as soon as possible and in any event not later than 7 days before the date appointed for holding such meeting or any adjournment thereof. Shareholders who intend to appoint a proxy to attend the EGM is required to complete and return the proxy form, in accordance with the instructions printed thereon as soon as possible and in any event no later than 24 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you wish.

Voting by poll at the EGM

Pursuant to Rule 13.39(4) of the Listing Rules, all resolutions at the general meeting will be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. The chairman of the EGM will therefore demand a poll for every such resolution put to the vote at the EGM. On a poll, every Shareholder present in person or by proxy or (being a corporation) by its duly authorized representative shall have one vote for each share of the Company registered in his or her name in the register of Shareholders. A Shareholder entitled to more than one vote need not use all his or her votes or cast all the votes he or she uses in the same way.

LETTER FROM THE BOARD OF DIRECTORS

Recommendations

The Board considers that the resolutions set out in the notice of the EGM for Shareholders' consideration and approval are in the best interests of the Company and the Shareholders. As such, the Board recommends the Shareholders to vote in favor of the resolutions set out in the notice of the EGM.

Other Recommendations

Your attention is also drawn to the letter from the Independent Board Committee to the Independent Shareholders set out on pages 18 to 19 of this circular, and the letter from Gram Capital to the Independent Board Committee and the Independent Shareholders set out on pages 20 to 32 in respect of entering into the Finance Services Framework Agreement and the proposed annual caps of the deposit services and the credit services thereunder.

Yours faithfully,

By Order of the Board

Guodian Technology & Environment Group Corporation Limited*

Mr. CHEN Dongqing

Chairman

* *For identification purposes only*

LETTER FROM INDEPENDENT BOARD COMMITTEE



國電科技環保集團股份有限公司

GUODIAN TECHNOLOGY & ENVIRONMENT GROUP CORPORATION LIMITED*

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

(Stock code: 01296)

23 October 2020

To the Independent Shareholders

We refer to the circular of the Company to the Shareholders dated 23 October 2020 (the “**Circular**”), of which this letter forms a part. Unless the context requires otherwise, capitalized terms used in this letter will have the same meanings as given to them in the sections headed “Definitions” of the Circular.

We have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders on whether entering into the Finance Services Framework Agreement and the proposed annual caps of the deposit services and the credit services thereunder is: (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of entering into the Finance Services Framework Agreement and the proposed annual caps of the deposit services and the credit services thereunder.

We wish to draw your attention to the letter from Gram Capital, as set out on pages 20 to 32 of the Circular and the section headed “Letter from the Board of Directors” as set out on pages 1 to 17 of the Circular.

Having considered the terms and conditions of entering into the Finance Services Framework Agreement and the proposed annual caps of the deposit services and the credit services thereunder and the opinion of Gram Capital as stated in its letter of advice, we consider that entering into the Finance Services Framework Agreement and the proposed annual caps of the deposit services and the credit services thereunder is: (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) 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 recommend the

LETTER FROM INDEPENDENT BOARD COMMITTEE

Independent Shareholders to vote in favor of the ordinary resolutions to approve, among others, entering into the Finance Services Framework Agreement and the proposed annual caps of the deposit services and the credit services thereunder to be proposed at the EGM.

Yours faithfully,

Independent Board Committee

Mr. SHEN Xiaoliu

*Independent non-
executive Director*

Mr. QU Jiuhui

*Independent non-
executive Director*

Mr. XIE Qiuye

*Independent non-
executive Director*

Mr. YEUNG Chi Tat

*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 Transactions for the purpose of inclusion in this circular.



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

23 October 2020

*To: The independent board committee and the independent shareholders of
Guodian Technology & Environment Group Corporation Limited*

Dear Sirs,

MAJOR TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the deposit services under Finance Services Framework Agreement (the “**Deposit Services**”); and (ii) the credit services (excluding fixed asset loans, project financing loans, working capital loans, financing loans for temporary working capital, bill issuance, acceptance and financial guarantee service (including guarantee business within the business scope of financial enterprises, such as performance guarantee and quotation sharing) which are not pledged, secured or guaranteed) under Finance Services Framework Agreement (the “**Credit Services**”) ((i) and (ii), together the “**Transactions**”), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 23 October 2020 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 29 September 2020, the Company entered into the Finance Services Framework Agreement with China Energy Finance, pursuant to which, China Energy Finance shall provide finance services (including the Deposit Services and the Credit Services) to the Group for a term from the date of consideration and approval at the general meeting of the Company to 31 December 2022.

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

LETTER FROM GRAM CAPITAL

The Independent Board Committee comprising Mr. Shen Xiaoliu, Mr. Qu Jiuhui, Mr. Xie Qiuye and Mr. Yeung Chi Tat (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Transactions are fair and reasonable; (ii) whether the Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the Transactions at the Extraordinary General Meeting. 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.

INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Mr. Graham Lam was the person signing off (i) the opinion letter from the independent financial adviser contained in the Company's circular dated 11 December 2018 in respect of continuing connected transactions; (ii) the opinion letter from the independent financial adviser contained in the Company's circular dated 24 May 2019 in respect of a connected transaction; and (iii) the opinion letter from the independent financial adviser contained in the Company's circular dated 3 December 2019 in respect of continuing connected transactions.

Notwithstanding the aforesaid past engagements, as at the Latest Practicable Date, we were not aware of any relationships or interests between Gram Capital and the Company, or any other parties that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

Besides that, apart from the advisory fee payable to us in connection with our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there are

LETTER FROM GRAM CAPITAL

no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Financial Services Framework Agreement. 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 of the issuer 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 issuer. 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 as contained in the Circular 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.

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, China Energy Finance, China Energy, Guodian Group, or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Transactions. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

Business overview of the Group

With reference to the Board Letter, the Group mainly conducts business within the PRC through its two main business segments, namely (i) the business of environmental protection and energy conservation solutions; and (ii) the business of renewable energy equipment manufacturing and services.

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As stated in the Company's interim report for the six months ended 30 June 2020, in its environmental protection and energy conservation solutions business, the Group is the largest supplier of technology and integrated system solutions to coal-fired power plants in the PRC, providing innovative and advanced technology designed to reduce pollutant emissions and maximize efficiencies in resource utilization, with overall objectives of reducing the environmental impact of coal-fired power generation and maximizing cost-efficiencies and profitability for its customers. With businesses including desulphurisation, denitrification, water treatment, plasma-assisted ignition and combustion stabilization and general contracting for power stations, the Group provides comprehensive environmental protection and energy conservation technologies and solutions for all aspects, namely "one-stop" solutions to its customers tailored for their specific needs. The Group is also one of the leading manufacturers of wind power generation equipment in the PRC in its renewable energy equipment manufacturing and services business with well-established brands, and is well known for its product quality and performance. In line with its strategic focus on providing integrated solutions and services, the Group also provides renewable-energy related services, such as the maintenance and repair of wind turbine generators.

Information on China Energy Finance

With reference to the Board Letter, China Energy Finance, formerly known as Shenhua Finance, was established on 27 November 2000. On 28 August 2020, CBIRC Beijing Bureau officially approved the capital increase and shareholding structure adjustment of Shenhua Finance. China Energy became the controlling shareholder of Shenhua Finance and its registered capital increased from RMB5.0 billion to RMB12.50 billion. On 25 September 2020, Shenhua Finance was renamed as China Energy Finance Co., Ltd. It is principally engaged in (domestic and foreign currency services) the provision of financial and financing consultation services, credit appraisal and other related consultation and agency services to members; assistance to members in the collection and payment of transaction amounts; authorized insurance agency services; provision of guarantee between members; provision of entrusted loans and entrusted investments between members; provision of bill acceptance and discount services to members; provision of internal fund transfer and settlement services and corresponding settlement planning to members; accepting deposits from members; provision of loans and finance leasing to members; provision of inter-bank lending; authorized issuance of bonds; underwriting of corporate bonds of members; equity investments in financial institutions; investments in negotiable securities; provision of consumption credit, buyers' credit and finance leasing for products of members. As at the Latest Practicable Date, China Energy directly holds approximately 60% of the equity interest in China Energy Finance, while China Shenhua Energy Company Limited, Shuohuang Railway Development Co., Ltd., Shenhua Zhunge'er Energy Co., Ltd. and Shenhua Baoshen Railway Co., Ltd. directly hold 32.57%, 2.86%, 2.86% and 1.71% of the equity interest in China Energy Finance, respectively.

Based on the Directors' understanding, China Energy Finance is required to operate in compliance with the 《企業集團財務公司管理辦法》(Administrative Measures for the Group Finance Companies*, the "Administrative Measures") promulgated by China Banking and Regulatory Commission (now known as

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CBIRC) to regulate the operation of group finance companies and reduce the possible financial risk. We noted that the Administrative Measures set out certain compliance and risk control requirements/measures in relation to the operation of group financing companies, including but not limited to maintaining certain financial ratios at all times.

In addition, pursuant to the Administrative Measures, in the event that a group finance company faces any difficulty in making payment, its controlling shareholder(s) will increase such group finance company's capital accordingly based on the actual need.

Reasons for and benefits of the Transactions

The Company entered into the Previous Finance Services Framework Agreement with Guodian Capital Holdings, a subsidiary of Guodian Group, on 9 November 2017, pursuant to which, Guodian Capital Holdings and its subsidiaries shall provide finance services to the Group for a term from 1 January 2018 to 31 December 2020.

With reference to the Board Letter, as approved by the Notice regarding the Reorganization of China Guodian Corporation and Shenhua Group Corporation Limited (Guo Zi Fa Gai Ge [2017] No. 146) issued by SASAC, Shenhua Group and Guodian Group were reorganized. Shenhua Group has changed its company name to China Energy Investment Corporation Limited. As the parent company after the reorganization, China Energy was merged with Guodian Group by way of merger by absorption (“**Group Reorganization**”). According to the requirements under the Implementation Measures of the China Banking and Insurance Regulatory Commission for the Administrative Licensing Items concerning Non-Banking Financial Institutions, upon Group Reorganization, only one finance company shall be retained. Therefore, Guodian Finance Corporation, the finance company subordinated to the Guodian Group, shall cancel its registration (the “**Cancellation**”), and China Energy increased the capital and acquired control of the former Shenhua Finance and renamed Shenhua Finance as China Energy Finance Co., Ltd.* to provide service to members of China Energy. As part of the Group Reorganization, Guodian Finance Corporation will cease to provide any finance service to the Group commencing from November 2020 in preparation for its cancellation by the end of 2020. The rights and obligations of each party under the Previous Finance Services Framework Agreement shall be terminated upon approval of the Finance Services Framework Agreement at the Extraordinary General Meeting. As such, the Group shall enter into the Finance Services Framework Agreement with China Energy Finance.

Pursuant to the Financial Services Framework Agreement, the pricing policies for the Deposit Services and the Credit Services include the followings:

- (i) the interest rates for deposits placed by the members of the Group with China Energy Finance shall be, under the same conditions, no less than the interest rates paid by the Four Major Domestic Commercial Banks for the same category of deposit services provided to the members of the Group and shall be determined in accordance with normal commercial terms; and

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- (ii) the interest rates for loans granted by China Energy Finance to the members of the Group shall be, under the same conditions, no more than the interest rates charged by the Four Major Domestic Commercial Banks for the same category of loan services provided to the members of the Group and shall be determined in accordance with normal commercial terms.

As confirmed by the Directors, as the Transactions are conducted in the ordinary and usual course of business of the Group and on a frequent basis, it would be costly and impractical to make regular disclosure of each of the relevant transactions and obtain the prior approval from the Independent Shareholders as required by the Listing Rules, if necessary. Accordingly, the Directors are of the view that the Transactions will be beneficial to the Company and the Shareholders as a whole.

As also confirmed by the Directors, the Group will use the financial services provided by China Energy Finance on a voluntary and non-compulsory basis and is not obliged to engage China Energy Finance for any particular service.

Having considered above factors, in particular, (i) that only one finance company shall be retained upon Group Reorganization such that Guodian Finance Corporation, the finance subsidiary of Guodian Group, will be canceled; (ii) the pricing policies for the Deposit Services and the Credit Services as mentioned above; (iii) the Group will use the financial services provided by China Energy Finance on a voluntary and non-compulsory basis and is not obliged to engage China Energy Finance for any particular service, we are of the view that the Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group.

(2) Principal terms of the Transactions

The following table tabulates a summary of the major terms of the Transactions, details of which are set out under section headed “Summary of the Terms of the Finance Services Framework Agreement” of the Board Letter:

Date	29 September 2020
Parties	The Company and China Energy Finance
Subject of the transaction	(i) deposit services, including but not limited to agreement deposits, call deposits and time deposits; and

LETTER FROM GRAM CAPITAL

- (ii) credit services, including but not limited to fixed asset loans, project financing loans, working capital loans, financing loans for temporary working capital, bill issuance, acceptance, discount, financial guarantee service (including guarantee business within the business scope of financial enterprises, such as performance guarantee and quotation sharing), bill discount and commercial factoring.

- Pricing policy
 - (i) deposit services: the interest rates for deposits placed by the members of the Group with China Energy Finance shall be, under the same conditions, no less than the interest rates paid by the Four Major Domestic Commercial Banks for the same category of deposit services provided to the members of the Group and shall be determined in accordance with normal commercial terms. Under the same conditions, China Energy Finance will provide the Group with corresponding interest rates for the same category of deposits based on the principle of equal treatment for the members of China Energy.

 - (ii) credit services: the interest rates for loans granted by China Energy Finance to the members of the Group shall be, under the same conditions, no more than the interest rates charged by the Four Major Domestic Commercial Banks for the same category of loan services provided to the members of the Group and shall be determined in accordance with normal commercial terms. Under the same conditions, China Energy Finance will provide the Group with corresponding interest rates for the same category of loans based on the principle of equal treatment for the members of China Energy.

Under the Finance Services Framework Agreement, China Energy Finance has promised that under the same conditions, the terms of the finance services provided to the Group will not be less favorable than those offered to other members of China Energy for the same category of finance services, nor less favorable than those offered to the Group by the Four Major Domestic Commercial Banks for the same category of finance services.

Upon our enquiry, we understood that the Group will adopt certain internal control measures to govern the Transactions, details of which are set out under the section headed “**Internal Control Measures**” of the Board Letter. Having considered that there would be quotation collection procedures and comparison procedures before the placing of new deposit or entering into new loan transaction, we are of the view that the effective implementation of the measures will ensure the fair pricing of the Deposit Services and the Credit Services.

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We further discussed with a staff of Company's Finance and Property Department, a staff of Company's Finance Sharing Center and a staff of the Subsidiary A (as defined below), who will be involved in the Deposit Services and Credit Services, respectively and understood that the aforesaid staffs are aware of the internal control measures and will comply with the internal control measures when conducting transactions contemplated under the Deposit Services and Credit Services. Therefore, we do not doubt the effectiveness of the implementation of the internal procedures for the Deposit Services and Credit Services.

In light of the above factors, we concur with the Directors that the terms of the Transactions are on normal commercial terms and are fair and reasonable.

(3) Basis of the proposed annual caps under the Transactions

A. Deposit Services

Set out below are the proposed annual caps for the Deposit Services for the three years ending 31 December 2022 (the "Deposit Cap(s)"):

	For the year ending 31 December 2020 <i>(RMB'million)</i>	For the year ending 31 December 2021 <i>(RMB'million)</i>	For the year ending 31 December 2022 <i>(RMB'million)</i>
Maximum daily deposit balances (including any accrued interest) placed by the Group with China Energy Finance	4,500	4,500	4,500

With reference to the Board Letter, the Deposit Caps for each of the three years ending 31 December 2022 were determined after taking into account of various factors as set out in sub-section headed "Deposit Services" under the section headed of "Proposed Annual Caps for 2020, 2021 and 2022 and Basis of Determination" of the Board Letter.

We noted from the Company's interim report for the six months ended 30 June 2020 that as at 30 June 2020, (i) total amount of Group's cash at bank and in hand amounted to approximately RMB4.86 billion (as at 31 December 2019: RMB4.19 billion); and (ii) trade and bills receivables amounted to approximately RMB9.29 billion (as at 31 December 2019: approximately RMB9.81 billion). The sum of aforesaid two items (the "Sum") amounted to approximately RMB14.15 billion (as at 31 December 2019: approximately RMB14.00 billion). The Sum (which is larger than the Deposit Caps) indicates the Group's possible demand of deposit services to be provided by commercial banks and China Energy Finance.

LETTER FROM GRAM CAPITAL

As mentioned above, the Company entered into the Previous Finance Services Framework Agreement with Guodian Finance Corporation on 9 November 2017, pursuant to which the Company set a three-year annual cap for deposit services to be provided by Guodian Finance Corporation to the Group during the three years ending 31 December 2020. During the two years ended 31 December 2019 and six months ended 30 June 2020, maximum daily deposit balances (including accrued interest) placed by the Group with Guodian Finance Corporation amounted to approximately RMB1,836 million, RMB2,585 million and RMB2,999 million. As confirmed by the Directors, subject to the compliance of relevant pricing policies, the Group may transfer deposits placed in Guodian Finance Corporation to China Energy Finance upon the Cancellation.

Pursuant to the Finance Services Framework Agreement, China Energy Finance will provide, among other things, exchange of quality guarantee deposits to a guarantee letter business (質量保證金換保函業務, the “**Exchanging Business**”) to the Group. Details of the Exchanging Business are set out under the sub-section headed “B. Credit Services” below. Subject to the compliance of relevant pricing policies, the Group may deposit the fund directly (e.g. fund from loans from China Energy Finance, which was not immediately utilized or transferred) or indirectly (e.g. fund received in advance as a result of the Exchanging Business to be provided by China Energy Finance) from the Credit Services in China Energy Finance. We also noted that the Group had outstanding quality guarantee amounts over RMB2 billion as at 31 July 2020.

Despite that the Sum as at 30 June 2020 only represented a slight increase as compared to that as at 31 December 2019, having considered the following factors:

- (i) the Sum (which is larger than the Deposit Caps) indicates the Group’s possible demand of deposit services to be provided by commercial banks and China Energy Finance;
- (ii) the utilization rates of existing deposit caps for the two years ending 31 December 2020 were at high levels, in particular, the existing deposit cap for the year ending 31 December 2020 was almost fully utilized;
- (iii) the Group proposes to accept the Exchanging Business from China Energy Finance, which was not conducted between the Group and Guodian Finance Corporation, and the Group had outstanding quality guarantee amounts over RMB2 billion as at 31 July 2020, which is expected to collect in advance should the Group using the Exchanging Business to be provided by China Energy Finance,

we are of the view that the Deposit Cap for the year ending 31 December 2020 to be fair and reasonable.

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As advised by the Directors, it is difficult to forecast the total cash level for the three years ending 31 December 2022. Nevertheless, should there be any substantial increase in total cash of the Group, the Group may opt to deposit larger portion of cash in commercial banks or re-comply with the applicable provisions of the Listing Rules governing continuing connected transaction to revise the Deposit Caps for the two years ending 31 December 2022. Accordingly, we consider that the Deposit Caps for the two years ending 31 December 2022, which are the same as the Deposit Cap for the year ending 31 December 2020, are fair and reasonable.

Shareholders should note that as the Deposit Caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2022, and they do not represent forecasts of revenue/cost to be recorded/incurred from the Deposit Services. Consequently, we express no opinion as to how closely the actual revenue/cost to be recorded/incurred from the Deposit Services will correspond with the Deposit Caps.

B. Credit Services

Set out below are the proposed annual caps for the Credit Services for the three years ending 31 December 2022 (the “**Credit Cap(s)**”):

	For the year ending 31 December 2020 (RMB'million)	For the year ending 31 December 2021 (RMB'million)	For the year ending 31 December 2022 (RMB'million)
Proposed annual caps of the credit services provided by China Energy Finance to the Group	2,500	2,500	2,500

With reference to the Board Letter, the proposed annual caps for each of the three years ending 31 December 2022 were determined after taking into account of various factors as set out in sub-section headed “Credit Services” under the section headed of “Proposed Annual Caps for 2020, 2021 and 2022 and Basis of Determination” of the Board Letter.

To assess the fairness and reasonableness of Credit Caps, we performed following analyzes/ due diligence work:

- upon our request, the Directors provided us a list, showing the breakdown of the Credit Cap for the year ending 31 December 2020. According to the list, the components included, among other things, estimated demand of loan related services, estimated demand of the Exchanging Business and estimated demand of bill

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issuance and factoring services. We noted that the Group's estimated demand of the Exchanging Business (the "**Estimated Demand**") for the year ending 31 December 2020 represented 94% of the Credit Cap for the year ending 31 December 2020.

- we further enquired into the Directors in respect of the nature of the Exchanging Business. The Directors advised that the Company's certain subsidiaries (the "**Subsidiaries**") provide, among other things, (i) total solutions for wind turbine generator system and focuses on the green energy industry; (ii) water treatment services; and (iii) power station engineering, procurement and construction (EPC) services. Normally, certain percentage of the relevant contract values as quality guarantee deposits (the "**Quality Guarantee Deposits**") to cover potential expenses from quality defects should be retained by the Subsidiaries' clients (being members of China Energy, the "**Relevant Clients**") until the expiration of warranty period and the passing of final examination. By using the Exchanging Business, the Group can receive the Quality Guarantee Deposits in advance from the Relevant Clients.
- upon our further enquiry, the Directors advised that the operational model of the Exchanging Business are as follows: (i) upon the commencement of the warranty period, the Relevant Clients retained Quality Guarantee Deposits; (ii) the Group requires the Exchanging Business from China Energy Finance; (iii) China Energy Finance provides guarantee letter to the Relevant Clients and may also require the Group to place certain cash deposits (as a certain percentage of Quality Guarantee Deposits) as security deposits and (if any) to pay handling fees; (iv) subject to the Relevant Clients' acceptance of the arrangement, the Relevant Clients settle the Quality Guarantee Deposits in advance upon receiving the guarantee letter; and (v) China Energy Finance will, on demand, compensate Relevant Clients according to the guarantee letter should there be any quality defects and subsequently require the recourse of same amount from the Group. As also stated in the Board Letter, alternatively, the Group can directly compensate Relevant Clients should there be any quality defects without requiring China Energy Finance to compensate Relevant Clients according to the guarantee letter.
- As the Estimated Demand represented 94% of the Credit Cap for the year ending 31 December 2020, we further request the Directors to provide supporting information in respect of the determination for the Estimated Demand. Upon our request, the Directors provided a list, showing one of the Subsidiaries' (the "**Subsidiary A**") outstanding Quality Guarantee Deposits as at 31 July 2020 with client names and total contract amount. We noted that the sum of outstanding Quality Guarantee Deposits as recorded by Subsidiary A as at 31 July 2020 were close to the Estimated Demand for the year ending 31 December 2020.

Having considered that (i) the outstanding Quality Guarantee Deposits were close to the Estimated Demand for the year ending 31 December 2020, which represented 94% of the

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Credit Cap for the year ending 31 December 2020; (ii) other than the exchanging quality guarantee deposits business (i.e. the Exchanging Business), China Energy Finance will also provide other Credit Services to the Group; and (iii) the Subsidiaries may be able to collect the Quality Guarantee Deposits in advance by using the Exchanging Business as provided by China Energy Finance during the remaining approximate two months of 2020 should the Relevant Clients accept the arrangement, we consider the Credit Cap for the year ending 31 December 2020 to be fair and reasonable.

Furthermore, the Directors also advised that they assumed the Group's overall demand of Credit Services to be stable during 2020 to 2022. Therefore, the Directors set the Credit Caps for the two years ending 31 December 2022 the same as that for the year ending 31 December 2020.

We noted that the estimated demand of the Exchanging Business by the Subsidiaries for the year ending 31 December 2021 was the same as that for the year ending 31 December 2020. As explained by the Directors, having considered that the Finance Services Framework Agreement will be effective from the date of consideration and approval at the general meeting of the Company, which is expected to be 10 November 2020. As it is less than two months till the end of 2020, the Subsidiaries may or may not be able to conduct the Exchanging Business with China Energy Finance in time. For the sake of prudence, the Directors assumed that the estimated demand of Credit Services by the Subsidiaries for the year ending 31 December 2021 to be the same as that for the year ending 31 December 2020.

As mentioned in the Board Letter, compared with Guodian Finance Corporation, the enlarged registered capital of China Energy Finance will considerably enhance its comprehensive strength especially in terms of scope and scale of financial services offerings. China Energy Finance will, taking into consideration of the needs of members of China Energy, expand the scope of existing business and intend to provide letter of credit and guarantee services. The Group will also make greater use of the credit services provided by China Energy Finance. Based on the public information, as at Latest Practicable Date, Guodian Finance Corporation's registered capital was RMB5.05 billion while China Energy Finance's registered capital was RMB12.50 billion.

Based on the above factors, we consider that the Credit Caps for the two years ending 31 December 2022, which are the same as that for the year ending 31 December 2020, to be fair and reasonable.

Shareholders should note that as the Credit Caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2022, and they do not represent forecasts of revenue/cost to be recorded/incurred from the Credit Services. Consequently, we express no opinion as to how closely the actual revenue/cost to be recorded/incurred from the Credit Services will correspond with the Credit Caps.

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(4) Listing Rules implication regarding the Transactions

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 values of the Transactions must be restricted by the Deposit Caps and Credit Caps for the period concerned under the Finance Services Framework Agreement; (ii) the terms of the Transactions must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the Transactions must be included in the Company's subsequent published annual reports.

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 Transactions (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 Deposit Caps and Credit Caps.

In the event that the maximum amounts of the Transactions are anticipated to exceed the Deposit Caps and/or Credit Caps, or that there is any proposed material amendment to the terms of the Transactions, 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 Transactions and hence the interest of the Independent Shareholders would be safeguarded.

Recommendation on the Transactions

Having taken into account that above factors and reasons, we are of the opinion that (i) the Transactions are entered into in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the Transactions are on normal commercial terms and are fair and reasonable. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favor of the relevant ordinary resolution(s) to be proposed at the Extraordinary General Meeting to approve the Transactions and transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favor of the resolution(s) in this regard.

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

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

1. FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group for each of the three years ended 31 December 2017, 2018 and 2019 and six months ended 30 June 2020 was disclosed in the following documents, which have been published at the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.01296.hk;

- Pages 171 to 327 of the annual report for the year ended 31 December 2017 published by the Company on 27 April 2018 at <https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0427/ltm201804271454.pdf>;
- Pages 173 to 349 of the annual report for the year ended 31 December 2018 published by the Company on 26 April 2019 at <https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0426/ltm201904262765.pdf>;
- Pages 168 to 353 of the annual report for the year ended 31 December 2019 published by the Company on 27 April 2020 at <https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0427/2020042701688.pdf>; and
- Pages 57 to 113 of the interim report for the six months ended 30 June 2020 published by the Company on 10 September 2020 at <https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0910/2020091000566.pdf>.

2. INDEBTEDNESS STATEMENT

Borrowings

As at the close of business on 31 August 2020, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding borrowings of approximately RMB12,255,492,000, details of which are as follows:

	As at 31 August 2020
	<i>RMB'000</i>
Bank loans	
– Secured	72,963
– Unsecured	5,992,000
Other loans	
– Secured	261,852
– Unsecured	916,000
Private placement notes	2,078,549
Corporate bonds	2,934,128
	<hr/>
	12,255,492
	<hr/> <hr/>

As at 31 August 2020, the secured loans of other loans were guaranteed and/or secured by concession assets, trade and bills receivables, long-term service concession receivables and income stream of certain subsidiaries.

As at 31 August 2020, none of the banks loans has been guaranteed and all of the corporate bonds have been guaranteed.

Lease liabilities

As at the close of business on 31 August 2020, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding unsecured and unguaranteed lease liabilities of approximately RMB118,003,000 in respect of lands, buildings and equipment.

Contingent liabilities

	As at 31 August 2020
	<i>RMB'000</i>
Issued guarantee	
– Bid guarantee	10,757
– Performance guarantee	2,103,215
	<u>2,113,972</u>

Save as disclosed above and apart from normal accounts payable in the ordinary course of the business, as at the close of business on 31 August 2020, the Group did not have any outstanding mortgages, charges, debentures or other loan capital, bank overdrafts or loans or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities. As at the Latest Practicable Date, the Directors are not aware of any material adverse changes in the Group's indebtedness position and contingent liabilities since the close of business on 31 August 2020.

3. WORKING CAPITAL ADEQUACY

After making due and careful inquiries, and taking into account the financial resources available to the Group including the internally generated funds and the available banking facilities and the effect of the Finance Services Framework Agreement, the Directors are of the opinion that the Group has sufficient working capital for its present requirement for the next twelve months from the date of this circular.

4. FINANCIAL AND BUSINESS PROSPECTS OF THE GROUP

At present, China's economy is in a critical period of transforming development mode, optimizing economic structure, and transforming growth momentum. The downward pressure on economy continues to increase. However, the positive effects of supply-side structural reforms, industrial upgrading, and "The Belt and Road" cooperation will continue to emerge, and the fundamental trend of stable development and long-term improvement remains unchanged. The central government has successively promulgated policies requiring the winning of the critical fight against air pollution, supporting reasonably-priced wind power on-grid, upgrading traditional industrial technologies and automation work, etc., which will bring greater market opportunities to the Group's environmental protection, energy conservation, wind power products and services and power electronics information business.

The Group will focus on energy restructuring and power technology transformation, continue to utilize the platform and resources of China Energy and invest in and promote technological research and development, allowing it to maintain its established position at the forefront of technological advancements in the environmental protection, energy conservation and renewable energy industries, and to develop innovative, practical and cost-efficient solutions and high-quality products in these industries. The Group will also focus on clean utilization of energy, integrated operations on the basis of intellectualization, further promote market-oriented reform, implement all-round delicacy management, and continuously improve the quality and efficiency of the Group. Further, the Group will integrate into the integrated operation of China Energy and strengthen the technical and market synergy with members of China Energy. While maintaining its technical advantages in the traditional business areas, the Group will actively develop intelligent thermal power and intelligent wind power integrated solutions, accelerate the application promotion of mature technologies in overseas markets, explore the technical application in coal mining, coal chemical industry, traffic and transportation, nuclear power, PV power generation, fuel gas power generation, urban heat supply, industrial boiler, metallurgical environmental protection, etc., pay attention to the technological development of shale gas, hydrogen energy, energy storage, and distributed energy, strengthen the synergy of internal innovative resources and carry out application research and development in due time so as to provide a new growth point for the development of the Company. For instance, the EPC project of a chemical thermoelectric technical innovation project of Sinopec Ningbo Engineering Co., Ltd., the smart power station construction project of Taizhou Power Generation Co., Ltd. under China Energy, and the EPCO general contracting project of a well water extraction treatment project of Shenhua Shendong Coal Group Co., Ltd..

5. IMPACT OF RELATED EVENTS ON THE GROUP'S PROFITS AND LIABILITIES

In view of the fact that the terms of financial services offered by China Energy Finance are not less favorable than those offered by other members of China Energy, or no less favorable than the terms offered by Four Major Domestic Commercial Banks in respect of the same type of financial services to the Group, namely the interest income/expenses arising from the Group's use of financial services offered by China Energy Finance will be comparable to those offered by Four Major Domestic Commercial Banks. Therefore, the Company considers that the Group's use of financial services offered by China Energy Finance will not have a significant impact on profits, assets and liabilities of the Group for the financial years ending 31 December 2020, 2021 and 2022 respectively.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTEREST**Interests of Directors, Supervisors and Chief Executives**

As at the Latest Practicable Date, other than as disclosed herein, none of the Directors, supervisors or chief executive of the Company had an interest or short position in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which would have 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/she was taken or deemed to have under such provisions of the SFO) or which was required, pursuant to section 352 of the SFO, to be entered in the register to therein, or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules to be notified to the Company and the Stock Exchange.

Except for the positions held by Mr. Wang Zhongqu and Mr. Zhang Wenjian at China Energy, and Mr. Gu Yuchun at GD Power, as at the Latest Practicable Date, none of the Directors was a director or employee of a company that had an interest or short position in the shares and underlying shares that would need to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Interests of Substantial Shareholders

As at the Latest Practicable Date, so far as is known to the Directors, the following persons (other than the Directors, supervisors and senior management of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO (the table has been updated according to the records of CCASS and the latest information in the Company's possession):

Name of Shareholders	Class of Share	Capacity	Number of Shares/Underlying Shares Held <i>(shares)</i>	Percentage in	Percentage in
				the Relevant Class of Share Capital ⁽¹⁾ %	the Total Share Capital ⁽¹⁾ %
China Energy	Domestic Shares	Interests of beneficial owner and controlled corporation	4,754,000,000 ⁽²⁾ (Long position)	100.00	78.40
GD Power	Domestic Shares	Interests of beneficial owner	2,376,500,000 ⁽²⁾ (Long position)	49.99	39.19
Mr. Yan Andrew Y.	H Shares	Interests of controlled corporation	288,200,000 ⁽³⁾ (Long position)	22.00	4.75
SAIF IV GP Capital Ltd.	H Shares	Interests of controlled corporation	288,200,000 ⁽³⁾ (Long position)	22.00	4.75
SAIF IV GP, L.P.	H Shares	Interests of controlled corporation	288,200,000 ⁽³⁾ (Long position)	22.00	4.75
SAIF Partners IV L.P.	H Shares	Interests of beneficial owner	288,200,000 ⁽³⁾ (Long position)	22.00	4.75
Datang Renewables (HK) Co., Ltd.	H Shares	Interests of beneficial owner	108,050,000 (Long position)	8.25	1.78
State Grid International Development Limited	H Shares	Interests of beneficial owner	76,284,000 (Long position)	5.82	1.26
National Council for Social Security Fund of the PRC	H Shares	Interests of beneficial owner	64,836,000 (Long position)	4.95	1.07

Notes:

- (1) This percentage is calculated based on the number of relevant shares/total shares issued by the Company as at the Latest Practicable Date. As at the Latest Practicable Date, the total number of shares of the Company is 6,063,770,000, of which 4,754,000,000 shares are Domestic Shares and 1,309,770,000 shares are H Shares.

- (2) As at the Latest Practicable Date, China Energy owned 46.00% of the total shares of GD Power, and GD Power owned 49.99% of the Company's Domestic Shares. Hence, China Energy holds an aggregate of 4,754,000,000 Domestic Shares in the Company directly or indirectly, which represents approximately 78.40% of the Company's total issued share capital, and is the controlling shareholder of the Company.
- (3) SAIF Partners IV L.P., a Cayman limited partnership, holds 288,200,000 in the H Shares. Mr. YAN Andrew Y. holds a 100% shareholding in a Cayman corporation SAIF IV GP Capital Ltd., which acts as the general partner of SAIF IV GP, L.P., which in turn acts as the general partner of SAIF Partners IV L.P.. Mr. YAN Andrew Y. thus indirectly controls SAIF Partners IV L.P.. Mr. YAN Andrew Y. disclaims beneficial ownership of the shares held by SAIF Partners IV L.P., except to the extent of his pecuniary interests therein.

Service Contracts

Each of the executive Directors and the supervisors of the Company has entered into a service contract with the Company on 7 August 2020, and each of the non-executive Directors and the independent non-executive Directors has entered into a letter of appointment with the Company on 7 August 2020, in compliance with relevant laws and regulations, the Articles and the relevant regulations of arbitration. Each service contract is for an initial term of three years commencing from 7 August 2020. Each letter of appointment is for a term of three years commencing from 7 August 2020, with a clause of one-year automatic renewal.

Except as disclosed above, none of the Directors or supervisors of the Company has entered into any service agreements with the Group (other than contracts expiring or determinable by any member of the Group within one year without payment of compensation, other than statutory compensation).

Interests in Other Competing Business

As at the Latest Practicable Date, save as disclosed below, none of the Directors and their close associates had any competing interests in any business that competed or was likely to compete, either directly or indirectly, with the business of the Group:

Name of Directors	Position in the Company	Other Interests
Mr. Wang Zhongqu	Non-executive Director	Chief Production Security Officer of China Energy
Mr. Zhang Wenjian	Non-executive Director	Director and Party Secretary of the Science and Technology Department (the Office of the Science and Technology Committee and Major Special Office) of China Energy
Mr. Gu Yuchun	Non-executive Director	Member of the Party Committee and the vice general manager of GD Power

Interests in Assets

As at the Latest Practicable Date, none of the Directors, supervisors or chief executive of the Company had any direct or indirect interest in any assets which have been, since 31 December 2019, being the date to which the latest published audited consolidated accounts of the Group were made up, acquired/disposed of by/leased to or are proposed to be acquired/disposed of by/leased to any member of the Group.

Interests in Contract or Arrangement

As at the Latest Practicable Date, none of the Directors, supervisors, or chief executive of the Company was materially interested, either directly or indirectly, in any subsisting contract or arrangement that is significant in relation to the business of the Group.

3. EXPERT AND CONSENT

Gram Capital is a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. Its letter of advice to the Independent Board Committee and the Independent Shareholders dated as of the date of this circular was given for the purpose of incorporation herein.

Gram Capital has given and has not withdrawn its written consent to the issue of this circular with a copy of its letter and the reference to its name and its advice included in this circular in the form and context in which they respectively appear.

As at the Latest Practicable Date, Gram Capital did not have any shareholding, directly or indirectly, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Gram Capital did not possess any direct or indirect interests in any assets which had been, since 31 December 2019, being the date to which the latest published audited consolidated accounts of the Group were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

4. LITIGATION

As at the Latest Practicable Date, except for those disclosed in the 2020 interim report, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

5. MATERIAL ADVERSE CHANGE

References are made to the profit warning announcement of the Company dated 12 August 2020 in relation to the expected decrease in the financial results for the six months ended 30 June 2020 and the interim results announcement for the same period of the Company dated 28 August 2020. As disclosed in these announcements, the results decrease was mainly attributable to the fact that (1) the prices of upstream raw materials and key components in the wind power products and services business continued to rise, resulting in a decrease in the gross profit margin of the aforesaid business; (2) affected by the outbreak of novel corona-virus disease, the progress of some EPC projects was delayed, the revenue decreased and the labor cost increased, resulting in a decline in gross profit compared with the corresponding period; and (3) the increase in warranty fees for certain wind turbine products based on actual condition.

Save as disclosed above, as at the Latest Practicable Date, the Directors confirmed that they were not aware of any material adverse changes in the financial or business position of the Group since 31 December 2019, being the date to which the latest published audited consolidated accounts of the Group were made up.

6. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of the Group within the two years immediately preceding the Latest Practicable Date and are, or may be, material:

- (1) On 13 August 2020, Beijing Guodian Longyuan Environmental Engineering Co., Ltd. (“**Longyuan Environmental**”), a subsidiary of the Company, entered into an investment agreement with Tianshenggang Power and Jin Tong Ling on the establishment of a joint venture (the “**Joint Venture**”). Longyuan Environmental will contribute RMB26 million in cash to the Joint Venture, accounting for 26% of the total registered capital of the Joint Venture;
- (2) The Company entered into an equity transfer agreement with Beijing Huadian Tiande Assets Operation Co., Ltd. (“**Huadian Tiande**”) on 10 January 2020. Accordingly, the Company agreed to acquire and Huadian Tiande agreed to sell its 10% equity interest of Beijing Huadian Tianren Power Controlling Technology Co., Ltd. at the consideration of RMB27,111,294;

- (3) The Company entered into a property lease framework agreement for 2020 with Guodian New Energy Technology Research Institute Limited (“**New Energy Research Institute**”) on 30 December 2019. Accordingly, the New Energy Research Institute agreed to lease certain properties to the Company and its subsidiaries for a period of one year from 1 January 2020 to 31 December 2020, with an annual cap of RMB42 million;
- (4) On 26 April 2019, by signing the guarantee and counter-guarantee, China Energy provided full guarantee to the corporate bonds and private placement note proposed to be issued by the Company, and GD Power provided counter-guarantee by the same proportion to China Energy based on its shareholding ratio of 39.19% in the Company. The guarantee principal is 39.19% of the face amount of the corporate bonds, that is, no more than RMB470.28 million, and 39.19% of the face amount of the private placement note, that is, no more than RMB391.9 million. Moreover, Longyuan Environmental, a wholly-owned subsidiary of the Company, will provide GD Power with the same amount of counter-guarantee by letter of counter-guarantee;
- (5) Yantai Longyuan Power Technology Co., Ltd. (“**Yantai Longyuan**”), a subsidiary of the Company, entered into the Structured Deposit Framework Agreement with Bank of Shizuishan Co., Ltd. (“**Bank of Shizuishan**”) Yinchuan Jinfeng Branch, on 29 March 2019 pursuant to which Yantai Longyuan agreed to utilize not more than RMB1,100 million for subscribing for the Structured Deposit at Bank of Shizuishan Yinchuan Jinfeng Branch;
- (6) Yantai Longyuan entered into the Structured Deposit Agreement with Bank of Shizuishan on 23 January 2019, pursuant to which the subscription amount of RMB300 million that Yantai Longyuan used for subscribing for the structured deposit under the structured deposit agreement entered into by Yantai Longyuan and Bank of Shizuishan on 30 July 2018 will be considered as deposit amount, which is used for subscribing for the Structured Deposit at Bank of Shizuishan.

7. GENERAL

- (a) The joint company secretaries of the Company are Mr. Cai Zhaowen and Mr. Lee Kwok Fai Kenneth. Mr. Lee Kwok Fai Kenneth is Certified Public Accountant, Hong Kong, a Certified Public Accountant, America, and a Chartered Financial Analyst.
- (b) The registered office of the Company is situated at Suite 1101, 11/F, Building 1, Yard 16, W. 4th Ring Middle Road, Haidian District, Beijing, PRC.
- (c) The head office and principal place of business of the Company in Hong Kong is Flat L, 15/F, Hong Kong Mansion, 1 Yee Wo Street, Causeway Bay, Hong Kong.

- (d) The English text of this circular shall prevail over the Chinese text in the event of inconsistency, unless the context otherwise specifies.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection on any weekday (excluding Saturdays and public holidays) from 9:30 a.m. to 5:00 p.m. at the Company's principal place of business in Hong Kong at Flat L, 15/F, Hong Kong Mansion, 1 Yee Wo Street, Causeway Bay, Hong Kong from the date of this circular up to and including the date of the EGM.

- (a) the Articles;
- (b) Finance Services Framework Agreement;
- (c) the letter from Gram Capital to the Independent Board Committee and the Independent Shareholders;
- (d) the material contracts referred to in this Appendix; and
- (e) the Directors' service contracts or letters of appointment (as the case may be) with the Company.