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

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

(Stock Code: 1272)

ANNOUNCEMENT

**CONTINUING CONNECTED TRANSACTIONS
SUPPLEMENTAL AGREEMENT TO INTEGRATED PRODUCT
AND SERVICE FRAMEWORK AGREEMENT –
REVISION OF ANNUAL CAP**

SUPPLEMENTAL AGREEMENT

The Board is pleased to announce that on 12 March 2018, the Company entered into the Supplemental Agreement with China Datang to revise certain terms of the Integrated Product and Service Framework Agreement, pursuant to which the Company proposes to provide China Datang with product and service in relation to thermal power plant contracting business, with a revised annual cap of RMB1,200 million for 2018.

LISTING RULES IMPLICATIONS

As China Datang directly held approximately 78.17% of the issued share capital of the Company as at the date of this announcement, it is a controlling shareholder of the Company. Pursuant to Chapter 14A of the Listing Rules, China Datang is therefore a connected person of the Company. Accordingly, the Supplemental Agreement and the Transactions constitute continuing connected transactions of the Company under the Listing Rules.

Given that one or more of the relevant percentage ratios (as defined in Rule 14.07 of the Listing Rules) of the Transactions calculated with reference to the revised annual cap is more than 5%, the Supplemental Agreement, the Transactions and the revised annual cap are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

INTRODUCTION

Reference is made to the Prospectus.

As mentioned in the “Connected Transactions” section of the Prospectus, the Company entered into the Integrated Product and Service Framework Agreement with China Datang on 26 October 2016 which took effect upon the listing of the H Shares on the Main Board of the Stock Exchange with an initial term of three years. Pursuant to this agreement, the products and services to be provided by the Group to China Datang Group include: environmental protection and energy conservation solutions, renewable energy engineering services, EPC for thermal power plants and others. And the products and services to be procured by the Group from China Datang Group include: water and power supply, ancillary services under the business model of concession operations (desulfurization and denitrification), logistics services, such as bidding services, conference services and training, and procurement of equipment. For further details of the Integrated Product and Service Framework Agreement, please refer to “Connected Transactions” section of the Prospectus.

On 12 March 2018, the Company entered into the Supplemental Agreement with China Datang to revise certain terms of the Integrated Product and Service Framework Agreement. Pursuant to the requirements of the Listing Rules, the Company will need to seek the approval of the Independent Shareholders in relation to the Supplemental Agreement and the revised annual cap.

THE SUPPLEMENTAL AGREEMENT

The principal terms of the Integrated Product and Service Framework Agreement as amended and supplemented by the Supplemental Agreement are summarized as below:

Date: 12 March 2018

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

Terms amended: In accordance with the Supplemental Agreement, the Company proposes to provide China Datang with product and service in relation to thermal power plant contracting business, with an annual cap of RMB1,200 million for 2018.

Save as disclosed above, all existing terms and conditions (including but not limited to the pricing policies) under the Integrated Product and Service Framework Agreement remain unchanged. In the event of any discrepancy between the Integrated Product and Service Framework Agreement and the Supplemental Agreement, the Supplemental Agreement shall prevail. Matters not mentioned in the Supplemental Agreement shall be subject to the Integrated Product and Service Framework Agreement.

For further details of the EPC of the thermal power plants services, please refer to “Business” section of the Prospectus.

THE REVISION OF THE ANNUAL CAP

The existing and revised annual caps in respect of EPC of thermal power plants under the Integrated Product and Service Framework Agreement for the financial year ending 31 December 2018 are as follows:

| | Existing annual cap for year ending 31 December 2018 | Revised annual cap for year ending 31 December 2018 |
|--|---|--|
| | <i>(RMB million)</i> | |
| Products and Services Provided by the Group to China Datang Group | | |
| EPC of thermal power plants | 0 | 1,200 |

Historical transaction amounts

The total transaction amounts relating to the EPC of thermal power plants under the Integrated Product and Service Framework Agreement for the financial year ended 31 December 2016 and 2017 are as follows:

| | Historical transaction amounts for year ended 31 December | |
|--|--|-------------|
| | 2016 | 2017 |
| | <i>(RMB million)</i> | |
| Products and Services Provided by the Group to China Datang Group | | |
| EPC of thermal power plants | 0 | 0 |

Basis of determination of the revised annual cap

The revised annual cap in respect of the EPC of thermal power plants under the Integrated Product and Service Framework Agreement (as amended by the Supplemental Agreement) is determined by the Company after taking into account the following:

The Group proposes to undertake the EPC project of a thermal power plant of China Datang Group, the total contract value of which is almost RMB2,200 million and approximately RMB1,100–1,200 million of it is expected to be attributable to the Group in 2018, according to the expected progress of the EPC project.

Besides the EPC project above, the Group does not plan to undertake any other EPC projects for thermal power plants in 2018.

At the time of the listing of the Company on the Stock Exchange, the Group did not have the qualification to independently undertake the EPC of thermal power generation project with a single unit capacity of more than 100MW, and at that time the Group had undertaken only one project of such type in its operating history, therefore it was then expected that the Group would not have any competitive advantage in the relevant market in the future. As such, at the time of listing, the Group expected the chance of undertaking new EPC of thermal power generation projects would be very low for the next three years, and thus the Group set the annual caps of continuing connected transaction for this segment at zero. Since the listing of the Company, the depth of reserve of the China's natural resources and the development of its macro energy consumption structure have forecasted that thermal power generation would still be one of the dominant methods of power generation in the near future. Therefore, it is estimated that the EPC business of thermal power generation projects will still have a large market space. Meanwhile, the Group also possesses its own personnel and technical strength to undertake EPC thermal power projects. The Group's operational capability in this business segment has continued to improve since its listing, and its marketing efforts in this business segment have not been abandoned. As such, taking all the above factors since the listing of the Company into consideration, the Group considers that it is now conducive for it to engage in the EPC business of thermal power generation again due to the favourable internal and external developments.

According to the applicable PRC laws and regulations, the undertaking of the above EPC project requires companies to possess qualifications of Class A or above in the power industry of engineering and design, or Grade I or above in the EPC construction of electric power engineering. The Group had undertaken one EPC project of thermal power plant prior to its listing, where the Group failed to meet the qualification requirements for such project. The Group had duly resolved such compliance issue at the time of its listing. For relevant details, please refer to the Prospectus of the Company.

The Group proposes to undertake the abovementioned new project by way of forming a consortium with an independent third party (which has the relevant requisite qualification for the EPC project above) where the allocation of responsibilities between, and the relevant EPC services to be provided by, this party and the Group will enable the Group's participation in this project to be in full compliance with the requirements on the grade or class of qualification and is therefore allowed under our existing qualification under the applicable PRC laws and regulations.

Pricing procedures for the EPC project of thermal power plant

For the EPC project of a thermal power plant, a bidding procedure shall be conducted by China Datang Group and the bidding price offered by the successful bidder shall be implemented. Prior to the bidding procedures, China Datang shall publish announcements on its bidding invitation on public websites. There must be at least three bidders attending the bidding procedure, otherwise the bidding will be cancelled. The review panel for any bidding consists of experts selected by China Datang who have no interest in the bidding, who will score the bids by categories where bidding price is an important but not the only factor to be considered. The bidder with the highest score comprehensively determined by the review panel wins and the bidding price offered by the bidder will be implemented. Therefore, only in the event that the Group wins the bidding with the highest score determined by the review panel, China Datang Group will enter into specific agreements with the Group under the Supplemental Agreement.

Therefore, the transactions contemplated under the Supplemental Agreement will be conducted in the ordinary and usual course of business of the Group and on normal or better commercial terms, and are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

INTERNAL CONTROL PROCEDURES IN RELATION TO THE REVISED ANNUAL CAP UNDER SUPPLEMENTAL AGREEMENT

The revised annual cap under the Supplemental Agreement will be subject to the approval of the Board and Independent Shareholders. After obtaining such approvals, the Financial and Property Management Department of the Company will issue an internal notice circulating the revised annual cap under the Supplemental Agreement for 2018 within the Group in order to remind about the strict compliance thereof.

Specific business contracts in relation to the EPC project of the thermal power plant will be negotiated by the relevant business departments of the Company, and are subject to review and approval by the Strategic Planning and Cost Management Department in line with stringent control policies before execution.

As for the continuing running of the connected transactions, the Financial and Property Management Department of the Company has set up a monthly reporting system to track and trace the continuing connected transactions of the Group. If the accumulative connected transaction amount for the EPC project of thermal power plant has proportionately exceeded the revised annual cap of the year in a substantial manner or if the amount of the connected transactions occurred together with the expected transaction amount for the rest of the year will exceed the revised annual cap, the relevant member or department of the Group is required to report to the Financial and Property Management Department the reasons for deviation and the proposed rectification measures. Subsequently, the Financial and Property Management Department will notify the Strategic Planning and Cost Management Department of such deviation or potential deviation by relevant member or department, and the Strategic Planning and Cost Management Department will closely monitor and control the approval of business contracts for relevant member or department and ensure that the revised annual cap will not be exceeded.

REASONS FOR AND BENEFITS OF THE SUPPLEMENTAL AGREEMENT AND REVISION OF THE ANNUAL CAP

According to the Company's internal estimation, the EPC project is expected to be profitable for the Group. Furthermore, such project experience is beneficial for the Group's market expansion in power generation industry.

Given the above, the Board (including the independent non-executive Directors who have obtained advice from Independent Financial Adviser) considers that the Supplemental Agreement, the corresponding revised annual cap and the Transactions have been conducted by the Company in its ordinary and usual course of business, on normal or better commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As China Datang directly held approximately 78.17% of the issued share capital of the Company as at the date of this announcement, it is a controlling shareholder of the Company. Pursuant to Chapter 14A of the Listing Rules, China Datang is therefore a connected person of the Company. Accordingly, the Supplemental Agreement and the Transactions constitute continuing connected transactions of the Company under the Listing Rules.

Given that one or more of the relevant percentage ratios (as defined in Rule 14.07 of the Listing Rules) of the Transactions calculated with reference to the revised annual cap is more than 5%, the Supplemental Agreement, the Transactions and the revised annual cap are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Jin Yaohua, Mr. Liu Chuandong, Mr. Liu Guangming and Mr. Liang Yongpan are holding positions in China Datang or its subsidiaries and therefore have abstained from voting at relevant Board meeting approving the Supplemental Agreement and the Transactions. Save as mentioned above, all Directors have confirmed that they have no material interests in the Supplemental Agreement and the Transactions thereof.

GENERAL INFORMATION

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

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

INDEPENDENT BOARD COMMITTEE, INDEPENDENT FINANCIAL ADVISER AND INDEPENDENT SHAREHOLDERS

The Independent Board Committee was formed to advise the Independent Shareholders in connection with the Supplemental Agreement and the revised annual cap. Orient Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the same. The letter from the Independent Board Committee and the letter from the Independent Financial Adviser are included in the circular to be dispatched to the Shareholders with respect to the Supplemental Agreement and the EGM of the Company.

As at the date of this announcement, to the best knowledge, information and belief of the Directors, save for China Datang and its associates, no other Shareholders will be required to abstain from voting in respect of the relevant resolution at the EGM.

DISPATCH OF CIRCULAR

A circular containing, amongst other things, further details of the Supplemental Agreement, a letter from the Independent Board Committee to the Independent Shareholders and a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, together with a notice of the EGM of the Company will be dispatched to the Shareholders on 12 March 2018.

DEFINITIONS

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

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| “Articles of Association” | the articles of association of the Company (as amended, altered or otherwise supplemented from time to time) |
| “associate(s)” | has the meaning ascribed under the Listing Rules |
| “Board” | the board of Directors of the Company |
| “China” or “PRC” | the People’s Republic of China excluding, for the purpose of this announcement, Hong Kong, Macau Special Administrative Region and Taiwan |
| “China Datang” | China Datang Corporation Ltd. (中國大唐集團有限公司), a state-owned enterprise established on 9 April 2003 in accordance with the PRC laws and the controlling shareholder and a promoter of the Company |
| “China Datang Group” | China Datang and its subsidiaries (excluding the Group) |
| “Company” | Datang Environment Industry Group Co., Ltd.* (大唐環境產業集團股份有限公司), a joint stock company incorporated in the PRC with limited liability, the H Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1272) |
| “connected person” | has the meaning ascribed under the Listing Rules |
| “continuing connected transaction(s)” | has the meaning ascribed under the Listing Rules |
| “controlling shareholder” | has the meaning ascribed under the Listing Rules |

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|---|---|
| “Director(s)” | director(s) of the Company |
| “Domestic Shares” | the ordinary shares in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for and paid up in RMB and have not been listed on any stock exchanges |
| “EGM” | the extraordinary general meeting of the Company to be held at 4:30 p.m. on Friday, 27 April 2018 at No. 120 Zizhuyuan Road, Haidian District, Beijing, the PRC |
| “EPC” | engineering, procurement and construction, a common form of contracting arrangement whereby the contractor is commissioned by the customer to carry out works, such as design, procurement, construction and trial operations, either through the contractor’s own employees or by subcontracting part or all of the works, and be responsible for the quality, safety, timely delivery and cost of the project |
| “Group” | the Company and its subsidiaries |
| “H Share(s)” | the overseas listed foreign shares of the Company with a nominal value of RMB1.00 each, which are listed on the Main Board of the Stock Exchange |
| “Hong Kong” or “HK” | Hong Kong Special Administrative Region of the PRC |
| “Independent Board Committee” | an independent committee of the Board comprising Mr. Ye Xiang, Mr. Mao Zhuanjian and Mr. Gao Jiexiang, all being independent non-executive Directors |
| “Independent Financial Adviser” or “Orient Capital” | Orient Capital (Hong Kong) Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activities under SFO, and is the independent financial adviser appointed for the purpose of advising the Independent Board Committee and the Independent Shareholders as to the Supplemental Agreement, the Transactions and the revised annual cap thereof |

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| “Independent Shareholders” | the Shareholders who are not required to abstain from voting at the EGM for the resolution with respect to the Supplemental Agreement |
| “Integrated Product and Service Framework Agreement” | the integrated product and service framework agreement entered into by China Datang and the Company on 26 October 2016 which took effect upon the listing of the H Shares on the Main Board of the Stock Exchange with an initial term of three years |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “Prospectus” | the prospectus of the Company dated 3 November 2016 with respect to the listing of the Company on the Main Board of the Stock Exchange |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “SFO” | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| “Share(s)” | Domestic Share(s) and/or H Share(s) |
| “Shareholder(s)” | holder(s) of Share(s) of the Company |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “subsidiaries” | has the meaning ascribed under the Listing Rules |
| “Supplemental Agreement” | the supplemental agreement to the Integrated Product and Service Framework Agreement entered into by the Company and China Datang dated on 12 March 2018 |
| “Transactions” | the transactions contemplated under the Supplemental Agreement |
| “%” | per cent |

By order of the Board
Datang Environment Industry Group Co., Ltd.*
Jin Yaohua
Chairman

Beijing, the PRC, 12 March 2018

As of the date of this announcement, the non-executive Directors are Mr. Jin Yaohua, Mr. Liu Chuandong, Mr. Liu Guangming and Mr. Liang Yongpan, the executive Directors are Mr. Deng Xiandong and Mr. Lu Shengli, and the independent non-executive Directors are Mr. Ye Xiang, Mr. Mao Zhuanjian and Mr. Gao Jiaxiang.

** For identification purposes only*