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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Dongjiang Environmental Company Limited (the “Company”), you should at once hand this circular and the accompanying reply slips and forms of proxy 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.

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### DONGJIANG ENVIRONMENTAL COMPANY LIMITED\*

東江環保股份有限公司

*(a joint stock limited company incorporated in the People's Republic of China)*  
(Stock code: 00895)

- (1) PROPOSED ADOPTION OF THE 2016 RESTRICTED A SHARE  
INCENTIVE SCHEME  
(2) CONNECTED TRANSACTION – PROPOSED GRANT  
UNDER INCENTIVE SCHEME  
(3) PROPOSED APPOINTMENT AND ELECTION OF DIRECTORS  
(4) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION  
AND  
(5) NOTICE OF EGM AND CLASS MEETING

Independent Financial Adviser of Independent Board Committee and  
Independent Shareholders



F.E. Corporate Finance Advisory Limited

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A letter from the Board is set out on pages 5 to 32 of this circular. A letter from the Independent Board Committee is set out on pages 33 to 34 of this circular. A letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders, is set out on pages 35 to 58 of this circular.

The notices convening the EGM and the H Shares Class Meeting to be held at 2:00 p.m. and 4:00 p.m. (or immediately after the conclusion or adjournment of the A Shares Class Meeting) on Tuesday, 11 October 2016 at 11th Floor, Dongjiang Environmental Building, No. 9 Langshan Road, Nanshan District, Shenzhen, the PRC were despatched to the H Shares Shareholders on 29 August 2016, which are reproduced together with the notice convening the A Share Class Meeting respectively on pages 116 to 123 of this circular.

If you are eligible and intend to attend the EGM or the H Shares Class Meeting, please complete and return the reply slips despatched on 29 August 2016 in accordance with the instructions printed thereon on or before Tuesday, 20 September 2016. Shareholders who intend to appoint a proxy to attend the EGM or the H Shares Class Meeting shall complete and return the proxy form despatched on 29 August 2016 in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the EGM or the H Shares Class Meeting or any adjournment thereof (as the case may be). Completion and return of the proxy form will not preclude you from attending the EGM or the H Shares Class Meeting and voting in person if you so wish.

\* For identification purpose only

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## DEFINITIONS

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

“A Share(s)”	the listed A shares in the share capital of the Company, with a par value of RMB1.00 each, which are listed on the Shenzhen Stock Exchange;
“A Shares Class Meeting”	the second A shares class meeting in 2016 to be held on Tuesday, 11 October 2016 (or any adjournment thereof);
“Articles of Association”	the articles of association of the Company, as amended from time to time;
“Associate(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules that apply to the Company;
“Board”	the board of Directors of the Company;
“Class Meetings”	A Shares Class Meeting and H Shares Class Meeting;
“close associate(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules that apply to the Company;
“Company”	東江環保股份有限公司 (Dongjiang Environmental Company Limited*), a joint stock limited company incorporated in the PRC, whose H Shares and A Shares are listed on the Stock Exchange and on the Shenzhen Stock Exchange, respectively;
“Company Law”	the Company Law of the People’s Republic of China;
“connected person(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules that apply to the Company;
“controlling shareholder(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules that apply to the Company;
“CSRC”	China Securities Regulatory Commission;
“Director(s)”	the director(s) of the Company;
“EGM”	the second extraordinary general meeting(or any adjournment thereof) of 2016 to be convened on Tuesday, 11 October 2016;
“First Grant”	the proposed grant of 18,620,000 Restricted A Shares to the Participants pursuant to the Incentive Scheme;

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## DEFINITIONS

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“Group”	the Company and its subsidiaries as at the Latest Practicable Date;
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“Hong Kong Stock Exchange”	the Stock Exchange of Hong Kong Limited;
“H Shares”	the overseas listed foreign shares in the ordinary share capital of the Company, with a par value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange;
“H Shares Class Meeting”	the second H Shares Class Meeting in 2016 to be convened on Tuesday, 11 October 2016 (or any adjournment thereof);
“Incentive Scheme”	2016 Restricted A Share Incentive Scheme of the Company (Revised Draft);
“Independent Board Committee”	the committee formed by all independent non-executive directors, so as to give advice to independent shareholders in respect of the Incentive Scheme and the proposed grant to connected person(s);
“Independent Financial Advisor” or “F.E. Corporate Finance Advisory Limited”	F.E. Corporate Finance Advisory Limited, a licensed corporation to conduct Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance, and appointed as the independent financial advisor of the Company, which is responsible for giving advice to independent board of directors and independent shareholders in respect of the Incentive Scheme and the proposed grant to connected persons;
“Latest Practicable Date”	24 August 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
“Meetings”	the EGM and the Class Meetings;

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## DEFINITIONS

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“PRC”	the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan;
“Participant(s)”	the person(s) to be granted Restricted A Share(s) under the Incentive Scheme, including the Directors (if any), senior management and key employees of the Company, but excluding independent non-executive directors, supervisors and shareholders holding 5% or above of the shares of the listed company alone or in aggregate or beneficial controllers or their spouse, parents, sons/daughters;
“Proposed Grant”	the proposed grant of an amount not exceeding 20,000,000 Restricted A Shares to the Participants pursuant to the Incentive Scheme;
“Reserved Grant”	the 1,380,000 Restricted A Shares reserved to be granted to the Participants pursuant to the Incentive Scheme;
“Restricted A Shares/Target A Shares”	the A Shares to be granted to the Participants by the Company under the Incentive Scheme;
“RMB”	Renminbi, the lawful currency of the PRC;
“Securities Law”	the Securities Law of the People’s Republic of China;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
“Specific Mandate – Incentive Scheme”	the specific mandate proposed to be granted to the Board by the Shareholders at the EGM and Class Meetings in relation to the Incentive Scheme;
“Share(s)”	the share(s) in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, including A Share(s) and H Share(s);
“Shareholder(s)”	holder(s) of shares;
“Shenzhen Stock Exchange”	the Shenzhen Stock Exchange;

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## DEFINITIONS

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“Validity Period” the period during which the Incentive Scheme remains effective;

“%” per cent.

\* *For identification purpose only*

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LETTER FROM THE BOARD

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**DONGJIANG ENVIRONMENTAL COMPANY LIMITED\***

**東江環保股份有限公司**

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

**(Stock code: 00895)**

*Executive Directors:*

Mr. Chen Shu Sheng

Mr. Li Yong Peng

*Non-executive directors:*

Mr. Feng Tao (*Vice Chairman*)

Ms. Sun Ji Ping

*Independent non-executive directors:*

Mr. Wong Hin Wing

Mr. Qu Jiu Hui

Mr. Su Qi Yun

*Registered office:*

1st Floor, 3rd Floor

North of 8th Floor, 9th-12th Floor

Dongjiang Environmental Building

No. 9 Langshan Road

North Zone of Hi-tech

Industrial Park

Nanshan District, Shenzhen

The PRC

*Principal place of business in Hong Kong:*

Room 1603

16/F China Building

29, Queen's Road Central

Hong Kong

29 August 2016

*To the Shareholders*

Dear Sir or Madam,

**(1) PROPOSED ADOPTION OF THE 2016 RESTRICTED A SHARE  
INCENTIVE SCHEME**

**(2) CONNECTED TRANSACTION – PROPOSED GRANT  
UNDER INCENTIVE SCHEME**

**(3) PROPOSED APPOINTMENT AND ELECTION OF DIRECTORS**

**(4) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION  
AND**

**(5) NOTICE OF EGM AND CLASS MEETING**

\* For identification purpose only

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## LETTER FROM THE BOARD

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### I. INTRODUCTION

Reference is made to the announcements of the Company dated 14 July 2016 in relation to, among others, (i) 2016 restricted A share incentive scheme; (ii) the connected transaction of proposed grant under the 2016 restricted A Share incentive scheme; (iii) proposed appointment of directors; (iv) amendments to the Articles of Association; and (v) the revised notices dated 24 August 2016 of EGM and H Shares Class Meeting the 2016 restricted A Share, for the purpose of considering and approving the resolutions in relation to among others, 2016 restricted A share incentive scheme and the authorisation to the Board to deal with the related matters, the connected transaction of proposed grant under incentive scheme, proposed appointment of directors and amendments to the Articles of Association.

The purpose of this circular is to provide the Shareholders with further information in respect of resolutions regarding the following matters to be proposed at the EGM and the Class Meetings (as the case maybe) to enable the Shareholders to make their informed decisions as to how to vote at the EGM and the H Shares Class Meeting:

- (i) Incentive Scheme;
- (ii) Method of Appraisal for Restricted A Share Incentive Scheme;
- (iii) Proposed Grant under Incentive Scheme to the Board;
- (iv) Biographical Details of the proposed appointed Directors; and
- (v) Proposed amendments to the Articles of Association.

### II. RESTRICTED A SHARES INCENTIVE SCHEME

Reference is made to the announcement of the Company dated 14 July 2016, in relation to, among others, the proposed adoption of 2016 restricted A shares incentive scheme and proposed grant under restricted A shares incentive scheme to the Board.

#### 1. Purpose of the Incentive Scheme

The Incentive Scheme is to improve the corporate governance structure of the Company, to provide longterm incentive, to promote the continuing professional development for Directors (if any), management and key employees (key technicians and key personnel), to motivate Directors (if any), senior management and key employees, to raise competitiveness of the Company, to implement development strategy and to achieve business objectives of the Company.



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## LETTER FROM THE BOARD

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### **2. Basis for determining the Participants and the scope of Participants of the Incentive Scheme**

#### ***(1) Basis for determining the Participants***

The Participants of the Incentive Scheme are determined in accordance with the Company Law, the Securities Law, the Stock Listing Rules of the Shenzhen Stock Exchange, Administrative Measures on Share Incentive of Listed Companies (implemented on 13 August 2016) as well as the relevant laws, regulations and regulatory documents and the relevant provisions of the Articles of Association, together with the Company's actual situations.

#### ***(2) Scope of Participants***

Participants for the First Grant of Restricted A Shares under the Incentive Scheme include Directors (if any), senior management and key employees of the Company at the time of implementation of the Incentive Scheme by the Company with a total of 343 individuals, representing approximately 8.56% of the total number of current employees of the Company; the independent non-executive Directors and supervisors of the Company are not included in the scope of the Participants under the Incentive Scheme. The abovementioned personnel must have entered into labor contracts with the Company, its subsidiaries or branches and hold office in the Company, its subsidiaries or branches. Besides, the abovementioned personnel should not be participants of share incentive schemes of other listed companies.

The list of the Participants for the First Grant shall be nominated and the number of Restricted A Shares to be granted shall be proposed by the Remuneration and Assessment Committee, considered and approved by the Board and verified by the Supervisory Committee in the EGM and Class Meetings with elaboration of such verification. When the Incentive Scheme and the related resolution are to be considered and approved by the Board and at the general meeting, the relevant directors and shareholders shall abstain from voting.

Participants for the reserved Restricted A Shares shall be determined by the Board within 12 months from the date of the approval of the Incentive Scheme at the general meeting. The criteria for determining the Participants for the reserved Restricted A Shares shall be the same as those for the First Grant.

The following personnel shall not be eligible for the Restricted A Shares:

- (i) those who have been declared as an ineligible candidate by the stock exchanges in the last 12 months;
- (ii) those who have been declared as an ineligible candidate by the CSRC and the institution regulation departments of the CSRC in the last 12 months;

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## LETTER FROM THE BOARD

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- (iii) those who have been imposed with administrative penalties or barred from entry into the market by the CSRC and the institution regulation departments of the CSRC due to act of material breach of laws and regulations in the last 12 months;
- (iv) those who are prohibited from acting as a director, supervisor or a member of the senior management pursuant to the Company Law;
- (v) those who are prohibited from joining the incentive scheme of listed companies pursuant to laws and regulations;
- (vi) any other circumstances as determined by the CSRC.

During the implementation of the Incentive Scheme, should any of the above situations occur preventing the Participants from participating in the Incentive Scheme, the Company will repurchase and cancel those Restricted A Shares that have been granted to such Participants and have not been unlocked and terminate their participation in the Incentive Scheme.

### **3. Class, source and number of Shares under the Incentive Scheme**

#### ***(1) Class of underlying Shares***

The Incentive Scheme adopts Restricted A Shares as incentive tools and the underlying A Shares are the Restricted A Shares of the Company.

#### ***(2) Source of underlying Shares***

The source of the underlying Shares to be granted shall be ordinary A Shares issued to the Participants by the Company.

#### ***(3) Number of underlying Shares***

The total number of Shares that may be granted under the Incentive Scheme shall not exceed 20,000,000 A Shares, representing approximately 2.3% of the Company's total issued share capital of 869,382,102 Shares as at the Latest Practicable Date, of which 18,620,000 A Shares will be granted under the First Grant, representing approximately 2.14% of the Company's total issued share capital as at the Latest Practicable Date and 1,380,000 A Shares will be reserved, representing approximately 0.16% of the Company's total issued share capital as at the Latest Practicable Date, respectively.

After the implementation of the Incentive Scheme, the total number of Restricted A Shares in relation to all effective share incentive schemes of the Company shall not exceed 10% of the Company's share capital, and the aggregate number of Shares to be issued to any Participant pursuant to the Incentive Scheme does not exceed 1% of the Company's total share capital, which complies with Provision 14 of the Administrative Measures on Share Incentives of Listed Companies (implemented on 13 August 2016).

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## LETTER FROM THE BOARD

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### **4. Validity Period, date of grant, lock-up period and unlocking period of/under the Incentive Scheme**

#### ***(1) Validity Period of the Incentive Scheme***

The Validity Period of the Incentive Scheme shall commence on the date of grant of Restricted A Shares and end within 48 months from such date of grant.

#### ***(2) The date of grant under the Incentive Scheme***

For the date of grant of the Incentive Scheme, please see the paragraph headed “Proposed Grant under the Incentive Scheme – Date of grant” below.

#### ***(3) Lock-up period and unlocking period under the Incentive Scheme***

The Restricted A Shares will be immediate locked-up after grant. The lock-up period under the Incentive Scheme shall be effective for 12 months and unlocking period will be the 36 months after the lock-up period. If the unlocking conditions of the Restricted A Shares specified by the Incentive Scheme were fulfilled during the unlocking period, the Restricted A Shares could be unlocked in phases during the unlocking period pursuant to the provisions of the Incentive Scheme. During the lock-up period and prior to the unlocking of the Restricted A Shares, the Restricted A Shares held by the Participants pursuant to the Incentive Scheme will be locked-up and shall not be transferred, pledged for guarantees or used for repayment of debt.

Where the Participant is a Director or member of the senior management of the Company, the number of Shares which may be transferred by the Participant per year during his/her tenure of office shall not exceed 25% of the total number of the Shares held by him/her and the Participant shall not transfer the Shares held by him/her within 6 months after his/her resignation; the Participant shall not transfer more than 50% of the Shares of the Company held by him/her through listing on the stock exchanges within 12 months after the 6-month period after his/her resignation.

Where the Participant is a Director or a member of senior management of the Company, all gains from the sale of Shares within 6 months of acquisition or from the acquisition of Shares within 6 months of sale by the Participant shall belong to the Company and to be collected by the Board.

If, during the Validity Period of the Incentive Scheme, there is any amendment to the requirements regarding the Share transfer by a Director and senior management of the Company under relevant laws, regulations and regulatory documents such as the Company Law, the Securities Law and the Articles of Association, the transfer of the Shares of the Company held by the Participant shall comply with the relevant amended laws, regulations and regulatory documents such as the Company Law and the Securities Law and provisions of the Articles of Association at the time of the transfer.

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## LETTER FROM THE BOARD

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### **5. Grant price and basis of determination of the grant price of the Restricted A Shares**

For the grant price and basis of determination of the grant price of the Restricted A Shares, please see the paragraph headed “Proposed Grant under the Incentive Scheme – Grant price and basis of determination” below.

### **6. Conditions of grant and unlocking of the Restricted A Shares**

#### ***(1) Conditions of grant of the Restricted A Shares***

The following conditions must be fulfilled before Participants are granted the Restricted A Shares:

- (i) None of the following circumstances has occurred to the Company:
  - (a) a certified public accountant gives a negative opinion or indicates the inability to give an opinion in relation to the Company’s financial and accounting report for the most recent accounting year;
  - (b) a certified public accountant gives a negative opinion or indicates the inability to give an opinion in relation to the internal control of the Company’s financial report for the most recent accounting year;
  - (c) failure to follow the law and regulations, the Articles of Association and public commitment to carry out distribution of profits for the most recent 36 months after listing;
  - (d) the implementation of share incentive is prohibited as stipulated by law and regulations; or
  - (e) other circumstances as determined by the CSRC.
- (ii) None of the following circumstances has occurred to the Participant:
  - (a) those who have been declared as an ineligible candidate by the stock exchanges in the last 12 months;
  - (b) those who have been declared as an ineligible candidate by the CSRC and the institution regulation departments of the CSRC in the last 12 months;
  - (c) those who have been imposed with administrative penalties or barred from entry into the market by the CSRC and the institution regulation departments of the CSRC due to act of material breach of laws and regulations in the last 12 months;

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## LETTER FROM THE BOARD

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- (d) those who are prohibited from acting as a director, supervisor or a member of the senior management pursuant to the Company Law;
- (e) those who are prohibited from joining the incentive scheme of listed companies pursuant to laws and regulations; or
- (f) other circumstances as determined by the CSRC.

The Restricted A Shares will not be granted to any Participant when any inside information of the Company exists and to any Directors during blackout period of the Company.

### ***(2) Conditions of unlocking of the Restricted A Shares***

The following conditions must be fulfilled at the same time before the Participants can unlock Restricted A Shares granted:

- (i) None of the following circumstances has occurred to the Company:
  - (a) a certified public accountant gives a negative opinion or indicates the inability to give an opinion in relation to the Company's financial and accounting report for the most recent accounting year;
  - (b) a certified public accountant gives a negative opinion or indicates the inability to give an opinion in relation to the internal control of the Company's financial report for the most recent accounting year;
  - (c) failure to follow the law and regulations, the Articles of Association and public commitment to carry out distribution of profits for the most recent 36 months after listing;
  - (d) the implementation of share incentive is prohibited as stipulated by law and regulations; or
  - (e) other circumstances as determined by the CSRC.
- (ii) None of the following circumstances has occurred to the Participant:
  - (a) those who have been declared as an ineligible candidate by the stock exchanges in the last 12 months;
  - (b) those who have been declared as an ineligible candidate by the CSRC and the institution regulation departments of the CSRC in the last 12 months;

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## LETTER FROM THE BOARD

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- (c) those who have been imposed with administrative penalties or barred from entry into the market by the CSRC and the institution regulation departments of the CSRC due to act of material breach of laws and regulations in the last 12 months;
  - (d) those who are prohibited from acting as a director, supervisor or a member of the senior management pursuant to the Company Law;
  - (e) those who are prohibited from joining the incentive scheme of listed companies pursuant to laws and regulations; or
  - (f) other circumstances as determined by the CSRC.
- (iii) Appraisal will be made on a yearly basis to the financial performance targets of the Company and individual performance targets for the three accounting years 2016-2018, and whether such targets are achieved shall be treated as conditions of unlocking for that year for a particular Participant:
- (a) Unlocking conditions pursuant to the performance level of the Company

The following performance requirements must be fulfilled for unlocking of the Restricted A Shares under the First Grant: 3 annual performance assessments will be carried out for the three accounting years of 2016, 2017 and 2018. Audited net profit excluding extraordinary gains and losses of the Company for 2015 will be used as the benchmark for the performance assessments and the net profit growth rate from 2016 to 2018 should be not less than 20%, 50% and 87.5% respectively over the net profit for 2015. At the same time, the weighted average returns on net assets after deducting extraordinary gains and losses for 2016 to 2018 should be not less than 11.8%, 12.3% and 10.9% respectively. In the event of refinancing by the Company, the basis of calculation shall be the net assets after deducting the amount of the financing, and the net profits generated thereof in the year of financing.

The assessment conditions of the reserved Restricted A Shares under Incentive Scheme shall be the same as that under the First Grant. If the date of grant of the reserved Restricted A Shares falls within 2016, the assessment years will be 2016, 2017 and 2018 respectively. If the date of grant of the reserved Restricted A Shares falls within 2017, the assessment years will be 2017 and 2018 respectively.

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## LETTER FROM THE BOARD

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The above net profit growth and return on net assets indicators are calculated based on the net profit excluding extraordinary gains and losses. In the event of refinancing by the Company, the basis of calculation shall be the net assets after deducting the amount of the financing, and the net profits generated thereof in the year of financing.

During the lock-up period and the unlocking period, the net profit attributable to the Shareholders and the net profit attributable to the Shareholders after deducting extraordinary gains and losses for each year must not be lower than the average level of the three accounting years preceding the date of grant and must not be negative.

The costs incurred from the Incentive Scheme will be charged to the recurring gains and losses.

(b) Assessments at the Participant level

Pursuant to the Appraisal Measures for the Implementation of the Incentive Scheme for Restricted A Shares of Dongjiang Environmental Company Limited, the appraisal result of the Participant will be used as the basis of grant of the Incentive Scheme for the Restricted A Shares. The restrictive shares granted to an incentive target in the corresponding unlocking period may be unlocked if the incentive target scored 70 or more points and is given an appraisal grade of A-D in the annual appraisal for the accounting year before the application for unlocking. If such score is less than 70 points or the appraisal grade is E, the restrictive shares granted to the incentive target in the corresponding unlocking period will be repurchased by the Company and cancelled.

- (iv) In the event of issue of shares (preference shares inclusive) and convertible bonds (“**Refinancing**”), acquisition, disposal and exchange of material assets or issue of shares for the acquisition of assets (“**Material Assets Reorganization**”), by the Company, and it is expected that the current return of the Company would be diluted due to the receipt of the proceeds or completion of the Material Asset Reorganization, and the basic earnings per share or diluted earnings per share shall be lower than the previous year, the Directors and the senior management as the incentive targets of the Incentive Scheme are not only required to achieve the individual performance target, but also the target for the execution of return measures implemented by the Company.

If the Participants are Directors and senior management of the Company and are not able to fulfil the above requirements, then the unlockable Restricted A Shares of that year of such Participants cannot be unlocked and will be repurchased by the Company for cancellation.

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## LETTER FROM THE BOARD

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### *(3) Unlocking arrangement of the Restricted A Shares*

The Validity Period of the Incentive Scheme shall be the 48 months from the date of the granting of Restricted A Shares.

The Restricted A Shares under the First Grant of the Incentive Scheme will be unlocked in three phases after 12 months from the date of the First Grant of the Incentive Scheme, the specific arrangements are as follow:

<b>Unlocking period</b>	<b>Date of unlocking</b>	<b>Proportion of unlocking</b>
First unlocking period	From the first trading day after 12 months from the date of First Grant to the last trading day within 24 months from the date of First Grant	30%
Second unlocking period	From the first trading day after 24 months from the date of First Grant to the last trading day within 36 months from the date of First Grant	30%
Third unlocking period	From the first trading day after 36 months from the date of First Grant to the last trading day within 48 months from the date of First Grant	40%

If the date of grant of the reserved Restricted A Shares falls within 2016, the reserved Restricted A Shares will be unlocked in three phases after 12 months from the date of grant of the reserved Restricted A Shares, the specific arrangements are as follow:

<b>Unlocking period</b>	<b>Date of unlocking</b>	<b>Proportion of unlocking</b>
First unlocking period	From the first trading day after 12 months from the date of grant of the reserved Restricted A Shares to the last trading day within 24 months from the date of grant of the reserved Restricted A Shares	30%
Second unlocking period	From the first trading day after 24 months from the date of grant of the reserved Restricted A Shares to the last trading day within 36 months from the date of grant of the reserved Restricted A Shares	30%



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## LETTER FROM THE BOARD

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Unlocking period	Date of unlocking	Proportion of unlocking
Third unlocking period	From the first trading day after 36 months from the date of grant of the reserved Restricted A Shares to the last trading day within 48 months from the date of grant of the reserved Restricted A Shares	40%

If the date of grant of the reserved Restricted A Shares falls within 2017, the reserved Restricted A Shares will be unlocked in two phases after 12 months from the date of grant of the reserved Restricted A Shares, the specific arrangements are as follow:

Unlocking period	Date of unlocking	Proportion of unlocking
First unlocking period	From the first trading day after 12 months from the date of grant of the reserved Restricted A Shares to the last trading day within 24 months from the date of grant of the reserved Restricted A Shares	50%
Second unlocking period	From the first trading day after 24 months from the date of grant of the reserved Restricted A Shares to the last trading day within 36 months from the date of grant of the reserved Restricted A Shares	50%

During the unlocking period, if the Board confirmed the unlocking conditions are met, the Participant must submit Restricted A Shares unlocking application in relation to the unlocked portion of the Restricted A Shares to the Company within the unlocking period. Such unlocking will be deemed as given up by the Participant if he/she does not submit written application to the Board during the unlocking period and the respective Restricted A Shares shall not be unlocked and shall be cancelled after being repurchased by the Company.

### **7. Method and procedures for adjustment for the Incentive Scheme**

#### ***(1) Method of adjusting the number of Restricted A Shares granted***

Prior to the date of grant, in the event of any issue of Shares by conversion of capital reserve, bonus issue, sub-division, consolidation or rights issue in relation to the Shares of the Company, adjustment to the number of Restricted A Shares to be granted shall be made by the Company accordingly. The method of adjustment is set out below:

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## LETTER FROM THE BOARD

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- (i) *Issue of Shares by conversion of capital reserve, bonus issue and sub-division of Shares*

$$Q = Q_0 \times (1 + n)$$

Where:  $Q_0$  represents the number of Restricted A Shares before the adjustment;  $n$  represents the ratio of increase per Share resulting from the issue of Shares by conversion of capital reserve, bonus issue or sub-division of Shares (i.e. the number of Shares increased per Share upon issue of Shares by conversion of capital reserve, bonus issue or sub-division of Shares);  $Q$  represents the adjusted number of Restricted A Shares.

- (ii) *Consolidation of Shares*

$$Q = Q_0 \times n$$

Where:  $Q_0$  represents the number of Restricted A Shares before the adjustment;  $n$  represents the ratio of consolidation of Shares (i.e. one Share of Dongjiang Environmental shall be consolidated into  $n$  Shares);  $Q$  represents the adjusted number of Restricted A Shares.

- (iii) *Rights Issue*

$$Q = Q_0 \times P_1 \times (1 + n) / (P_1 + P_2 \times n)$$

Where:  $Q_0$  represents the number of Restricted A Shares before the adjustment;  $P_1$  represents the closing price as at the record date;  $P_2$  represents the price of the rights issue;  $n$  represents the ratio of the rights issue (i.e. the ratio of the number of Shares to be issued under the rights issue I to the total share capital of the Company before the rights issue);  $Q$  represents the adjusted amount of Restricted A Shares.

- (iv) *Dividend payment and additional issue of new shares*

Under the circumstance of dividend payment and additional issue of new shares, no adjustment will be made on the number of subject shares.

**(2) *Method of adjusting the grant price of the Restricted A Shares***

In the event that, prior to the date of grant, any dividend distribution, issue of Shares by conversion of capital reserve, bonus issue, sub-division, consolidation or rights issue of Shares in relation to the Shares has been made, an adjustment to the grant price shall be made by the Company accordingly. The method of adjustment in principle is set out below:

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## LETTER FROM THE BOARD

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- (i) *Issue of Shares by conversion of capital reserve, bonus issue and sub-division of Shares*

$$P = P_0 / (1 + n)$$

Where:  $P_0$  represents the grant price before the adjustment;  $n$  represents the ratio of increase per Share resulting from the issue of Shares by conversion of capital reserve, bonus issue and sub-division of Shares to each Share;  $P$  represents the adjusted grant price.

- (ii) *Consolidation of Shares*

$$P = P_0 / n$$

Where:  $P_0$  represents the grant price before the adjustment;  $n$  represents the ratio of consolidation of Shares;  $P$  represents the grant price after the adjustment.

- (iii) *Dividend distribution*

$$P = P_0 - V$$

Where:  $P_0$  represents the grant price prior to adjustment;  $V$  represents the dividend per Share;  $P$  represents the grant price after adjustment.

- (iv) *Rights issue*

$$P = P_0 \times (P_1 + P_2 \times n) / (P_1 \times (1 + n))$$

Where:  $P_0$  represents the grant price before the adjustment;  $P_1$  represents the closing price as at the record date;  $P_2$  represents the price of the rights issue;  $n$  represents the ratio of the rights issue;  $P$  represents the adjusted grant price.

- (v) *Additional issue of new shares*

Under the circumstance of additional issue of new shares, no adjustment will be made on the price of the Target A Shares.

### **(3) *Adjustment procedures for the Incentive Scheme***

The Board has been authorised to adjust the number and grant price of the Restricted A Shares to be granted within the scope of the reasons set out above at the Company's general meeting. The Board should make timely announcement and inform the Participants after making adjustment to the number and grant price of the Restricted A Shares to be granted in accordance with the abovementioned provisions. The Company shall engage a legal adviser to provide professional

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## LETTER FROM THE BOARD

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advice to the Board whether such adjustment is in compliance with the provisions of relevant laws and regulations, Articles of Association and the Incentive Scheme.

Any adjustment to the number and grant price of the Restricted A Shares to be granted or other terms of the Incentive Scheme due to other reasons shall be resolved by the Board, and later submitted for review and approval at the general meeting of the Company.

### **8. Implementation of Incentive Scheme in the event of changes of the Company and Participants**

#### ***(1) Changes in the control of the Company, merger and spin-off***

In the event of changes in the control of the Company, merger or spin-off, the Incentive Scheme shall remain unaffected and shall be implemented according to its original provisions.

#### ***(2) Change of post and resignation of a Participant***

If the post of a Participant changes but he/she remains a Director (if any, except independent non-executive director), senior management, or key employees (key technicians and key personnel) of the Company or he/she has been appointed by the Company to take office any of its subsidiaries or branch offices, all Restricted A Shares already granted to him/her shall remain unchanged in principle.

If a post of a Participant changes such that the he/she is no longer eligible to be a Participant under the Incentive Scheme or such Participant resigns the Target A Shares and terminates the employment contract with the Company or its subsidiaries or branch offices, the Board may decide to cancel the grant of Restricted A Shares which are not yet unlocked by the Participant and such Restricted A Shares shall be cancelled by the Company upon repurchase.

If the Company disposes of its shareholding interest in a subsidiary so that the accounts of such subsidiary shall no long be consolidated into the financial statements of the Company or if the Company de-registers a subsidiary or a branch office such that a Participant no longer has a labor relationship with the Company, or a subsidiary of the Company which accounts are consolidated into the financial statements of the Company, or its branch office (duly subsisted), the Board may decide to cancel the grant of Restricted A Shares which are not yet unlocked by the Participant and such Restricted A Shares shall be cancelled by the Company upon repurchase.

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## LETTER FROM THE BOARD

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**(3) *Retirement, incapability, civil incapacity and death arising out of work of the Participant***

If a Participant retires, resigns due to incapability or civil incapability or dies arising out of and in the course of his/her employment, the unlocked Shares shall be exercisable by the Participant according to the requirements of the Incentive Scheme. The unlocking of the remaining Restricted A Shares shall follow the stipulated procedures and period for unlocking. The Participants shall no longer be bound by the unlocking condition in relation to the business performance, whilst other unlocking conditions shall remain effective.

If the Participant retires during the Validity Period of the Incentive Scheme and the Company re-employs such Participant and the Participant accepts the offer and continues to work in the Company, the unlocking of Restricted A Shares granted under the Incentive Scheme shall follow the stipulated procedures and period for unlocking.

### **9. Modification and termination of Incentive Scheme**

- (i) The Restricted A Shares Incentive Scheme can be modified before the consideration and approval at the general meeting of the Company. The modification has to be approved by the Board. If the Restricted A Shares Incentive Scheme is modified after the approval of the Board, the Company has to publish the announcement in time and submit for approval at the general meeting of the Company, and none of the following events shall occur:
  - (a) Accelerating the exercise or lifting restrictions in transfer in advance;  
or
  - (b) Lowering the exercise price or grant price
- (ii) If any of the following events has occurred to the Company, the Incentive Scheme shall be terminated. Restricted A Shares which are granted under the Incentive Scheme but not yet unlocked by the Participants shall be cancelled by the Company upon repurchase:
  - (a) a certified public accountant gives a negative opinion or indicates the inability to give an opinion in relation to the Company's financial and accounting report for the most recent accounting year;
  - (b) a certified public accountant gives a negative opinion or indicates the inability to give an opinion in relation to the internal control of the Company's financial report for the most recent accounting year;
  - (c) failure to follow the law and regulations, the Articles of Association and public commitment to carry out distribution of profits for the most recent 36 months after listing;

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## LETTER FROM THE BOARD

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- (d) the implementation of share incentive is prohibited as stipulated in law and regulations; or
- (e) other circumstances as determined by the CSRC.

In case of the aforesaid situation under which one becomes personally liable, the repurchase price shall not exceed the grant price.

- (iii) During the implementation of the Incentive Scheme, if any of the following events occurs to a Participant, such Participant shall cease to be eligible for participating in the Incentive Scheme. All his/her Restricted A Shares granted but not yet unlocked shall be cancelled by the Company upon repurchase.
  - (a) those who have been declared as an ineligible candidate by the stock exchanges in the last 12 months;
  - (b) those who have been declared as an ineligible candidate by the CSRC and the institution regulation departments of the CSRC in the last 12 months;
  - (c) those who have been imposed with administrative penalties or barred from entry into the market by the CSRC and the institution regulation departments of the CSRC due to act of material breach of laws and regulations in the last 12 months;
  - (d) those who are prohibited from acting as a director, supervisor or a member of the senior management pursuant to the PRC Company Law;
  - (e) those who are prohibited from joining the incentive scheme of listed companies pursuant to laws and regulations; or
  - (f) other circumstances as determined by the CSRC.

In case of the aforesaid situation, the repurchase price shall not exceed the grant price.

If any other circumstances not provided in the Incentive Scheme occurs to the Company or any of the Participants, the Board will adopt the relevant procedures in respect to the concerned Restricted A Shares held by such party.

Apart from the above mentioned in 9. Modification and termination of Incentive Scheme – (ii) termination of Restricted A Shares Incentive Scheme and (iii) other circumstances of cancelling Restricted A Shares in repurchase, if other circumstances occur which requires the repurchase of Restricted A Shares, the repurchase price shall not exceed the sum of grant price and the interest on bank deposits over the same period.

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## LETTER FROM THE BOARD

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Upon the approval obtained at the extraordinary general meeting and class meetings of the Company, the Board may terminate the Incentive Scheme by way of resolution if it considers necessary. From the date on which the Board resolution is passed, the unlocked Restricted A Shares of the Participants shall remain valid and the Restricted A Shares not yet unlocked shall be cancelled by the Company upon repurchase.

### 10. Principles of repurchase and cancellation

Shall there be any cancellation of Restricted A Shares by the Company upon repurchase pursuant to the terms of Incentive Scheme, the repurchase price shall be the grant price, unless otherwise adjusted.

#### *(1) Adjustment method for the repurchase price*

After granting the Restricted A Shares, if the Company shall repurchase such Restricted A Share pursuant to public offering or private placement according to the terms of the incentive scheme, no adjustment will be made on the repurchase price. If there is any ex-rights or ex-dividend events affecting the total number of Shares or the stock price of the Company such as capitalization of capital reserve, bonus issue, dividend payment or placing, the Company shall make corresponding adjustment to the repurchase price of the locked Restricted A Shares.

##### *(a) Issue of Shares by conversion of capital reserve, bonus issue and sub-division of Shares*

$$P = P_0 \div (1 + n)$$

Where:  $P_0$  represents the grant price before the adjustment;  $n$  represents the ratio of increase per Share resulting from the issue of Shares by conversion of capital reserve, bonus issue and sub-division of Shares;  $P$  represents the adjusted grant price.

##### *(b) Consolidation of Shares*

$$P = P_0 \div n_1$$

Where:  $P_0$  represents the grant price before the adjustment;  $n_1$  represents the ratio of consolidation of Shares;  $P$  represents the adjusted grant price.

##### *(c) Declaration of dividend*

$$P = P_0 - V$$

Where:  $P_0$  represents the grant price prior to adjustment;  $V$  represents the dividend rate per Share;  $P$  represents the adjusted grant price.

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## LETTER FROM THE BOARD

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*(d) Rights issue*

$$P = P_0 \times (P_1 + P_2 \times n_2) / (P_1 \times (1 + n_2))$$

Where:  $P_0$  represents the grant price before the adjustment;  $P_1$  represents the closing price as at the record date;  $P_2$  represents the price of the rights issue;  $n_2$  represents the basis of the rights issue (i.e. the number of Shares to be issued under the rights issue to the total share capital of the Company prior to the rights issue);  $P$  represents the adjusted grant price.

***(2) Adjustment procedures for the repurchase price***

- (a) The Board shall be authorised at the EGM and Class Meetings to adjust the number and price of the Restricted A Shares to be repurchased with the reasons set out above. The Board should make timely announcement after making adjustment to the number and price of the Restricted A Shares to be repurchased in accordance with the abovementioned provisions.
- (b) Any adjustment to the number and price of the Restricted A Shares to be repurchased due to other reasons, after being considered and approved by the Board, shall be submitted at the general meeting of the Company for consideration and approval.

***(3) Procedures of repurchase and cancellation***

In case of the termination of the Incentive Scheme, ineligibility of Participants to be granted Restricted A shares, non-fulfillment of conditions for lifting the restriction on transfer or such other situations where repurchase shall be conducted in accordance with laws and regulations. The Company shall convene the Board meeting to approve the repurchase proposal and submit to the Company's general meeting for approval accordingly, the proposal shall include but not limited to the followings:

- (a) the reasons of share repurchase;
- (b) the share repurchase price and the pricing basis;
- (c) class, number and percentage of the proposed share repurchase to the proportion of Target A Shares and total Shares;
- (d) proposed total fund amount and source of funding for the share repurchase; and
- (e) impacts of the share repurchase on changes in shareholding structure.



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## LETTER FROM THE BOARD

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The Company shall apply to the Shenzhen Stock Exchange for unlocking the Restricted A Shares upon the repurchase implemented according to the provisions of Incentive Scheme. The Company shall also pay the repurchase amount to the Participants and complete the transfer of relevant Shares with the securities depository and clearing corporation within 10 business days upon unlocking. Within a reasonable period upon Share transfer, the Company shall cancel these Shares.

### **11. Specific Mandate – Incentive Scheme**

The Restricted A Shares (the First Grant and the Reserved Grant) of the Incentive Scheme will be issued by way of specific mandate.

## **III. PROPOSED GRANT UNDER THE INCENTIVE SCHEME**

Major terms of the proposal in respect of the Proposed Grant of the Restricted A Shares are set out in details in this section. Relevant requirements of the proposal of the Proposed Grant of the Restricted A Shares shall also comply with the provisions under the Incentive Scheme. Other requirements not provided for in the proposal in respect of the Proposed Grant of Restricted A Shares shall be determined with reference to the relevant terms under the Incentive Scheme.

### **1. Number of underlying Shares in relation to the Restricted A Shares under the Proposed Grant**

The total number of Restricted A Shares that may be granted under the Incentive Scheme shall not exceed 20,000,000 A Shares, representing approximately 2.3% of the Company's total issued share capital of 869,382,102 Shares as at the Latest Practicable Date, of which 18,620,000 A Shares will be granted under the First Grant, representing approximately 2.14% of the Company's total issued share capital as at the Latest Practicable Date and 1,380,000 A Shares will be reserved, representing approximately 0.16% of the Company's total issued share capital as at the Latest Practicable Date, respectively. The Restricted A Shares to be granted will be issued by way of specific mandate.

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## LETTER FROM THE BOARD

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### 2. Allocation of the Restricted A Shares under the First Grant

The total number of proposed Participants for the First Grant of Restricted A Shares under the Incentive Scheme is 343, representing approximately 8.56% of the total number of existing employees of the Company. The proposed Participants of the Incentive Scheme include certain existing Directors (if any), senior management and key employees of the Company during implementation of the Incentive Scheme. Details of the allocation of the Proposed Grant under the Incentive Scheme are as follows:

2(a)

Serial Number	Name	Position	Number of Restricted A Shares to be granted under the grant (A Shares)	Percentage to the total number of Restricted A Shares to be granted under the grant	Percentage to the total number of share capital of the Company as at the Latest Practicable Date
1	Lan Yong Hui	vice president	240,000	1.20%	0.03%
2	Wang Tian	vice president and secretary to the Board	240,000	1.20%	0.03%
3	Zhou Yao Ming	vice president	240,000	1.20%	0.03%
4	Tian Hua Chen	chief financial officer	200,000	1.00%	0.02%
Sub-total of senior management of the Company			920,000	4.60%	0.11%
key employees: 339			17,770,000	88.50%	2.03%
Reserved			1,380,000	6.90%	0.16%
Total			20,000,000	100%	2.30%

*Note:* the total amount may differ from the direct sum of each item as a result of round off differences.

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## LETTER FROM THE BOARD

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Under the First Grant, certain Participants are the directors, supervisors or the chief executive officers of certain subsidiaries of the Company and hence a connected person of the Company. Details of the aforesaid grant of Restricted A Shares are as follows:

2(b)

Serial Number	Name	Position	Number of Restricted A Shares to be granted under the grant (A Shares)	Percentage to the total number of Restricted A Shares to be granted under the grant	Percentage to the total number of share capital of the Company as at the Latest Practicable Date
1	Lan Yong Hui	Vice president of the Company and director of a subsidiary	240,000	1.200%	0.028%
2	Wang Tian	Vice president of the Company and director of subsidiaries	240,000	1.200%	0.028%
3	Zhou Yao Ming	General manager of the business department and director of subsidiaries	240,000	1.200%	0.028%
4	Tian Hua Chen	Chief financial officer of the Company and director of subsidiaries	200,000	1.000%	0.023%
5	Xie Heng Hua	Chief engineer of the Company and director of subsidiaries	280,000	1.400%	0.032%
6	Lee Kai Yan	Audit director of the Company and director of subsidiaries	200,000	1.000%	0.023%
7	Yao Qiong	Human resources director of the Company and director of subsidiaries	200,000	1.000%	0.023%
8	Zhao Zhong Hua	General manager of a subsidiary	120,000	0.600%	0.014%

## LETTER FROM THE BOARD

Serial Number	Name	Position	Number of Restricted A Shares to be granted under the grant (A Shares)	Percentage to the total number of Restricted A Shares to be granted under the grant	Percentage to the total number of share capital of the Company as at the Latest Practicable Date
9	Liao He Ping	General manager of the business department and director of subsidiaries	130,000	0.650%	0.015%
10	Jia Zi Liang	General manager of the business department and director of subsidiaries	180,000	0.900%	0.021%
11	Zou Hong Tu	General manager of the business department and director of a subsidiary	200,000	1.000%	0.023%
12	Cheng Long Ying	General manager of the business department and director of subsidiaries	200,000	1.000%	0.023%
13	Liu An	Assistants to the president of the Company and supervisor of subsidiaries	120,000	0.600%	0.014%
14	Zhuang Yong	Deputy general manager and supervisor of subsidiaries	100,000	0.500%	0.012%
15	Dai Ning	General manager of a subsidiary	50,000	0.250%	0.006%
16	Liu Wei	Human resources manager of a subsidiary and supervisor of a subsidiary	30,000	0.150%	0.003%
Total			<u>2,730,000</u>	<u>13.650%</u>	<u>0.314%</u>

*Note:* All the abovementioned incentive targets shall abstain from voting on resolutions on adoption of Incentive Scheme and proposed grant of Restricted A Shares to connected persons pursuant to the Incentive Scheme.

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## LETTER FROM THE BOARD

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### 3. Date of grant

#### (i) *First Grant*

The date of First Grant of the Restricted A Shares shall be the date of the Board meeting which will be convened within 60 days upon the approval of the Incentive Scheme at the EGM and Class Meetings. At the Board Meeting, the Board will not grant the Restricted A Shares to the Participants if the Participants indicate before the Board meeting that they will not take up the Restricted A Shares. Payment of the Restricted A Shares must be made by the Participants before the Board meeting for the First Grant.

The Participants have to pay for the Restricted A Shares to the Company after the general meeting. If the Participants fail to arrange payment to the Company, the Company will not grant the Restricted A Shares to them at the Board meeting.

#### (ii) *Reserved Grant*

The date of Reserved Grant shall be the date of announcement of Board resolution approving the grant of that portion of Restricted A Shares. The date of grant must be a trading day.

### 4. Grant price and basis of determination

The grant price of the Restricted A Shares under First Grant shall be RMB8.71 per Share. Upon fulfillment of grant conditions, each Participant is entitled to acquire newly issued A Shares of the Company at the price of RMB8.71 per Share. On the basis that all the First Grant will be accepted by the Participants, the amount receivable by the Company for the First Grant is 18,620,000 A Shares x RMB8.71 = RMB162,180,200. Out of the aforesaid RMB162,180,200, RMB23,778,300 represents the amount to be paid by the connected person.

The grant price of the Restricted A Shares under First Grant will be determined with reference to 50% of the average closing prices of the A Shares of the Company for the last 120 trading days preceding the date of announcement of the Board resolution for the passing of the Incentive Scheme (i.e. RMB17.58 per Share), which is the total trading amount for the last 120 trading days/total volume of the A Shares of the Company traded for the last 120 trading days, i.e. RMB8.79 per Share. According to the 2015 equity distribution plan of the Company, based on the Company's total issued share capital of 869,382,102 Shares, the Company shall distribute cash dividend of RMB0.08 (tax inclusive) per Share to all of its Shareholders. The ex-date for the aforesaid cash dividend is 21 June 2016, and the grant price of the Restricted A Shares under First Grant shall be adjusted to RMB8.71 per Share after the realization of the aforesaid equity distribution plan.

The grant price of the reserved Restricted A Shares will be determined and shall not be lower than the following price, with reference to 50% of the average closing prices of the Restricted A Shares of the Company for the previous trading day preceding the date of announcement of the Board resolution for the grant of certain

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## LETTER FROM THE BOARD

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Restricted A Shares, 50% of the average trading amount of the Company shares for the last 20 trading days, 60 trading days or 120 trading days preceding the date of announcement of the Board resolution for the grant of certain Restricted A Shares.

### III. LISTING RULES IMPLICATION

The Incentive Scheme is a discretionary scheme of the Company and does not constitute a share option scheme pursuant to Chapter 17 of the Listing Rules. Nonetheless, for the purpose of transparency and good corporate governance, the Board proposed to seek the Shareholders' approval at the EGM and Class Meetings a resolution for the adoption of the Incentive Scheme.

Under the First Grant, certain Participants are the directors, supervisors or the chief executive officers of certain subsidiaries of the Company (i.e. the person in table 2(b) on page 25 to 26 in this circular) and hence a connected person of the Company. The grant of Restricted A Shares to connected person (including connected person at subsidiary level) of the Company constitutes non-exempt connected transactions of the Company, which is subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Also, the subsequent grant of reserved Restricted A Shares under the Incentive Scheme may involve a connected person (including connected person at subsidiary level) of the Company and in such a case, will constitute a non-exempt connected transaction of the Company which is subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company will comply with all the applicable requirements of the Listing Rules in due course.

### IV. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISOR

The Company has established an Independent Board Committee so as to give advice to independent shareholders in relation to adoption of Incentive Scheme and the proposed grant of Restricted A Shares to connected person(s) pursuant to the Incentive Scheme. The text of the letter of advice from the Independent Board Committee is set out on pages 32 to 34 of the Circular.

The Company has appointed and the Independent Board Committee has approved the appointment of F.E. Corporate Finance Advisory Limited as the independent financial advisor so as to give advice to the Independent Board Committee and independent shareholders in relation to the proposed grant to the connected person(s) pursuant to the Incentive Scheme.

### V. PROPOSED APPOINTMENT AND ELECTION OF DIRECTORS

According to the announcement of the Company dated 14 July 2016 in relation to the appointment and election of directors, Guangdong Rising Assets and the Nomination Committee of the Board have nominated five persons to fill the vacancy of five Directors

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## LETTER FROM THE BOARD

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who whose resignation shall be effective after the election of the new Directors at the EGM. The Board has elected 5 candidates to fill such vacancies, among which 1 is executive director, 3 are non-executive directors and 1 is independent non-executive director.

The candidate to fill the vacancy of executive Director is Mr. Liu Ren (“Mr. Liu 1”). The candidates to fill the vacancies non-executive director candidates are Mr. Liu Boren (“Mr. Liu 2”), Mr. Deng Qian (“Mr. Deng”) and Mr. Huang Yiming (“Mr. Huang”). The candidate to fill the vacancy of independent non-executive director candidate is Mr. Zhu Zhengfu (“Mr. Zhu”).

Upon the approval among the Shareholders on the EGM in form of ordinary resolutions, the appointment of the abovementioned Directors shall be in effect, for a term starting from 11 October 2016 and until the expiration of the term of the fifth Board. Those appointed Directors shall enter into a service agreement with the Company and their remunerations shall be determined according to their respective duties and responsibilities in the Company and the market rates of such positions.

Please refer to Appendix IV for biographical Details about the abovementioned proposed Directors.

### **VI. CUMULATIVE VOTING**

The resolution on the election of Non Independent Directors of the Company shall be voted on cumulative voting, meaning each vote has the same number of voting right as to the number of the candidate of the Non Independent Directors. Shareholders can use their voting right to vote for the same (one) candidate, or to vote for different candidates. The vote cannot exceed the maximum number of voting right conferred by their votes, otherwise, the votes will be invalid and such shareholder will be deemed to have abstain from voting on such.

### **VII. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION**

This resolution was considered and approved by the Board on the Board meeting held on 14 July 2016 and the same is now proposed to the EGM for consideration and approval in form of a special resolution.

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## LETTER FROM THE BOARD

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The Company proposed to amend its Articles of Association as follows:–

### **Original articles**

#### Article 155

A board of directors comprising 7 to 19 directors shall be established by the Company. Not less than half of the members of the board of directors shall be external directors (meaning directors who do not hold any positions within the Company, including independent directors)

#### Paragraph 1 of Article 167

A meeting of the board of directors shall only be held with more than half of the directors (including their representatives) present. Each director shall have one vote. Any resolution shall be approved by a majority of all directors. In the event that there are equal numbers of directors voting for or against, the chairman of the board of directors may cast an additional vote.

### **New articles**

#### Article 155

A board of directors comprising 9 directors shall be established by the Company. Not less than half of the members of the board of directors shall be external directors (meaning directors who do not hold any positions within the Company, including independent directors)

#### Paragraph 1 of Article 167

A meeting of the board of directors shall only be held with more than half of the directors (including their representatives) present. Each director shall have one vote. Any resolution shall be approved by a majority of all directors.

The legal advisors of the Company on Hong Kong Laws and the PRC laws respectively confirmed, the proposed amendments to Articles of Association complied with the Listing Rules and the PRC laws. The Company also confirmed, there is nothing untypical in relation to the proposed amendments to Articles of Association.

## **VIII. EGM AND CLASS MEETINGS**

The notices of the EGM and the H Shares Class Meeting are set out respectively on pages 116 to 118 and pages 121 to 123 of this circular. If you are eligible and intend to attend the EGM and the H Shares Class Meeting, please complete and return the reply slips despatched on 29 August 2016 in accordance with the instructions printed thereon on or before Tuesday, 20 September 2016. H Shares Shareholders who intend to appoint a proxy to attend the EGM and the H Shares Class Meeting shall complete and return the proxy form despatched on 29 August 2016 in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the EGM or the H Shares Class Meeting or any adjournment(s) thereof (as the case may be). Completion and return of the proxy form will not preclude you from attending the EGM or the H Shares Class Meeting and voting in person if you so wish.



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## LETTER FROM THE BOARD

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### **IX. CLOSURE OF REGISTER OF MEMBERS OF H SHARES**

The register of members of H Shares will be closed from 9 September 2016 to 11 October 2016 (both days inclusive), during which no transfer of H Shares will be registered for the identification of Shareholders qualified to attend and vote at the EGM and the H Shares Class Meeting. The share transfer documents accompanied by relevant H Share certificates should be lodged with Tricor Tengis Limited in any event not later than 4:30 p.m. on 8 September 2016. Shareholders or their agents whose names appear on the register of members of the H Shares at the close of business on 8 September 2016 are entitled to attend and vote at the EGM and the H Shares Class Meeting. The address of the Company's H share registrar, Tricor Tengis Limited, is at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

### **X. RECOMMENDATION**

Having considered the suggestions made by F.E. Corporate Finance Advisory Limited in relation to the issuance, subscription and Restricted Incentive Scheme of A shares and the grant to associates for the Incentive Scheme and other information contained in the Circular, the Directors (the independent non-executive directors inclusive ) consider that the relevant resolutions are in the interests of the Company and the Shareholders as a whole. As such, the Directors suggest all the independent shareholders vote for the proposed resolutions in the notice of the second EGM in 2016 and the revised notice of second class meeting of holders of H Shares.

All of the connected persons except Liao He Ping, Liu An and Liu Wei as stated in table 2(b) of pages 25 to 26 are A share shareholders of the Company, who hold in aggregate 7,243,677 A shares of the Company which represent 0.833% of the total number of shares issued by the Company as at the Latest Practicable Date will abstain from voting for the resolutions relating to the Restricted A Shares Incentive Scheme and the Grant to the connected persons under the Shares Incentive Scheme. Those Participants who hold any Shares of the Company will also abstain from voting at the EGM and the Class Meetings.

### **XI. VOTING BY POLL**

All the resolutions set out in the notices of the EGM and the H Shares Class Meeting would be decided by poll in accordance with the Hong Kong Listing Rules and the articles of association of the Company.

Unless otherwise specified by adopting the cumulative voting, on a poll, every Shareholder present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy shall have one vote for every fully paid Share held. A Shareholder present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy who is entitled to more than one vote need not use all his/its votes or cast all his/its votes in the same way.

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## LETTER FROM THE BOARD

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After the conclusion of the meetings, the poll results will be published on the website of Hong Kong Exchanges and Clearing Limited at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of the Company at [www.dongjiang.com.cn](http://www.dongjiang.com.cn).

By order of the Board  
**Dongjiang Environmental Company Limited\***  
**Chen Shu Sheng**  
*Executive Director*

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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**DONGJIANG ENVIRONMENTAL COMPANY LIMITED\***

**東江環保股份有限公司**

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

**(Stock code: 00895)**

29 August 2016

*To the Independent Shareholders*

Dear Sir or Madam,

**(1) PROPOSED ADOPTION OF THE 2016 RESTRICTED A SHARE  
INCENTIVE SCHEME  
AND  
(2) CONNECTED TRANSACTION – PROPOSED GRANT  
UNDER INCENTIVE SCHEME**

We have been appointed to form the Independent Board Committee to consider and advise the independent shareholders in accordance with the Hong Kong Listing Rules as to our opinion on, the terms of the Restricted A Shares Incentive Scheme, implementation of evaluation measures and the proposed granting of the authorization to the Board in handling the related matters, details of which are set out in the circular issued by the Company to the Shareholders dated 29 August 2016 (the “Circular”), of which this letter forms part. Terms used herein shall have the same meanings as defined in the Circular unless the context otherwise requires.

We wish to draw the attention of the Independent Shareholders to the letter from the the Board and the letter of advice from F.E. Corporate Finance Advisory Limited, the Independent Financial Adviser, set out on pages 35 to 58 of the Circular.

Having taken into account the principal factors and reasons considered by the Independent Financial Adviser, its conclusion and advice, we concur with the view of the Independent Financial Adviser and consider that the terms of Restricted A Shares Incentive Scheme, implementation of evaluation measures and the proposed granting of the authorization to the Board in handling the related matters are fair and reasonable, are on normal commercial terms or better and are in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Accordingly, we recommend the Independent Shareholders to vote in favor of the resolutions to be proposed at the Meetings to approve Restricted A Shares Incentive Scheme, implementation of evaluation measures and the proposed granting of the authorization to the Board in handling the related matters.

Yours faithfully,  
Independent Board Committee of  
**Dongjiang Environmental Company Limited**  
*Independent Non-executive Directors*  
**Mr. Wong Hin Wing, Mr. Qu Jiu Hui, Mr. Su Qi Yun**

\* *For identification purpose only*

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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*The following is the text of a letter from F.E. Corporate Finance Advisory Limited, the Independent Financial Adviser, for the purpose of inclusion in this circular, to the Independent Board Committee and the independent Shareholders regarding the proposed grant of the Restricted A Shares to Participants who are connected persons of the Company under the Incentive Scheme.*

29 August 2016

*The Independent Board Committee and the Independent Shareholders of*  
**Dongjiang Environmental Company Limited**

### **CONNECTED TRANSACTION – PROPOSED GRANT UNDER INCENTIVE SCHEME**

Dear Sir/ Madam,

#### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the independent shareholders of the Company (“**Independent Shareholders**”) in relation to the proposed grant of the Restricted A Shares to Participants who are connected persons of the Company under the Incentive Scheme, details of which are set out in the “Letter from the Board” contained in the circular of the Company dated 29 August 2016 (the “**Circular**”) issued to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular and the Appendices to the Circular, unless otherwise specified.

Our role as Independent Financial Adviser is to give our opinion as to whether the terms of the grant and issuance of the Restricted A Shares to certain Participants who are directors and/or senior management and/or key employees of the Company and/or its subsidiaries are in the interests of the Company, on normal commercial terms, are fair and reasonable insofar as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

#### **BASIS OF OUR ADVICE**

In formulating our opinion, advice and recommendation, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided by the Directors and the managements of the Company and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material respects at the time they were made and up to the date of this letter. We have also sought and received confirmation from the executive Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and considered that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information has been withheld, nor doubt the truth or accuracy of the information provided and to provide a reasonable basis for our

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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recommendation. We have not, however, conducted any independent investigation into the business and affairs of the Group, nor have we carried out any independent verification on the information supplied.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that there are no other facts the omission of which would make any statement in the Circular misleading.

### **CONNECTED TRANSACTION – PROPOSED GRANT UNDER INCENTIVE SCHEME**

Reference is made to the announcement of the Company dated 14 July 2016, in relation to, among others, the proposed adoption of 2016 restricted A shares incentive scheme and proposed grant under restricted A shares incentive scheme to the Board (the **“Incentive Scheme Announcement”**).

On 14 July 2016, the Board passed a resolution in respect of the proposed adoption of the Incentive Scheme and the respective grants, and also the approval of the draft of the Incentive Scheme and the draft proposal in respect of the grants.

As set out in the Letter from the Board, Participants for the First Grant of Restricted A Shares under the Incentive Scheme include Directors (if any), senior management and key employees of the Company at the time of implementation of the Incentive Scheme by the Company with a total of 343 individuals, representing approximately 8.56% of the total number of current employees of the Company; the independent non-executive Directors and supervisors of the Company are not included in the scope of the Participants under the Incentive Scheme. The abovementioned personnel must have entered into labor contracts with the Company, its subsidiaries or branches and hold office in the Company, its subsidiaries or branches. Besides, the abovementioned personnel should not be participants of share incentive schemes of other listed companies.

As some of the Participants under the Proposed Grant include the directors (if any) and/or senior management and/or key employees of the Company and/or its subsidiaries and are connected persons of the Company, the Proposed Grant to these Participants constitutes connected transactions of the Company under Chapter 14A of the Listing Rules. Therefore, the Proposed Grant is subject to the requirements of reporting, announcement and approval by the Independent Shareholders under the Listing Rules.

The Proposed Grant is conditional upon the approval of the Independent Shareholders by way of poll at the EGM.

The Independent Board Committee, comprising Mr. Wong Hin Wing, Mr. Qu Jiu Hui and Mr. Su Qi Yun, being all the independent non-executive Directors, has been established to (i) advise the Independent Shareholders in respect of the proposed grant to Participants who are connected persons of the Company; and (ii) advise the Independent Shareholders on how to vote in respect of the above.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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In formulating our opinions in respect of the terms of the grant and issuance of the Restricted A Shares to certain Participants who are connected persons of the Company, we have taken into consideration the following principal factors and reasons:

### **(A) BACKGROUND OF THE GROUP**

The Company and its subsidiaries are engaged in environmental protection industry. The operation scope mainly includes: disposal of waste and recycling (permit have to apply separately), treatment of wastewater, waste gas and noise; design, construction and operation of environmental facilities; trading of chemicals (dangerous goods shall obtain operation permit before operation); production and trading of environmental material, recycled products, environmental equipment (production site license shall be applied separately); development, promotion and application of new environmental products and technologies; establish industrial enterprises (specific projects shall be applied separately); import and export of goods and technology (not including distribution of goods which the state have control in sale); property leasing.

The Group's H Shares have been listed on Hong Kong Stock Exchange since 29 January 2003 and its A Shares have been listed on Shenzhen Stock Exchange since 26 April 2012.

### **(B) BACKGROUND OF AND REASONS FOR THE ADOPTION OF THE INCENTIVE SCHEME**

Reference is made to the Incentive Scheme Announcement. On 14 July 2016, the Board passed a resolution in respect of the proposed adoption of the Incentive Scheme and the respective grants, and also the approval of the draft of the Incentive Scheme and the draft proposal in respect of the grants.

As set out in the Letter from the Board, the list of the Participants for the First Grant shall be nominated and the number of Restricted A Shares to be granted shall be proposed by the Remuneration and Assessment Committee, considered and approved by the Board and verified by the Supervisory Committee in the EGM and Class Meetings with elaboration of such verification. When the Incentive Scheme and the related resolution are to be considered and approved by the Board and at the general meeting, the relevant directors and shareholders shall abstain from voting.

Participants for the reserved Restricted A Shares shall be determined by the Board within 12 months from the date of the approval of the Incentive Scheme at the general meeting. The criteria for determining the Participants for the reserved Restricted A Shares shall be the same as those for the First Grant.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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The following personnel shall not be eligible for the Restricted A Shares:

- (i) those who have been declared as an ineligible candidate by the stock exchanges in the last 12 months;
- (ii) those who have been declared as an ineligible candidate by the CSRC and the institution regulation departments of the CSRC in the last 12 months;
- (iii) those who have been imposed with administrative penalties or barred from entry into the market by the CSRC and the institution regulation departments of the CSRC due to act of material breach of laws and regulations in the last 12 months;
- (iv) those who are prohibited from acting as a director, supervisor or a member of the senior management pursuant to the Company Law;
- (v) those who are prohibited from joining the incentive scheme of listed companies pursuant to laws and regulations;
- (vi) any other circumstances as determined by the CSRC.

During the implementation of the Incentive Scheme, should any of the above situations occur preventing the Participants from participating in Incentive Scheme, the Company will repurchase and cancel those Restricted A Shares that have been granted to such Participants and have not been unlocked and terminate their participation in the Incentive Scheme.

As set out in the Letter from the Board, the total number of Shares that may be granted under the Incentive Scheme shall not exceed 20,000,000 A Shares, representing approximately 2.3% of the Company's total issued share capital of 869,382,102 Shares as at the Latest Practicable Date, of which 18,620,000 A Shares will be granted under the First Grant, representing approximately 2.14% of the Company's total issued share capital as at the Latest Practicable Date and 1,380,000 A Shares will be reserved, representing approximately 0.16% of the Company's total issued share capital as at the Latest Practicable Date, respectively.

The Validity Period of the Incentive Scheme shall be the 48 months from the date of the granting of Restricted A Shares.

Full text of the terms of the Incentive Scheme and the Method of Appraisal for Restricted A Shares Incentive Scheme (Amended) are set out in Appendix I and Appendix II to the Circular, respectively.

The Incentive Scheme is subject to approval by the Shareholders at the EGM, the A Shares Class Meeting and the H Shares Class Meeting.



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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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As set out in the Letter from the Board, the Incentive Scheme is to improve the corporate governance structure of the Company, to provide long-term incentive, to promote the continuing professional development for Directors (if any), management and key employees (key technicians and key personnel), to motivate Directors (if any), senior management and key employees, to raise competitiveness of the Company, to implement development strategy and to achieve business objectives of the Company.

### **(C) BASIS FOR SELECTING THE PARTICIPANTS AND THE PROPOSED GRANT**

As set out in the Letter from the Board, The Participants of the Incentive Scheme are determined in accordance with the Company Law, the Securities Law, the Stock Listing Rules of Shenzhen Stock Exchange, Administrative Measures on Share Incentive of Listed Companies issued by CSRC on 13 July 2016 (implemented on 13 August 2016) (“**Administrative Measures**”) (which could be obtained at [http://www.csrc.gov.cn/pub/zjhpublic/G00306201/201607/t20160715\\_300789.htm](http://www.csrc.gov.cn/pub/zjhpublic/G00306201/201607/t20160715_300789.htm)) as well as the relevant laws, regulations and regulatory documents and the relevant provisions of the Articles of Association, together with the Company’s actual situations.

The number of Restricted A Shares to be granted to a Participant under the Proposed Grant will be subject to the criteria and conditions specified in the Incentive Scheme. Further details of the conditions of Proposed Grant are set out in the section headed “Chapter 7 Conditions of Grant and Unlocking of the Restricted A Shares” in Appendix I to the Circular.

As set out in the Letter from the Board, after the implementation of the Incentive Scheme, the total number of Restricted A Shares in relation to all effective share incentive schemes of the Company shall not exceed 10% of the Company’s share capital, and the aggregate number of Shares to be issued to any Participant pursuant to the Incentive Scheme does not exceed 1% of the Company’s total share capital, which complies with Provision 14 of the Administrative Measures.

An aggregate of 2,730,000 Restricted A Shares out of 18,620,000 Restricted A Shares under the First Grant are proposed to be allocated to 16 Participants who are connected persons of the Company for the purposes of the Listing Rules, including directors, supervisors or the chief executive officers of certain subsidiaries of the Company as set out in the table below.

# LETTER FROM INDEPENDENT FINANCIAL ADVISER

**Table 1**

Serial Number	Name	Position	Number of Restricted A Shares to be granted under the First Grant (A Shares)	Percentage to the total number of issued Shares as at the Latest Practicable Date	Subscription cost of Restricted A Shares (in RMB)	Subscription cost of Restricted A Shares as percentage of the total market capitalisation at the Latest Practicable Date
1	Lan Yong Hui	Vice president of the Company and director of a subsidiary	240,000	0.028%	2,090,400	0.015%
2	Wang Tian	Vice president of the Company and director of subsidiaries	240,000	0.028%	2,090,400	0.015%
3	Zhou Yao Ming	General manager of the business department and director of subsidiaries	240,000	0.028%	2,090,400	0.015%
4	Tian Hua Chen	Chief financial officer of the Company and director of subsidiaries	200,000	0.023%	1,742,000	0.012%
5	Xie Heng Hua	Chief engineer of the Company and director of subsidiaries	280,000	0.032%	2,438,800	0.017%
6	Lee Kai Yan	Audit director of the Company and director of subsidiaries	200,000	0.023%	1,742,000	0.012%
7	Yao Qiong	Human resources director of the Company and director of subsidiaries	200,000	0.023%	1,742,000	0.012%
8	Zhao Zhong Hua	General manager of a subsidiary	120,000	0.014%	1,045,200	0.007%
9	Liao He Ping	General manager of the business department and director of subsidiaries	130,000	0.015%	1,132,300	0.008%
10	Jia Zi Liang	General manager of the business department and director of subsidiaries	180,000	0.021%	1,567,800	0.011%
11	Zou Hong Tu	General manager of the business department and director of a subsidiary	200,000	0.023%	1,742,000	0.012%
12	Cheng Long Ying	General manager of the business department and director of subsidiaries	200,000	0.023%	1,742,000	0.012%

## LETTER FROM INDEPENDENT FINANCIAL ADVISER

Serial Number	Name	Position	Number of Restricted A Shares to be granted under the First Grant (A Shares)	Percentage to the total number of issued Shares as at the Latest Practicable Date	Subscription cost of Restricted A Shares (in RMB)	Subscription cost of Restricted A Shares as percentage of the total market capitalisation at the Latest Practicable Date
13	Liu An	Assistants to the president of the Company and supervisor of subsidiaries	120,000	0.014%	1,045,200	0.007%
14	Zhuang Yong	Deputy general manager and supervisor of subsidiaries	100,000	0.012%	871,000	0.006%
15	Dai Ning	General manager of a subsidiary	50,000	0.006%	435,500	0.003%
16	Liu Wei	Human resources manager of a subsidiary and supervisor of a subsidiary	30,000	0.003%	261,300	0.002%
Total			<u>2,730,000</u>	<u>0.314%</u>	<u>23,778,300</u>	<u>0.166%</u>

Pursuant to the Incentive Scheme, the Company will grant 2,730,000 Restricted A Shares to 16 Participants who are the Company's connected persons (without accounting for (if any) those future employees of the Group to be identified for the grant of the reserved Restricted A Shares), representing approximately 0.314%, approximately 13.65% and approximately 0.166% of the total number of issued Shares, the total quota of Restricted A Shares and the total market capitalisation of the Company (regarding the relevant subscription cost) as at the Latest Practicable Date, respectively. With reference to the abovementioned bases, Independent Shareholders are subject to a dilution of existing shareholding interests of approximately 0.314% arising solely from the proposed grant of Restricted A Shares to the Participants who are the Company's connected persons. Given the low magnitude of shareholding dilution, and given that such Restricted A Shares are subject to a Lock-up Period of one year and an Unlocking Period of three years, we consider that the number of Restricted A Shares to be granted to the Participants who are the Company's connected persons under the First Grant is not of a significant amount and will not cause substantive impact to the existing shareholding structure of the Company.

As advised by the Company, out of the total quota of Restricted A Shares under the Incentive Scheme, 6.90% or 1,380,000 Restricted A Shares (representing approximately 0.159% of the Company's total issued share capital as at the Latest Practicable Date) will be set aside for employees who make significant contributions to the Company. The admission of Directors (if any, except independent non-executive Directors), senior management and key employees who are connected persons of the Company as Participants shall be submitted to the general meetings of the Company for

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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its approval. For the Incentive Scheme in its entirety, we understand that Participants for reserved Restricted A Shares shall be determined by the Board within 12 months from the date of the approval of the Incentive Scheme at the shareholders meeting.

As set out in the Letter from the Board, the subsequent grant of reserved Restricted A Shares under the Incentive Scheme may involve a connected person (including connected person at subsidiary level) of the Company and in such a case, will constitute a non-exempt connected transaction of the Company which is subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company will comply with all the applicable requirements of the Listing Rules in due course.

Such arrangement is poised to further enhance the profit-sharing and check-and-balance mechanisms between the Shareholders and the key personnels of the Company. The reserve of Restricted A Shares for future potential grant demonstrates the Company's commitment to its continuous development in the long run and reflects more adequately the value and attractiveness of the Incentive Scheme to the Participants.

As set out in the Letter from the Board, the date of First Grant of the Restricted A Shares shall be the date of the Board meeting which will be convened within 60 days upon the approval of the Incentive Scheme at the EGM and Class Meetings. At the Board Meeting, the Board will not grant the Restricted A Shares to the Participants if the Participants indicate before the Board meeting that they will not take up the Restricted A Shares. Payment of the Restricted A Shares must be made by the Participants before the Board meeting for the First Grant.

The Participants have to pay for the Restricted A Shares to the Company after the general meeting. If the Participants fail to arrange payment to the Company, the Company will not grant the Restricted A Shares to them at the Board meeting.

The date of Reserved Grant shall be the date of announcement of Board resolution approving the grant of that portion of Restricted A Shares. The date of grant must be a trading day.

### **(D) THE GRANT PRICE**

As set out in the Letter from the Board, the grant price of the Restricted A Shares under First Grant shall be RMB8.71 per Share. Upon fulfillment of grant conditions, each Participant is entitled to acquire newly issued A Shares of the Company at the price of RMB8.71 per Share. On the basis that all the First Grant will be accepted by the Participants, the amount receivable by the Company for the First Grant is 18,620,000 A Shares x RMB8.71 = RMB162,180,200. Out of the aforesaid RMB162,180,200, RMB23,778,300 represents the amount to be paid by the connected person.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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The grant price of the Restricted A Shares under First Grant will be determined with reference to 50% of the average closing prices of the A Shares of the Company for the last 120 trading days preceding the date of announcement of the Board resolution for the passing of the Incentive Scheme (i.e. RMB17.58 per Share), which is the total trading amount for the last 120 trading days/total volume of the A Shares of the Company traded for the last 120 trading days, i.e. RMB8.79 per Share. According to the 2015 equity distribution plan of the Company, based on the Company's total issued share capital of 869,382,102 Shares, the Company shall distribute cash dividend of RMB0.08 (tax inclusive) per Share to all of its Shareholders. The ex-date for the aforesaid cash dividend is 21 June 2016, and the grant price of the Restricted A Shares under First Grant shall be adjusted to RMB8.71 per Share after the realization of the aforesaid equity distribution plan.

As set out in the Letter from the Board, the grant price of the reserved Restricted A Shares will be determined and shall not be lower than the following price, with reference to 50% of the average closing prices of the Restricted A Shares of the Company for the previous trading day preceding the date of announcement of the Board resolution for the grant of certain Restricted A Shares, 50% of the average trading amount of the Company shares for the last 20 trading days, 60 trading days or 120 trading days preceding the date of announcement of the Board resolution for the grant of certain Restricted A Shares.

As advised by the Company, in determining the calculation of the grant price, the Company has considered, among other things, (i) the requirements mentioned in the above paragraph; and (ii) similar schemes of listed companies in the PRC. Such schemes have similar features with the Incentive Scheme, including but not limited to basis for selecting the participants to the scheme, length of the lock-up period and basis for determining the grant price.

Upon the Meetings approving the Incentive Scheme, the Company is entitled to issue a subscription letter to each Participant before the grant date. Each Participant shall sign the subscription letter within three days and return the original to the Company. The Participants shall pay their funds for subscription of Restricted A Shares into a designated account of the Company as requested by the Company within the time frame specified in the subscription letter; otherwise it shall be regarded as waiving subscription of the granted Restricted A Shares by the Participants. Therefore, the situation in which the Participants fail to make such payments will not occur.

***(a) Comparison with the grant prices of restricted A shares under similar schemes***

In formulating our view on the grant price of the Restricted A Shares, we have considered the market norm by studying the grant prices offered to restricted A shares under the restricted A shares incentive schemes of the following companies listed on Shenzhen Stock Exchange adopted in the two months immediately precedent to the date of the Incentive Scheme Announcement and after the Administrative Measures are issued and up to the Latest Practicable Date.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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We note that (i) according to the annual report of the Group for the year ended 31 December 2015, the net assets of the Group amounted to approximately RMB3,219,535,542 and the total number of issued shares of the Company were 869,382,102 Shares, which resulted in a net asset value per Share of approximately RMB3.7 as at 31 December 2015, which is significantly below the grant price of RMB8.71; and (ii) the financial performance and the value of the Group have been improving after the Company adopted the restricted A shares incentive scheme in 2013 (“**2013 Incentive Scheme**”) with the same 50% norm (as shown in Table 2 below). Furthermore, as the Administrative Measures already require for the higher of those prices mentioned in the second paragraph on the previous page and as a method to sincerely motivate the Participants who have made contribution to the Company to continue to do so and having considered that the grant price is higher than the net asset value per Share as at 31 December 2015 and the improved historical financial performance of the Group under similar grant price practice, we are of the view that setting the grant price at the 50% discount rate satisfies relevant requirements and strikes a balance between protecting Shareholders’ interest and motivating the Participants (which is the purpose of the Incentive Scheme) and thus is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

In light of the newly issued Administrative Measures, we are of the view that the comparables in accordance with the Administrative Measures and those in the two-month time frame cover sufficient samples for us to arrive at a conclusion that the grant price is fair and reasonable.

**Table 2**

<b>Date of announcement</b>	<b>Stock code</b>	<b>Name</b>	<b>Percentage of the grant price to the average stock price for the shares being granted under restricted A share incentive schemes</b>
9 July 2016	002702	Haixin Foods Co Ltd	50%
8 July 2016	300010	Beijing Lanxum Technology Co Ltd	50%
8 July 2016	300445	Beijing Const Instruments Technology Inc	50%
6 July 2016	300170	Hand Enterprise Solutions Co Ltd	50%
4 July 2016	002734	Limin Chemical Co Ltd	50%
1 July 2016	002713	Dong Yi Ri Sheng Home Decoration Group Co Ltd	50%

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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Date of announcement	Stock code	Name	Percentage of
			the grant price to the average stock price for the shares being granted under restricted A share incentive schemes
1 July 2016	300241	Shenzhen Refond Optoelectronics Co Ltd	50%
1 July 2016	300377	Shenzhen Ysstech Info-tech Co Ltd	50%
1 July 2016	002271	Beijing Oriental Yuhong Waterproof Technology Co Ltd	50%
29 June 2016	300009	Anhui Anke Biotechnology (Group) Co Ltd	50%
29 June 2016	300222	CSG Smart Science &Technology Co Ltd	50%
28 June 2016	000910	Dare Technology Co Ltd	50%
23 June 2016	002456	Shenzhen O-film Tech Co Ltd	50%
20 June 2016	002131	Leo Group Co Ltd	50%
16 June 2016	002559	Jiangsu Yawei Machine Tool Co Ltd	50%
14 June 2016	000802	Beijing Jingxi Tourism Development Co Ltd	50%
14 June 2016	300248	Newcapec Electronics Co Ltd	50%
13 June 2016	000078	Shenzhen Neptunus Bioengineering Co Ltd	50%
6 June 2016	300074	Avcon Information Technology Co Ltd	50%
30 May 2016	002726	Shandong Longda Meat Foodstuff Co Ltd	50%
24 May 2016	300229	Beijing TRS Information Technology Co Ltd	50%
24 May 2016	300458	Allwinner Technology Co Ltd	50%
24 May 2016	300495	Misho Ecology & Landscape Co Ltd	73%
22 May 2016	300423	Shandong Luyitong Intelligent Electric Plc	50%
19 May 2016	300500	Suzhou Institute of Architectural Design Co Ltd	50%

*Source:* the restricted A share incentive schemes of the respective companies

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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**Table 3**

Date of announcement	Stock code	Name	Percentage of the grant price to the higher of (i) the closing price of the A shares on the trading day preceding the date of announcing the incentive schemes; and (ii) the average closing price of the A shares for the period of last (i) 20 trading days; (ii) 60 trading days; or (iii) 120 trading days preceding the date of announcing the incentive schemes
23 August 2016	000662	Teamax Smart City Technology Corp Ltd	50%
22 August 2016	002063	YGSOFT Inc	50%
22 August 2016	300204	Staidson Beijing Biopharmaceuticals Co Ltd	50%
16 August 2016	002168	Shenzhen Hifuture Electric Co Ltd	50%
16 August 2016	002172	Jiangsu Aoyang Technology Corp Ltd	50%
15 August 2016	300491	Shijiazhuang Tonhe Electronics Technologies Co Ltd	50%
15 August 2016	002138	Shenzhen Sunlord Electronics Co Ltd	50%
6 August 2016	002203	Zhejiang Hailiang Co Ltd	50%
5 August 2016	000887	Anhui Zhongding Sealing Parts Co Ltd	50%
5 August 2016	002564	Suzhou Thvow Technology Co Ltd	50%
4 August 2016	300520	GuoChuang Software Co Ltd	50%
3 August 2016	002308	Vtron Technologies Ltd	50%

*Source:* the restricted A share incentive schemes of the respective companies

Based on the restricted A share incentive schemes of the companies listed above, we are of the view that the grant price of the Restricted A Shares under the First Grant which represents 50% of the average Share price is in line with the market practice for shares that are offered under similar restricted A share incentive schemes.



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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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*(b) Historical Financial Performance of the Group*

Set out below are the key financial information of the Group for the three financial years ended 31 December 2015 (the “**3-Year Period**”).

**Table 4**

	<b>for the year ended 31 December 2015 RMB'000 approx. (Audited)</b>	<b>for the year ended 31 December 2014 RMB'000 approx. (Audited)</b>	<b>for the year ended 31 December 2013 RMB'000 approx. (Audited)</b>
Revenue	2,402,986	2,047,512	1,582,936
Operating Profit	361,971	303,239	238,851
Net profit before tax	449,353	321,513	271,477
Net profit after tax	385,174	282,468	243,638

Over the 3-Year Period, the Group recorded an increase in its revenue of approximately 51.81%. The net profit before tax of the Group also increased by approximately 65.52% during the 3-Year Period.

We also compared such ratios with those of the three financial years ended 31 December 2013 (the “**Former Period**”) when no restricted A Shares incentive scheme was in place, from which we noted that the revenue and the net profit before tax of the Group merely increased by approximately 5.45% and approximately 5.77%, respectively. In light of the significant increase in the growth rates of such ratios during the 3-Year Period as compared to the Former Period, it appears to us that the improved financial performance of the Group during the Period was partly attributable to the 2013 Incentive Scheme.

Reference is made to the 2013 Incentive Scheme adopted by the Company on 13 January 2014. Upon enquiry with the Company, we learnt that the unlocking conditions, including but not limited to the weighted average return on equity targets and the net profit growth targets, for the first and second unlocking period under the first grant and the first unlocking period of reserved portion thereunder had been met and the respective portion of the restricted A shares had been unlocked. We consider that the 2013 Incentive Scheme had a positive impact on the Group’s overall performance which suggests that a continuation of the 2013 Incentive Scheme may be favourable to the Company and the Shareholders as a whole.

Having considered the information discussed in this section, we are of the view that the grant price of the Restricted A Shares is fair and reasonable and is in the best interest of the Company and the Shareholders as a whole.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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In light of the above factors, the Board is of the view that the Incentive Scheme shall be granted at the grant price in order to consistently motivate and reward the employees.

Having considered the above factors, we concur with the Board's view that the Incentive Scheme and the grant price of the Restricted A Shares are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

### **(E) VALIDITY PERIOD, LOCK-UP PERIOD AND THE UNLOCKING PERIOD**

As set out in the Letter from the Board, the Validity Period of the Incentive Scheme shall commence on the date of grant of Restricted A Shares and end within 48 months from such date of grant. The Restricted A Shares will be immediate locked-up after grant. The lock-up period under the Incentive Scheme shall be effective for 12 months and unlocking period will be the 36 months after the lock-up period. If the unlocking conditions of the Restricted A Shares specified by the Incentive Scheme were fulfilled during the unlocking period, the Restricted A Shares could be unlocked in phases during the unlocking period pursuant to the provisions of the Incentive Scheme. During the lock-up period and prior to the unlocking of the Restricted A Shares, the Restricted A Shares held by the Participants pursuant to the Incentive Scheme will be locked-up and shall not be transferred, pledged for guarantees or used for repayment of debt.

The Restricted A Shares from the First Grant of the Incentive Scheme will be unlocked in three phases after 12 months from the date of the First Grant of the Incentive Scheme, the specific arrangements are as follow:

- the first unlocking period shall commence from the first trading day after 12 months from the date of the First Grant to the last trading day within 24 months from the date of First Grant; and the number of Restricted A Shares to be unlocked shall be 30% of the aggregated quota under the First Grant;
- the second unlocking period shall commence from the first trading day after 24 months from the date of the First Grant to the last trading day within 36 months from the date of First Grant; and the number of Restricted A Shares to be unlocked shall be 30% of the aggregated quota under the First Grant; and
- the third unlocking period shall commence from the first trading day after 36 months from the date of the First Grant to the last trading day within 48 months from the date of First Grant; and the number of Restricted A Shares to be unlocked shall be 40% of the aggregated quota under the First Grant.

We consider that the imposition of a lock-up period in the first year, followed by the conditional unlocking period of the subsequent three years in tranches, collectively, would serve to ease the burden on the part of the Company by incurring the reward compensation by phase. The requirement to spread over four years' time before 100% of the Restricted A Shares can be fully unlocked would further help the Company to retain the dedicated and loyal service of Participants in the medium term.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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We have compared different restricted A shares incentive schemes adopted by the following companies listed on Shenzhen Stock Exchange in the two months immediately precedent to the date of the Incentive Scheme Announcement and after the Administrative Measures are issued and up to the Latest Practicable Date and have considered the proportion of shares unlocked in the respective years during the unlocking period in the respective schemes. Below is a summary of examples under comparison:

**Table 5**

Date of announcement	Stock code	Name	Proportion of A shares unlocked during the first 12 months of the unlocking period	Proportion of A shares unlocked during the second 12 months of the unlocking period	Proportion of A shares unlocked during the third 12 months of the unlocking period	Proportion of A shares unlocked during the fourth 12 months of the unlocking period
9 July 2016	002702	Haixin Foods Co Ltd	50%	30%	20%	–
8 July 2016	300010	Beijing Lanxum Technology Co Ltd	30%	30%	40%	–
8 July 2016	300445	Beijing Const Instruments Technology Inc	30%	30%	40%	–
6 July 2016	300170	Hand Enterprise Solutions Co Ltd	30%	30%	40%	–
4 July 2016	002734	Limin Chemical Co Ltd	30%	40%	30%	–
1 July 2016	002713	Dong Yi Ri Sheng Home Decoration Group Co Ltd	30%	30%	40%	–
1 July 2016	300241	Shenzhen Refond Optoelectronics Co Ltd	1/3	1/3	1/3	–
1 July 2016	300377	Shenzhen Ysstech Info-tech Co Ltd	10%	20%	30%	40%
1 July 2016	002271	Beijing Oriental Yuhong Waterproof Technology Co Ltd	25%	25%	25%	25%
29 June 2016	300009	Anhui Anke Biotechnology (Group) Co Ltd	35%	35%	30%	–
29 June 2016	300222	CSG Smart Science & Technology Co Ltd	30%	30%	40%	–
28 June 2016	000910	Dare Technology Co Ltd	40%	30%	30%	–
23 June 2016	002456	Shenzhen O-film Tech Co Ltd	30%	30%	40%	–
20 June 2016	002131	Leo Group Co Ltd	15%	25%	30%	30%
16 June 2016	002559	Jiangsu Yawei Machine Tool Co Ltd	30%	30%	40%	–
14 June 2016	000802	Beijing Jingxi Tourism Development Co Ltd	50%	50%	–	–
14 June 2016	300248	Newcapec Electronics Co Ltd	40%	30%	30%	–
13 June 2016	000078	Shenzhen Neptunus Bioengineering Co Ltd	40%	30%	30%	–
6 June 2016	300074	Avcon Information Technology Co Ltd	30%	30%	40%	–
30 May 2016	002726	Shandong Longda Meat Foodstuff Co Ltd	50%	30%	20%	–

## LETTER FROM INDEPENDENT FINANCIAL ADVISER

Date of announcement	Stock code	Name	Proportion of A shares unlocked during the first 12 months of the unlocking period	Proportion of A shares unlocked during the second 12 months of the unlocking period	Proportion of A shares unlocked during the third 12 months of the unlocking period	Proportion of A shares unlocked during the fourth 12 months of the unlocking period
24 May 2016	300229	Beijing TRS Information Technology Co Ltd	40%	30%	30%	—
24 May 2016	300458	Allwinner Technology Co Ltd	30%	30%	40%	—
24 May 2016	300495	Misho Ecology & Landscape Co Ltd	30%	30%	40%	—
22 May 2016	300423	Shandong Luyitong Intelligent Electric Plc	30%	30%	40%	—
19 May 2016	300500	Suzhou Institute of Architectural Design Co Ltd	30%	30%	40%	—
		The Company	30%	30%	40%	—

*Source:* the restricted A shares incentive schemes of the respective companies

**Table 6**

Date of announcement	Stock code	Name	Proportion of A shares unlocked during the first 12 months of the unlocking period	Proportion of A shares unlocked during the second 12 months of the unlocking period	Proportion of A shares unlocked during the third 12 months of the unlocking period	Proportion of A shares unlocked during the fourth 12 months of the unlocking period
23 August 2016	000662	Teamax Smart City Technology Corp Ltd	20%	30%	50%	—
22 August 2016	002063	YGSOFT Inc	40%	30%	30%	—
22 August 2016	300204	Staidson Beijing Biopharmaceuticals Co Ltd	40%	30%	30%	—
16 August 2016	002168	Shenzhen Hifuture Electric Co Ltd	40%	30%	30%	—
16 August 2016	002172	Jiangsu Aoyang Technology Corp Ltd	30%	25%	25%	20%
15 August 2016	300491	Shijiazhuang Tonhe Electronics Technologies Co Ltd	40%	30%	30%	—
15 August 2016	002138	Shenzhen Sunlord Electronics Co Ltd	30%	30%	40%	—
6 August 2016	002203	Zhejiang Hailiang Co Ltd	30%	30%	40%	—
5 August 2016	000887	Anhui Zhongding Sealing Parts Co Ltd	30%	30%	40%	—
5 August 2016	002564	Suzhou Thwow Technology Co Ltd	50%	50%	—	—
4 August 2016	300520	GuoChuang Software Co Ltd	40%	30%	30%	—
3 August 2016	002308	Vtron Technologies Ltd	30%	30%	40%	—

*Source:* the restricted A shares incentive schemes of the respective companies

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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Based on the above, we are of the view that the unlocking proportion for each of the respective years of the Incentive Scheme is within the market range. We also note that the unlocking proportions for the Incentive Scheme is related to the weighted average return on equity targets and the net profit growth targets (to be discussed in the section headed “Unlocking conditions” below) set by Company. Based on the abovementioned, we are of the view that the unlocking proportion for each of the respective years of the Incentive Scheme is fair and reasonable and is in the interest of the Company and Shareholders as a whole.

### **(F) GRANT AND UNLOCKING CONDITIONS**

The Incentive Scheme includes administrative measures to govern the operations of the Incentive Scheme, as well as the grant conditions of the scheme. The remuneration and appraisal committee of the Board is responsible for organising and auditing appraisal work of the Participants, the passing of which is one of the unlocking conditions for the Restricted A Shares.

#### ***(1) Grant conditions***

The following conditions must be fulfilled before Participants are granted the Restricted A Shares:

- (i) None of the following circumstances has occurred to the Company:
  - (a) a certified public accountant gives a negative opinion or indicates the inability to give an opinion in relation to the Company’s financial and accounting report for the most recent accounting year;
  - (b) a certified public accountant gives a negative opinion or indicates the inability to give an opinion in relation to the internal control of the Company’s financial report for the most recent accounting year;
  - (c) failure to follow the law and regulations, the Articles of Association and public commitment to carry out distribution of profits for the most recent 36 months after listing;
  - (d) the implementation of share incentive is prohibited as stipulated by law and regulations; or
  - (e) other circumstances as determined by the CSRC.
- (ii) None of the following circumstances has occurred to the Participant:
  - (a) those who have been declared as an ineligible candidate by the stock exchanges in the last 12 months;

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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- (b) those who have been declared as an ineligible candidate by the CSRC and the institution regulation departments of the CSRC in the last 12 months;
- (c) those who have been imposed with administrative penalties or barred from entry into the market by the CSRC and the institution regulation departments of the CSRC due to act of material breach of laws and regulations in the last 12 months;
- (d) those who are prohibited from acting as a director, supervisor or a member of the senior management pursuant to the Company Law;
- (e) those who are prohibited from joining the incentive scheme of listed companies pursuant to laws and regulations;
- (f) other circumstances as determined by the CSRC.

As set out on page 11 of the Letter from the Board, the Restricted A Shares will not be granted to any Participant when any inside information of the Company exists and to any Directors during blackout period of the Company.

### ***(2) Unlocking conditions***

The following conditions must be fulfilled at the same time before the Participants can unlock Restricted A Shares granted:

- (i) None of the following circumstances has occurred to the Company:
  - (a) a certified public accountant gives a negative opinion or indicates the inability to give an opinion in relation to the Company's financial and accounting report for the most recent accounting year;
  - (b) a certified public accountant gives a negative opinion or indicates the inability to give an opinion in relation to the internal control of the Company's financial report for the most recent accounting year;
  - (c) failure to follow the law and regulations, the Articles of Association and public commitment to carry out distribution of profits for the most recent 36 months after listing;
  - (d) the implementation of share incentive is prohibited as stipulated by law and regulations; or
  - (e) other circumstances as determined by the CSRC.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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- (ii) None of the following circumstances has occurred to the Participant:
- (a) those who have been declared as an ineligible candidate by the stock exchanges in the last 12 months;
  - (b) those who have been declared as an ineligible candidate by the CSRC and the institution regulation departments of the CSRC in the last 12 months;
  - (c) those who have been imposed with administrative penalties or barred from entry into the market by the CSRC and the institution regulation departments of the CSRC due to act of material breach of laws and regulations in the last 12 months;
  - (d) those who are prohibited from acting as a director, supervisor or a member of the senior management pursuant to the Company Law;
  - (e) those who are prohibited from joining the incentive scheme of listed companies pursuant to laws and regulations; or
  - (f) other circumstances as determined by the CSRC.

As set out in the Letter from the Board, the following performance requirements must be fulfilled for unlocking of the Restricted A Shares under the First Grant: 3 annual performance assessments will be carried out for the three accounting years of 2016, 2017 and 2018. Audited net profit excluding extraordinary gains and losses of the Company for 2015 will be used as the benchmark for the performance assessments and the net profit growth rate from 2016 to 2018 should be not less than 20%, 50% and 87.5% respectively over the net profit for 2015. At the same time, the weighted average returns on net assets after deducting extraordinary gains and losses for 2016 to 2018 should be not less than 11.8%, 12.3% and 10.9% respectively. In the event of refinancing by the Company, the basis of calculation shall be the net assets after deducting the amount of the financing, and the net profits generated thereof in the year of financing.

The assessment conditions of the reserved Restricted A Shares under Incentive Scheme shall be the same as that under the First Grant. If the date of grant of the reserved Restricted A Shares falls within 2016, the assessment years will be 2016, 2017 and 2018 respectively. If the date of grant of the reserved Restricted A Shares falls within 2017, the assessment years will be 2017 and 2018 respectively.

The above net profit growth and return on net assets indicators are calculated based on the net profit excluding extraordinary gains and losses. In the event of refinancing by the Company, the basis of calculation shall be the net assets after deducting the amount of the financing, and the net profits generated thereof in the year of financing.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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During the lock-up period and the unlocking period, the net profit attributable to the Shareholders and the net profit attributable to the Shareholders after deducting extraordinary gains and losses for each year must not be lower than the average level of the three accounting years preceding the date of grant and must not be negative.

**(a) *Weighted average return on equity targets and the net profit growth targets***

Based on the above, we have prepared the following table regarding the unlocking condition which includes the net profit growth targets and the weighted average return on equity targets as below:

**Table 7**

Year	Historical Performance			Performance Targets (Net Profit Relative to the 2015 Benchmark)		
	2013	2014	2015	2016	2017	2018
Net profit growth rate (excluding extraordinary gains and losses)	(28.81)%	34.70%	24.67%	20% (20% on year-on-year basis)	50% (25% on year-on-year basis)	87.5% (25% on year-on-year basis)
Weighted average rate of return on equity after deducting extraordinary gains and losses	7.90%	9.78%	10.82%	11.8%	12.3%	10.9%

In terms of net profit (after extraordinary gains and losses) growth rates, the level of net profit growth targets is higher than that of the average historical level. We understand from the Company that net profit growth rate was affected by a multitude of factors, such as (i) the unforeseeable global economic environment; (ii) decrease in nonferrous metal price; (iii) government policy risks; (iv) risks arising from more competition in the industry; (v) risks in expansion in scale; (vi) financial risks; and (vii) risks in technological innovation, all of which could lead to a reduced net profit margin. We understand from the Company that the Company is aware of these factors and is planning to continue to implement its delicacy management, increase its environmental friendly business with high gross profit rate, which aims to improve the performance of the Company through promoting on factors that are controllable by the Company to seize market opportunities. It is expected that the above measure would promote the profitability of the Company.

In terms of weighted average return on equity after deducting extraordinary gains and losses attributable to the Shareholders, the level of equity return targets is slightly above the historical level. We understand from the Company that the weighted average return on equity is affected by a multitude of factors with the core factor being annual net profit (excluding extraordinary gains and losses). We understand from the Company that the Company is aware of these factors and is undergoing a strategic transformation which aims to improve the performance of



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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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the Company through promoting on factors that are controllable by the Company. In light of the abovementioned, we are of the opinion that the weighted average return on equity targets can promote asset utilisation efficiency.

We have reviewed the types of performance indicators that were adopted under the restricted A shares incentive schemes of listed companies on Shenzhen Stock Exchange as shown in Table 2 in the two months immediately precedent to the date of the Incentive Scheme Announcement and Table 3 after the Administrative Measures are issued and up to the Latest Practicable Date. Out of the 37 comparable companies, (i) 31 of which have adopted the net profit (excluding extraordinary gains and losses) attributable to shareholders growth as one of the performance indicators for the unlocking conditions of the restricted A shares incentive scheme; and (ii) none of which have adopted both the weighted average return on equity after deducting extraordinary gains and losses and the net profit growth rate as the performance indicators for the unlocking conditions of the restricted A shares incentive scheme. We consider the addition of the weighted average return on equity after deducting extraordinary gains and losses condition to the commonly used net profit (excluding extraordinary gains and losses) targets represents a more prudent approach adopted by the Company in order to reward the talent only when both targets have been achieved.

Based on the above, we are of the view that the setting of both (i) the weighted average return on equity after deducting extraordinary gains and losses targets; and (ii) the net profit (excluding extraordinary gains and losses) growth targets as the unlocking conditions of the Incentive Scheme is fair and reasonable.

In light of the above, we are of the view that the unlocking conditions for the Incentive Scheme are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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**(b) Earnings per Share effect**

Pursuant to the Incentive Scheme, the Restricted A Shares shall only be unlocked by the Company when the unlocking conditions as discussed in the above section have been met. In order to assess the potential effect of the Restricted A Shares on the earnings per Share, we have considered the following events assuming the net profit growth targets are being met in the respective years, in which the figure for 2015 is used as the benchmark:

**Table 8**

	Lock-up Period			Unlocking Period		
	2015	2016		2017	2018	2019
Net profit (excluding extraordinary gains and losses) (in RMB)	297,791,868 (100%)	120%	Target Net profit Level (excluding extraordinary gains and losses) (for the fulfillment of the unlocking conditions) (in RMB)	150%	187.5%	N/A
Percentage of Restricted A Shares to be unlocked when the conditions are satisfied	N/A	N/A	Percentage of Restricted A Shares to be unlocked when the conditions are satisfied	30%	30%	40%
Number of Restricted A Shares to be unlocked	N/A	N/A	Number of Restricted A Shares to be unlocked	6,000,000	6,000,000	8,000,000
Number of Restricted A Shares to be granted during the year	N/A	20,000,000	Number of Restricted A Shares to be granted during the year	N/A	N/A	N/A
Number of Shares in issue at the end of the year	869,382,102	889,382,102	Number of Shares in issue at the end of the year	889,382,102	889,382,102	889,382,102
Earnings per Share (in RMB)	\$0.34 (100%)	117%	Future earnings per Share	147%	183.3%	N/A

In constructing the above table, We have assumed that (i) net profit (excluding extraordinary gains and losses), which is not shown in the annual report of the Company for the year ended 31 December 2015, is calculated from the operating profit minus income tax expenses; (ii) all the Restricted A Shares are granted in 2016; (iii) there would be no repurchase or issue of any Shares for the 4 years ending 31 December 2019; (iv) the weighted average return on equity targets and the net profit growth targets in each of the respective years under the Incentive Scheme have been met; and (v) the earnings per Share is calculated by dividing the operating profit minus income tax expenses by number of Shares in issue at the end of the year. We have further assumed that the reserved Restricted A Shares are granted and unlocked at the same time in the same proportion as the Restricted A Shares under the First Grant.

For the year ending 31 December 2016, the total number of Shares in issue would be 889,382,102 Shares, consisting of (i) 869,382,102 Shares for the year ended 31 December 2015; and (ii) 20,000,000 Restricted A Shares that are granted

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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during 2016. As the net profit growth target for the year ending 31 December 2016 represents a 20% growth of the net profit (excluding extraordinary gains and losses) for the year ended 31 December 2015, the expected Earnings per Share for the year ending 31 December 2016 would be approximately 117% of that for 2015.

For the year ending 31 December 2017, the total number of Shares in issue would be 889,382,102 Shares. As the net profit growth target for the year ending 31 December 2017 represents a 50% growth of the net profit (excluding extraordinary gains and losses) for the year ended 31 December 2015, the expected Earnings per Share for the year ending 31 December 2017 would be approximately 147% of that for 2015.

For the year ending 31 December 2018, the total number of Shares in issue would be 889,382,102 Shares. As the net profit growth target for the year ending 31 December 2018 represents a 87.5% growth of the net profit (excluding extraordinary gains and losses) for the year ended 31 December 2015, the expected Earnings per Share for the year ending 31 December 2018 would be approximately 183.3% of that for 2015.

Based on the above, the expected earnings per Share for the three years ending 31 December 2018, if materialised, would follow a progressive path of growth. We are of the view that the grant of the Restricted A Shares under the Incentive Scheme is indeed beneficial to the Company as the proportion of earnings per Share diluted by the increase in the total number of Shares through the issue of the Restricted A Shares is indeed compensated by the increase in the net profit (excluding extraordinary gains and losses) of the Company. It is expected that the Incentive Scheme would encourage the Participants to contribute to the growth and the future development of the Company. We therefore are of the view that the Incentive Scheme is in line with the Company's development and is in the interest of the Company and Shareholders as a whole.

***(c) Financial effect of the First Grant to certain Participants who are directors of the Company or its subsidiaries***

Upon enquiry, we understand from the Company that the Company will recognise and expense annually the fair value of the aggregate Restricted A Shares to be issued under the Incentive Scheme as expenses in its consolidated income statement. On such basis, we envisage that the proposed grant of Restricted A Shares to the Participants who are the Company's connected persons would have a negative impact on the profit and loss position of the Group.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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We have enquired and obtained the estimated breakdown of the time scale of financial impact of the expenses expected to be charged to the consolidated income statement of the Group arising from the First Grant to Participants who are Company's connected persons under the Incentive Scheme:

**Table 9**

<b>Financial period</b>	<b>Amortisation Amount</b> <i>RMB'000 approx.</i>
For the year ending 31 December 2016	887.7
For the year ending 31 December 2017	3,094.3
For the year ending 31 December 2018	1,496.4
For the year ending 31 December 2019	608.7

Based on the above, the Company has calculated the total exposure of the Group's expenses attributable to the First Grant to the Participants who are the Company's connected persons at around RMB6,087,000. Upon comparison, we note that such exposure merely represented approximately 0.25% and 0.23% of the revenue and the shareholder's equity of the Group for the year ended/as at 31 December 2015 of approximately RMB2,402,986,382 and approximately RMB2,591,271,212 respectively.

On the above basis, the financial effect to the Company as a result of the First Grant to the Participants who are the Company's connected persons under the Incentive Scheme should not be considered as significant and should not have material adverse impact on the financial position of the Company.

### RECOMMENDATION

Having considered the principal factors and reasons as discussed above, in particular (i) the experience and potential contribution provided by the Participants that could enhance the sustainable growth of the Company; (ii) the similar incentive schemes adopted by other listed companies on Shenzhen Stock Exchange and (iii) the Company having incorporated administrative measures that ensure the Company to achieve high growth rates before the Participants are entitled to the benefits of the Incentive Scheme, we are of the opinion that, the Proposed Grant is in the ordinary and usual course of business of the Group and is in line with market practice, on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we would recommend that the Independent Shareholders and the Independent Board Committee advise the Independent Shareholders to vote in favour of the resolutions to be proposed at the upcoming EGM to approve the proposed grant of the Restricted A Shares under Incentive Scheme.

Yours faithfully,  
For and on behalf of  
**F.E. Corporate Finance Advisory Limited**  
**Ginny Ho**  
*Responsible Officer*

**DISCLAIMER**

The Company and all its directors, supervisors and senior executives guarantee that no false records, misleading statements or material omissions are contained in this Incentive Scheme and its summary, and shall assume joint and several liability for the authenticity, accuracy and completeness of the contents hereof.

**SPECIAL NOTICE**

- I. The Restricted A Share Incentive Scheme (the “Incentive Scheme”) is formulated in accordance with the Company Law of the Peoples Republic of China, the Securities Law of the PRC, Administrative Measures on Share Incentive of Listed Companies issued by the China Securities Regulatory Commission (implemented on 13 August 2016), Rules Governing Listing of Stocks on Shenzhen Stock Exchange and relevant laws, regulations and regulatory documents and the Articles of Association of Dongjiang Environmental Company Limited.
- II. The incentive form adopted by the Scheme is restricted A shares. The source of the shares shall be ordinary A Shares issued to the Participants by the Dongjiang Environmental Company Limited (hereinafter referred to as “Dongjiang Environmental” or the “Company”).
- III. The total number of Shares that may be granted under the Scheme shall not exceed 20,000,000 Shares, representing 2.30% of the Company’s total share capital of 869,382,102 Shares as at the date of the announcement of the Incentive Scheme (draft), of which 18,620,000 Shares will be granted under the First Grant, representing 2.14% of the Company’s total share capital as at the date of the announcement of the Incentive Scheme (draft) and 1,380,000 Shares will be reserved, representing 0.16% of the Company’s total share capital as at the date of the announcement of the Incentive Scheme (draft), respectively. The aggregate number of Shares to be issued to any Participant pursuant to the Incentive Scheme does not exceed 1% of the Company’s total share capital before the Scheme is proposed at the general meeting for approval.
- IV. The grant price of First Grant pursuant to this Scheme will be determined with reference to 50% of the average transaction prices of the Shares of Dongjiang Environmental for the last 120 trading days preceding the date of approval of this draft by the Board (i.e. RMB17.58 per Share), which is the total trading amount for the last 120 trading days/total volume of the Shares of Dongjiang Environmental traded for the last 120 trading days, i.e. RMB8.79 per Share. According to the 2015 equity distribution plan, the Company distributed a cash dividend of RMB0.08 (including taxes) to all its shareholders for every 10 shares they hold, based on the share capital of 869,382,102 shares of the Company. The ex-right and ex-dividend date of the afore-mentioned equity distribution is 21 June 2016. After the implementation of equity distribution, the grant price of First Grant pursuant to this Scheme shall be RMB8.71/ share.

The grant price of the reserved Restricted A Shares under the Scheme shall be determined by the Board. The grant price shall not be lowered than the below prices: 50% of the average price of the Shares of the Company for the last 1 trading day preceding the date of announcement of the Board resolution for the grant of reserved Restricted A Shares, last 20 trading days preceding the date of announcement of the Board resolution for the grant of reserved Restricted A Share and last 60 trading days preceding the date of announcement of the Board resolution for the grant of reserved Restricted A Shares or last 120 trading days preceding the date of announcement of the Board resolution for the grant of reserved Restricted A Share.

- V. The total number of Participants under the First Grant pursuant to this Scheme is 343, representing 8.56% of the total number of existing employees of the Company. The Participants include directors (if any), senior management, and key employees of the Company during implementation of the Incentive Scheme. All participants currently did not participate in other Incentive Schemes in other listing companies, in compliance with the provision of Section 7 of the Administrative Measures on Share Incentive of Listed Companies (implemented on 13 August 2016), Independent non-executive Directors and supervisors of the Company are not included in the scope of Participants of the Incentive Scheme, which is in compliance with Section 8.1 of the Administrative Measures on Share Incentive of Listed Companies. The reserved Participants refer to the Participants who were not determined when this Scheme was approved at the general meeting but have been included in the Scheme during the period of existence of the Scheme and shall be determined by the Board within 12 months since the date of the scheme was considered and approved at the general meeting. The standard for determination of the reserved Participants shall be fixed with reference to that of the First Grant.
- VI. The Scheme shall be effective within 48 months from the date of grant of Restricted A Shares.
1. Lock-up period for the Participants shall be within 1 year after the grant of Restricted A Shares. During the lock-up period, the Restricted A Shares granted to the Participants under the Scheme are locked-up, which cannot be transferred or used for repayment of debts;
  2. The reserved Restricted A Shares granted under the Scheme will be unlocked after 12 months from the date of grant of the reserved Restricted A Shares, the Participants will unlock in three times in the next 36 months. During the unlocking period, in the event that the unlocking conditions under the Scheme are met, the Participants can apply for unlocking in three times: the first unlocking period is the first year after the expiration of unlocking period, the number that the Participants can be unlocked is 30% of total number of Restricted A Shares granted; the second unlocking period is the second year after the expiration of unlocking period, the number that the Participants can be unlocked is 30% of total number of Restricted A Shares granted; the third unlocking period is the third year after the expiration of unlocking period, the number that the Participants can be unlocked is 40% of total number of Restricted A Shares granted.

VII. The Restricted A Shares from the First Grant of the Scheme will be unlocked in three phases after 12 months from the date of the First Grant of the Scheme, the specific arrangements are as follow:

<b>Unlocking period</b>	<b>Date of unlocking</b>	<b>Limit of proportion of unlocking</b>
First unlocking period	From the first trading day after 12 months from the date of First Grant to the last trading day within 24 months from the date of First Grant	30%
Second unlocking period	From the first trading day after 24 months from the date of First Grant to the last trading day within 36 months from the date of First Grant	30%
Third unlocking period	From the first trading day after 36 months from the date of First Grant to the last trading day within 48 months from the date of First Grant	40%

If the date of grant of the reserved Restricted A Shares falls within 2016, the reserved Restricted A Shares will be unlocked in three phases after 12 months from the date of grant of the reserved Restricted A Shares, the specific arrangements are as follow:

<b>Unlocking period</b>	<b>Date of unlocking</b>	<b>Limit of proportion of unlocking</b>
First unlocking period	From the first trading day after 12 months from the date of grant of the reserved Restricted A Shares to the last trading day within 24 months from the date of grant of the reserved Restricted A Shares	30%
Second unlocking period	From the first trading day after 24 months from the date of grant of the reserved Restricted A Shares to the last trading day within 36 months from the date of grant of the reserved Restricted A Shares	30%

<b>Unlocking period</b>	<b>Date of unlocking</b>	<b>Limit of proportion of unlocking</b>
Third unlocking period	From the first trading day after 36 months from the date of grant of the reserved Restricted A Shares to the last trading day within 48 months from the date of grant of the reserved Restricted A Shares	40%

If the date of grant of the reserved Restricted A Shares falls within 2017, the reserved Restricted A Shares will be unlocked in two phases after 12 months from the date of grant of the reserved Restricted A Shares, the specific arrangements are as follow:

<b>Unlocking period</b>	<b>Date of unlocking</b>	<b>Limit of proportion of unlocking</b>
First unlocking period	From the first trading day after 12 months from the date of grant of the reserved Restricted A Shares to the last trading day within 24 months from the date of grant of the reserved Restricted A Shares	50%
Second unlocking period	From the first trading day after 24 months from the date of grant of the reserved Restricted A Shares to the last trading day within 36 months from the date of grant of the reserved Restricted A Shares	50%

During the unlocking period, if the Board confirmed the unlocking conditions are met, the Participant must submit Restricted A Shares unlocking application in relation to the unlocked portion of the Restricted A Shares to the Company within the unlocking period. Such unlocking will be deemed as given up by the Participant if he/she does not submit written application to the Board during the unlocking period and the respective Restricted A Shares shall not be unlocked and shall be cancelled after being repurchased by the Company.

#### VIII. Conditions of unlocking of the Restricted A Shares of the Participants

The following performance requirements must be fulfilled for unlocking of the First Grant of the Restricted A Shares: 3 annual performance assessments will be carried out for the three accounting years of 2016, 2017 and 2018. 2015 will be used as the benchmark for the performance assessments and the net profit growth rate from 2016 to 2018 should be not less than 20%, 50% and 87.5% respectively over the audited net



profit after deducting extraordinary gains and losses for 2015. At the same time, the weighted average returns on net assets after deducting extraordinary gains and losses for 2016 to 2018 should be not less than 11.80%, 12.30% and 10.90% respectively. In the event of refinancing by the Company, the basis of calculation of the year of financing, shall be the net assets after excluding the amount of the financing, and the net profits generated thereof.

The assessment conditions of the reserved Restricted A Shares under this Incentive Scheme shall be the same as that under the First Grant. If the date of grant of the reserved Restricted A Shares falls within 2016, the assessment years will be 2016, 2017 and 2018 respectively. If the date of grant of the reserved Restricted A Shares falls within 2017, the assessment years will be 2017 and 2018 respectively.

During the lock-up period and the unlocking period, the net profit attributable to the Shareholders and the net profit attributable to the Shareholders after deducting extraordinary gains and losses for each year must not be lower than the average level of the three accounting years preceding the date of grant and must not be negative.

IX. None of the following circumstances under which the implementation of the share incentive shall not be conducted as stipulated in Section 7 of the Administrative Measures on Share Incentive of Listed Companies (implemented on 13 August 2016) has occurred to the Company:

1. Issue of the Company's financial and accounting report for the most recent accounting year in which a certified public accountant gives a qualified opinion or indicates the inability to give an opinion;
2. Issue of an auditors' report with adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the internal control of financial report of the Company for its most recent accounting year;
3. Have not performed profit distribution during the latest 36 months after listing in accordance with laws and regulations, Articles of the Company, and public commitment;
4. The Incentive Scheme cannot be implemented due to the laws and regulations;
5. Other circumstances as determined by the CSRC.

X. The Participants of the Incentive Scheme are not independent directors and supervisors, nor shareholder or beneficial controller, who holds 5% (individual or in aggregate) or more in shares of the listed company, and their spouses, parents, children. None of the following circumstances existed as for the Participant under the Scheme that shall not be qualified as the Participant according to Section 8.2 of the Administrative Measures on Share Incentives of Listed Companies (implemented on 13 August 2016):

1. Determined as ineligible candidate by stock exchanges in the past 12 months;

2. Determined as ineligible candidate by the CSRC and its agencies in the past 12 months;
  3. Imposition of administrative penalties by the CSRC and its agencies during the past 12 months due to material non-compliance of laws and regulation or sanction of banning of entry;
  4. Those who cannot be acted as directors, senior management of the Company under the Company Law of the Peoples Republic of China;
  5. Those who cannot participate in the Incentive Scheme of the listed company as regulated by laws and regulations;
  6. Other circumstances as determined by the CSRC.
- XI. All funds used for subscription of Restricted A Shares by the Participant are self-financed, and the Company undertakes that it shall not provide loans and any other forms of financial assistance, including no provision of guarantee for loans, to the Participants for acquiring the Restricted A Shares under this Scheme, which is in compliance with the requirements set out in the Section 21 of the Administrative Measures on Share Incentive of Listed Companies (implemented on 13 August 2016). Undertakings by the Company: the relevant information disclosure documents of the Scheme do not contain any false record, misleading statement or material omission. Undertakings by the Participants of the Scheme: if the Company is not eligible for the grant of interest because of the false record, misleading statement or material omission contained in the relevant information disclosure documents of the Scheme, I shall return all the benefits obtained from the Scheme to the Company after the verification of any false record, misleading statement or material omission contained in the relevant information disclosure documents of the Scheme.
- XII. The implementation of the Incentive Scheme is subject to the fulfillment of the following conditions: it shall be approved and passed at the general meeting of Dongjiang Environmental. In addition to on site voting, internet voting shall be also provided upon taking voting by poll with respect to the restricted A shares incentive scheme at the general meeting of the Company. The independent directors will collect voting rights by proxy upon consideration of the restricted A shares incentive scheme at the general meeting.
- XIII. Dongjiang Environmental shall hold the board meetings according to relevant requirements to make grants to participants, also it shall complete relevant procedures such as registration and announcement according to relevant requirements within 60 days commencing from the date of the approval of the Incentive Scheme at the general meeting of Dongjiang Environmental.

- XIV. During the period from the announcement date of the Incentive Scheme to the completion of registration of Restrictive Shares, in the event of any issue of Shares by conversion of capital reserve, bonus issue, sub-division, consolidation, rights issue, dividend distribution in relation to the Shares of the Company, adjustment to the grant price and the number of Restricted A Shares to be granted shall be made accordingly.
- XV. The Company undertakes that shareholder or beneficial controller, who holds 5% (individual or in aggregate) or more shareholding of the Company, have not participated in the Incentive Scheme. Also, spouses, parents, children of substantial shareholder or beneficial controller, who hold 5% (individual or in aggregate) or more shareholding, have not participated in the Incentive Scheme. Zhou Yao Ming, younger brother of spouse of Mr. Zhang Wei Yang, a shareholder, who holds 5% or more in shares of the Company has participated in the Incentive Scheme. Mr. Zhang Wei Yang will abstain from voting when considering and approving such issues.
- XVI. The implementation of this Scheme will not result in the Company not meeting the listing conditions due to its equity distribution.

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**CHAPTER 1 DEFINITIONS**

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

“Administrative Measures”	the Administrative Measures on Share Incentive of Listed Companies (implemented on 13 August 2016)
“Appraisal Measures”	2016 Appraisal Measures for the Implementation of the Incentive Scheme for Restricted A Shares of Dongjiang Environmental Company Limited
“Articles of Association”	the articles of association of Dongjiang Environmental Company Limited
“Board”	the board of Directors of the Company
“Company”, “Dongjiang Environmental”	Dongjiang Environmental Company Limited
“Company Law”	the Company Law of the People’s Republic of China
“CSRC”	China Securities Regulatory Commission
“General Meeting”	the general meeting of the Company
“Grant Price”	the price of one Restricted A Share to be subscribed by Participant(s) under this Scheme which will be determined when the Restricted A Share(s) is/are granted to the Participant(s) by the Company
“Grant Date”	the date the Participant(s) to be granted Restricted A Share(s) by the Company after the approval of this Scheme, the Grant Date must be a trading day.
“Key employees”	The key business employees and key technical staff of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Shenzhen Stock Exchange
“Lock-up Period”	the period during which the Restricted A Share(s) subscribed by the Participant(s) according to the Scheme shall not be transferable

“Participant(s)”	the eligible person(s) to be granted Restricted A Share(s) under this Scheme
“Restricted A Shares”, “underlying Shares”	the share(s) with restricted conditions of the Company that the Participant(s) has/have the right to be granted under this Scheme
“RMB/RMB 0,000”	Renminbi/RMB10,000
“Securities Depository and Clearing Corporation”	China Securities Depository and Clearing Corporation Limited, Shenzhen Branch
“Securities Law”	the Securities Law of the People’s Republic of China
“Supervisory Committee”	the Supervisory Committee of the Company
“SZSE”, “the Stock Exchange”	the Shenzhen Stock Exchange
“this Scheme”, “this Incentive Scheme”, “Incentive Scheme”	2016 Restricted A Share Incentive Scheme of Dongjiang Environmental Company Limited i.e., a long term incentive scheme for directors (if any), senior management, key employees of the Company, by using A shares of Dongjiang Environmental as subject
“Unlocking Period”	the period during which the Participant(s) who satisfied the unlocking conditions stipulated by this Scheme can apply for unlocking and trading of the Restricted A Share(s) held by them following expiry of the Lock-up Period
“Validity Period”	the period from the date of the Restricted A Share(s) to be granted till the date of all the Restricted A Share(s) to be unlocked or repurchase and cancellation completed



**CHAPTER 2 GENERAL PROVISIONS****I. Purpose of this Incentive Scheme**

The Incentive Scheme is to further refine the corporate governance structure of the Company, improve long-term corporate incentive and discipline systems of the Company, promote the sustainable development philosophy for management and key employees of the Company, unleash motivation of directors (if any), the senior management and key employees of the Company, enhance core competitiveness of the Company and to ensure the realization of development strategy and business objectives of the Company. This Scheme is enacted by the Company in accordance with the Company Law, the Securities Law, the Administrative Measures, the Listing Rules and relevant laws, regulations and regulatory documents and the Articles of Association.

**II. Basic principles for formulating this Incentive Scheme**

1. To align the interests of the shareholders with that of the Company and employees, safeguard the shareholders' interests and promote the sustainable development of the Company.
2. To maintain the combination of incentives and restraints as well as the balance between risks and return.
3. To adhere to regulatory procedures stipulated by the laws, ensure openness and transparency and comply with the laws, regulations and the articles of association of the Company.

**CHAPTER 3 BASIS FOR DETERMINING THE PARTICIPANTS AND THE SCOPE  
OF PARTICIPANTS****I. Basis for determining the Participants*****1. Legal basis for determination of Participants***

The Participants of this Incentive Scheme are determined in accordance with the Company Law, the Securities Law, Administrative Measures as well as the relevant laws, regulations and regulatory documents and the relevant provisions of the Articles of Association, together with the Company's actual situations.

***2. Duties basis for determination of Participants***

The proposed Participants of this Incentive Scheme must be Directors (if any) (except Independent Directors), senior management and key employees of the Company.

Key employees refer to the persons who hold office in the Company, subsidiaries or branches and have significant influence over the Company's overall performance and sustainable development, being staff of core business, technology of the Company.

The Remuneration Committee and Appraisal Committee of the Board can adjust the eligibility criteria of the Participants according to the Company's strategic development needs.

***3. Term basis for determination of Participants***

The Participants to be granted Restricted A Shares for the first time must be staff whose confirmation of probation is before the date of announcement of the Incentive Scheme (draft). Participants to be granted reserved Restricted A Shares must be staff whose confirmation of probation is preceding the date of announcement of the grant reserve shares of the Board resolution.

***4. Assessment basis for determination of Participants***

The assessment towards the Participant shall be conducted according to the Appraisal Measures approved by the Company, and the Participants with assessment scores of 70 or above in assessment result having grading of A – D grade can be eligible for being granted Restricted A Shares under this Scheme.

**II. Scope of Participants**

The Participants under the first grant pursuant to this Scheme are senior management and key employees of the Company who hold offices in the Company during the implementation period of this Scheme, with a total number of 343, representing 8.56% of the current total number of registered employees of the Company; Independent directors and

supervisors of the Company are not included in the scope of Participants of the Incentive scheme. All the persons above must have signed labor contract with the Company or its subsidiaries and branches, and hold offices in the Company or its subsidiaries and branches, and have not participated in other share incentives schemes of listed companies, other than the Company.

The list of the Participants under the First Grant and the number of Restricted A Shares to be granted must be nominated by the Remuneration and Appraisal Committee and approved by the Board, and shall also be verified by the Supervisory Committee and the results shall be released at the general meeting. The associated director and related shareholders shall abstain from voting at the Board Meeting and General Meeting when considering the relevant resolutions concerning this Share Incentives Scheme.

Reserved Participants shall be determined within 12 months since the date of the scheme was considered and approved at the general meeting. The standard for determination of the reserved Participants shall be fixed with reference to that of the First Grant.

Persons listed below shall not be qualified as Participants under the Scheme, if they:

1. have been identified as an ineligible candidate by the stock exchanges in the last 12 months;
2. have been identified as an ineligible candidate by the CSRS and such authority delegated by the CSRC in the last 12 months;
3. have been imposed with administrative penalties or a sanction of banning of entry into the securities market by the CSRC and such authority delegated by the CSRC during the last 12 months due to material non-compliance of laws and regulations;
4. are prohibited from acting as a director or a member of the senior management pursuant to the Company Law of PRC;
5. are prohibited from participating the share incentive scheme of listing companies pursuant to the laws and regulations;
6. other circumstances identified by the CSRS.

In the above circumstances that any participant is required not to participate in the Scheme during the implementation process of this Scheme, the Company shall repurchase the Restricted A Shares that have been granted but not unlocked and terminate such Participant to engage in this Scheme.

**CHAPTER 4 CLASS, SOURCE, NUMBER AND ALLOCATION OF RESTRICTED A  
SHARES****I. Class of Restricted A Shares**

The Scheme uses Restricted A Shares as incentive tools and the underlying Shares are the Restricted A Shares of Dongjiang Environmental.

**II. Source of Restricted A Shares**

The source of the underlying Shares to be granted under this Scheme shall be ordinary A Shares issued to the Participants by Dongjiang Environmental.

**III. Number of Restricted A Shares**

The total number of Shares that may be granted under the Scheme shall not exceed 20,000,000 Shares, representing 2.30% of the Company's total share capital of 869,382,102 Shares as at the date of the announcement of the Incentive Scheme (draft), of which 18,620,000 Shares will be granted under the First Grant, representing 2.14% of the Company's total share capital as at the date of the announcement of the Incentive Scheme (draft) and 1,380,000 Shares will be reserved, representing 0.16% of the Company's total share capital as at the date of the announcement of the Incentive Scheme (draft), respectively.

After the implementation of the Incentive Scheme, the total number of Restricted A Shares in relation to all effective share incentive schemes of the Company shall not exceed 10% of the Company's share capital, and the aggregate number of Shares to be issued to any Participant pursuant to the this Scheme shall not exceed 1% of the Company's total share capital, which is in compliance with Provision 14 of the Administrative Measures.

## IV. Allocation of Restricted A Shares

The specific list of Participants granted the first time under this Scheme and details of allocation of Restricted A Shares are set out below:

Serial Number	Name	Position	Number of Restricted A Shares to be granted under the grant (Shares)	Percentage to the total number of Restricted A Shares to be granted under the grant	Percentage to the total number of share capital of the Company as at the date of Incentive Scheme (draft) announcement
1	Lan Yong Hui	Vice president	240,000	1.20%	0.03%
2	Wang Tian	Secretary to the Board	240,000	1.20%	0.03%
3	Zhou Yao Ming	Vice president	240,000	1.20%	0.03%
4	Tian Hua Chen	Chief financial officer	200,000	1.00%	0.02%
Sub-total of senior management of the Company			920,000	4.60%	0.11%
Key employees: 339			17,700,000	88.50%	2.03%
Part reserved			1,380,000	6.90%	0.16%
<b>Total</b>			<b>20,000,000</b>	<b>100.00%</b>	<b>2.30%</b>

*Note:* the total amount may differ from the sum of directly adding each item as a result of rounding.

The names and positions of key employees of the Company will be published on the website of the Shenzhen Stock Exchange.

There are no substantial shareholder or beneficial controller and their spouses, parents and children that solely or jointly holding more than 5% or above shareholdings of the Company among the Participants under this Scheme, and there also exists no circumstance under which the Scheme shall not be participated. Zhou Yao Ming, younger brother of spouse of Mr. Zhang Wei Yang, a substantial shareholder holding 5% or more shareholding in the Company, is the Participant of the Incentive Scheme. Mr. Zhang Wei Yang will abstain from voting when considering and approving such issues.

The shares granted to any one of the above Participant under this Scheme do not exceed 1% of the total share capital of the Company. The total number of Underlying Shares of all effective incentive schemes of the Company shall not exceed 10% of the total share capital of the Company at the time when it is proposed to general meeting.

**CHAPTER 5 VALIDITY PERIOD, DATE OF GRANT, LOCK-UP PERIOD AND  
UNLOCKING PERIOD OF THE INCENTIVE SCHEME****I. Validity Period of the Incentive Scheme**

The Incentive Scheme shall be effective for 48 months from the date of grant of Restricted A Shares.

**II. Date of grant of the Incentive Scheme**

The date of First Grant of the Restricted A Shares shall be determined by the Board within 60 days upon the approval of the Incentive Scheme at the general meeting of the Company. The date of grant of the reserved Shares shall be the date of announcement of Board resolution approving the grant of that portion of Restricted A Shares. The dates of grant must be a trading day.

**III. Lock-up period and unlocking period of the Incentive Scheme**

The Restricted A Shares will be immediately locked-up after grant. The lock-up period of this Scheme shall be effective within 12 months from the date of First Grant and unlocking period will be 36 months after the lock-up period. If the unlocking conditions of the Restricted A Shares specified by this Scheme were fulfilled during the unlocking period, the Restricted A Shares could be unlocked in phases during the unlocking period pursuant to the provisions of the Incentive Scheme. During the lock-up period and prior to the unlocking of the Restricted A Shares, the Restricted A Shares held by the Participants pursuant to the Incentive Scheme will be locked-up and shall not be transferred, pledged for guarantees or used for repayment of debt.

Where the Participant is a Director or member of the senior management, the number of Shares which may be transferred by the Participant per year during his/her tenure of office shall not exceed 25% of the total number of the Shares held by him/her and the Participant shall not transfer the Shares held by him/her within 6 months after resignation; the Participant shall not transfer more than 50% of the Shares of the Company held by him/her through listing on the stock exchanges within 12 months after the 6 months period after resignation.

Where the Participant is a Director or a member of senior management, all gains from the sale of Shares within 6 months of acquisition or from the acquisition of Shares within 6 months of sale by the Participant shall belong to the Company and to be collected by the Board.

If, during the Validity Period of the Incentive Scheme, there is any amendment to the requirements regarding the Share transfer by a Director and senior management of the Company under relevant laws, regulations and regulatory documents such as the Company Law, the Securities Law and the Articles of Association, the transfer of the Shares of the

Company held by the Participant shall comply with the relevant amended laws, regulations and regulatory documents such as the Company Law and the Securities Law and provisions of the Articles of Association at the time of the transfer.

## **CHAPTER 6 GRANT PRICE AND BASIS OF DETERMINATION OF THE GRANT PRICE OF THE RESTRICTED A SHARES**

### **I. Grant price of Restricted A Shares**

The grant price of the Restricted A Shares under First Grant shall be RMB8.71 per Share. Upon fulfillment of grant conditions, each Participant is entitled to acquire A Share newly issued to the Participants by Dongjiang Environmental at the price of RMB8.71 per Share.

### **II. Basis of determination of the grant price of the Restricted A Shares**

The grant price of First Grant will be determined as not less than the highest of: 50% of the average transaction prices of the Share of the Company for one trading day preceding the date of announcement of the draft of Restricted A Share Incentive Scheme, 50% of each of the average transaction prices of the Share of the Company for the last 20 trading days, 60 trading days or 120 trading days preceding the date of announcement of the draft of Restricted A Share Incentive Scheme.

The grant price of First Grant of the Restricted A Shares of the Scheme will be determined with reference to 50% of the average transaction prices of the Shares of the Company for the last 120 trading days preceding the date of announcement of the Board resolution for the passing of this Scheme (i.e. RMB17.58 per Share), which is the total trading amount for the last 120 trading days/total volume of the Shares of the Company traded for the last 120 trading days, i.e. RMB8.79 per Share. According to the 2015 equity distribution plan, the Company distributed a cash dividend of RMB0.8 (including taxes) to all its shareholders for every 10 shares they hold, based on the share capital of 869,382,102 shares of the Company. The ex-right and ex-dividend date of the afore-mentioned equity distribution is 21 June 2016. After the implementation of equity distribution, the grant price of First Grant pursuant to this Scheme shall be RMB8.71/share.

The grant price of reserved Restricted A Shares will be determined as not less than the highest of: 50% of the average transaction prices of the Share of the Company for one trading day preceding the date of announcement of the Board resolution for the grant of such Restricted A Shares, 50% of each of the average transaction prices of the Share of the Company for the last 20 trading days, 60 trading days or 120 trading days preceding the date of announcement of the Board resolution for the grant of such Restricted A Shares.

**CHAPTER 7 CONDITIONS OF GRANT AND UNLOCKING OF THE RESTRICTED  
A SHARES****I. Conditions of grant of the Restricted A Shares**

The following conditions must be fulfilled before Participants are granted the Restricted A Shares:

(I) None of the following circumstances has occurred to the Company:

1. issue of the Company's financial and accounting report for the most recent accounting year in which a certified public accountant gives an adverse opinion or indicates the inability to give an opinion;
2. issue of the Company's financial report and internal control for the most recent accounting year in which a certified public accountant gives an adverse opinion or indicates the inability to give an opinion;
3. occurrence of circumstances under which the Company is inability of profit distribution in compliance with the laws and regulation, the articles of association as well as the public undertaking for the last 36 months after Listing;
4. the prohibition of the implementation of the Share Incentive Scheme stipulated by laws and regulations;
5. other circumstances as determined by the CSRC.

(II) None of the following circumstances has occurred to the Participant:

1. have been identified as an ineligible candidate by the stock exchanges in the last 12 months;
2. have been identified as an ineligible candidate by the CSRS and such authority delegated by the CSRC in the last 12 months;
3. have been imposed with administrative penalties or a sanction of banning of entry into the securities market by the CSRC and such authority delegated by the CSRC during the last 12 months due to material non-compliance of laws and regulations;
4. are prohibited from acting as a director or a member of the senior management pursuant to the Company Law of PRC;
5. are prohibited from participating the share incentive scheme of listing companies pursuant to the laws and regulations;



6. other circumstances identified by the CSRS.

## **II. Conditions of unlocking of the Restricted A Shares**

The following conditions must be fulfilled before the Participants can unlock the grant for Restricted A Shares:

(I) None of the following circumstances has occurred to the Company:

1. issue of the Company's financial and accounting report for the most recent accounting year in which a certified public accountant gives an adverse opinion or indicates the inability to give an opinion;
2. issue of the Company's financial report and internal control for the most recent accounting year in which a certified public accountant gives an adverse opinion or indicates the inability to give an opinion;
3. occurrence of circumstances under which the Company is inability of profit distribution in compliance with the laws and regulation, the articles of association as well as the public undertaking for the last 36 months after Listing;
4. the prohibition of the implementation of the Share Incentive Scheme stipulated by laws and regulations;
5. other circumstances as determined by the CSRC.

(II) None of the following circumstances has occurred to the Participant:

1. have been identified as an ineligible candidate by the stock exchanges in the last 12 months;
2. have been identified as an ineligible candidate by the CSRS and such authority delegated by the CSRC in the last 12 months;
3. have been imposed with administrative penalties or a sanction of banning of entry into the securities market by the CSRC and such authority delegated by the CSRC during the last 12 months due to material non-compliance of laws and regulations;
4. are prohibited from acting as a director or a member of the senior management pursuant to the Company Law of PRC;
5. are prohibited from participating the share incentive scheme of listing companies pursuant to the laws and regulations;
6. other circumstances identified by the CSRS.

- (III) During the 3 accounting years from 2016 to 2018, financial results indicator of the Company and individual result indicator are assessed in different years, and fulfilling assessment targets become one of the unlocking conditions for the Participants:

1. Unlocking conditions pursuant to the performance level of the Company

The following performance requirements must be fulfilled for unlocking of the First Grant of the Restricted A Shares: 3 annual performance assessments will be carried out for the three accounting years of 2016, 2017 and 2018. Audited net profit excluding extraordinary gains and losses of the Company for 2015 will be used as the benchmark for the performance assessments and the net profit growth rate from 2016 to 2018 should be not less than 20%, 50% and 87.5% respectively over the net profit for 2015. At the same time, the weighted average returns on net assets after deducting extraordinary gains and losses for 2016 to 2018 should be not less than 11.80%, 12.30% and 10.90% respectively. In the event of refinancing by the Company, the basis of calculation of the year of financing, shall be the net assets after excluding the amount of the financing, and the net profits generated thereof.

The assessment conditions of the reserved Restricted A Shares under this Incentive Scheme shall be the same as the assessment conditions of the First Grant. If the date of grant of the reserved Restricted A Shares falls within 2016, the assessment years will be 2016, 2017 and 2018 respectively. If the date of grant of the reserved Restricted A Shares falls within 2017, the assessment years will be 2017 and 2018 respectively.

The above net profit growth and return on net assets indicators are calculated based on the net profit excluding extraordinary gains and losses. In the event of refinancing by the Company, the basis of calculation of the year of financing, shall be the net assets after excluding the amount of the financing, and the net profits generated thereof.

During the lock-up period and the unlocking period, the net profit attributable to the Shareholders and the net profit attributable to the Shareholders after deducting extraordinary gains and losses for each year must not be lower than the average level of the three accounting years preceding the date of grant and must not be negative.

The costs incurred from the Incentive Scheme will be charged to the recurring gains and losses.

2. Assessments at the Participant level

The appraisal will be conducted in respective years according to the Appraisal Measures, the assessment results of the Participants will be used as basis for granting of Restrictive Shares. For the Participants who assessment

scores at the preceding accounting year before the application of unlocking is 70 or above and with grading between A to D, their Restrictive Shares granted at corresponding unlocking period can be unlocked. If assessment scores of the Participants are lowered than 70 or with assessment grading of E, the Restrictive Shares granted at the corresponding unlocking period shall be subject to repurchase and cancellation by the Company.

- (IV) In case the listed company issues shares (including preference shares) and convertible bonds (“Re-financing”), material asset purchase and sale, substitution of listed company, and listed company issues shares to purchase and sale assets (“Material Assets Re-organisation”). If it is expected that the fund raise in this fund raising or the completion of Material Assets Re-organisation, when the basic earnings per share for the year or diluted earnings per share is lower than that of last year, which leads to the dilution of current returns of the Company, the directors of the Company, senior management, as the Participants of the Incentive Scheme, the individual unlocking proportion besides fulfilling the individual results assessment, but also have to fulfill the condition that the implementation of the Company’s remedial measures.

In case the Participants are the directors and senior management of the Company, if the afore-mentioned requirements cannot be fulfilled, then the Restrictive Shares that can be unlocked of such Participant at the assessment year cannot be unlocked, and the part of Restrictive Shares of Participants that cannot be unlocked shall be subject to repurchase and cancellation by the Company.

### III. Unlocking arrangement of the Restricted A Shares

The Restricted A Shares from the First Grant of the Incentive Scheme will be unlocked in three phases after 12 months from the date of the First Grant of the Incentive Scheme, the specific arrangements are as follow:

Unlocking period	Date of unlocking	Limit of proportion of unlocking
First unlocking period	From the first trading day after 12 months from the date of First Grant to the last trading day within 24 months from the date of First Grant	30%
Second unlocking period	From the first trading day after 24 months from the date of First Grant to the last trading day within 36 months from the date of First Grant	30%

Unlocking period	Date of unlocking	Limit of proportion of unlocking
Third unlocking period	From the first trading day after 36 months from the date of First Grant to the last trading day within 48 months from the date of First Grant	40%

If the date of grant of the reserved Restricted A Shares falls within 2016, the reserved Restricted A Shares will be unlocked in three phases after 12 months from the date of grant of the reserved Restricted A Shares, the specific arrangements are as follow:

Unlocking period	Date of unlocking	Limit of proportion of unlocking
First unlocking period	From the first trading day after 12 months from the date of grant of the reserved Restricted A Shares to the last trading day within 24 months from the date of grant of the reserved Restricted A Shares	30%
Second unlocking period	From the first trading day after 24 months from the date of grant of the reserved Restricted A Shares to the last trading day within 36 months from the date of grant of the reserved Restricted A Shares	30%
Third unlocking period	From the first trading day after 36 months from the date of grant of the reserved Restricted A Shares to the last trading day within 48 months from the date of grant of the reserved Restricted A Shares	40%

If the date of grant of the reserved Restricted A Shares falls within 2017, the reserved Restricted A Shares will be unlocked in two phases after 12 months from the date of grant of the reserved Restricted A Shares, the specific arrangements are as follow:

Unlocking period	Date of unlocking	Limit of proportion of unlocking
First unlocking period	From the first trading day after 12 months from the date of grant of the reserved Restricted A Shares to the last trading day within 24 months from the date of grant of the reserved Restricted A Shares	50%
Second unlocking period	From the first trading day after 24 months from the date of grant of the reserved Restricted A Shares to the last trading day within 36 months from the date of grant of the reserved Restricted A Shares	50%

During the unlocking period, if the Board confirmed the unlocking conditions are met, the Participant must submit Restricted A Shares unlocking application in relation to the unlocked portion of the Restricted A Shares to the Company within the unlocking period. Such unlocking will be deemed as given up by the Participant if he/she does not submit written application to the Board during the unlocking period and the respective Restricted A Shares shall not be unlocked and shall be cancelled after being repurchased by the Company.

#### IV. The scientific and rational setting of performance indicator

The performance indicators in the project are set by reference to the relevant circumstances of listed companies in the same industry. The settings of the abovementioned net profit growth and return on equity over the years are not less than the following selected 10 listed companies in the same industry, in which the average net profit growth and average return on equity in 2015 are 15.12% and 9.70% respectively. The settings are scientific and rational.

Abbreviation of listed companies in the same industry	Net profit growth in 2015	Return on equity in 2015
China Energy Environmental (中電環保)	17.34%	10.39%
Kaidi Ecological (凱迪生態)	-23.17%	5.64%
Fuchun Environmental (富春環保)	9.92%	7.52%
Wanbangda (萬邦達)	49.93%	10.56%
Dingli shares (鼎立股份)	-3.06%	1.83%
Shengyun Environmental (盛運環保)	-117.34%	28.93%
Shenwu Environmental (神霧環保)	200.07%	10.80%
Huanneng Science and Technology (環能科技)	-1.36%	7.51%
Gaoneng Environmental (高能環境)	-2.12%	5.98%
Welle (維爾利)	20.96%	7.88%

*Note:* The above data is extracted from the 2015 annual reports and summary of the above companies.

In conclusion, the Company had full consideration on the historical performance of the Company, operating environment and industry status, as well as the future development plan of the Company etc. before setting the performance indicators. The indicator settings are reasonable. In terms of the Participants, the performance goals are clear and help to raise the competitiveness of the Company. The performance indicator settings not only help to raise the competitiveness of the Company, but also attract more talents in the industry to join the Company and play a positive role in building up a core team for the Company. The Company are in favor of encourage the initiative and creativity of the key employees and ensure the implementation of the future development strategy and operating goals to bring a more efficient and long-term return.

## CHAPTER 8 METHOD AND PROCEDURES FOR ADJUSTMENT FOR THE SHARE INCENTIVE SCHEME

### I. Method of adjusting the number of Restricted A Shares

In case during the period from the announcement date of the Incentive Scheme to the completion of registration of Restrictive Shares by the Participants, in the event of any issue of Shares by conversion of capital reserve, bonus issue, sub-division, consolidation, rights issue, in relation to the Shares of the Dongjiang Environmental, adjustment to the number of Restricted A Shares to be granted shall be made by the Company accordingly. The method of adjustment is set out below:

*(i) Issue of Shares by conversion of capital reserve, bonus issue and sub-division of Shares*

$$Q = Q_0 \times (1 + n)$$

Where:  $Q_0$  represents the number of Restricted A Shares before the adjustment;  $n$  represents the ratio of increase per Share resulting from the issue of Shares by conversion of capital reserve, bonus issue or sub-division of Shares (i.e. the number of Shares increased per Share upon issue of Shares by conversion of capital reserve, bonus issue or sub-division of Shares);  $Q$  represents the adjusted number of Restricted A Shares.

*(ii) Consolidation of Shares*

$$Q = Q_0 \times n$$

Where:  $Q_0$  represents the number of Restricted A Shares before the adjustment;  $n$  represents the ratio of consolidation of Shares (i.e. one Share of Dongjiang Environmental shall be consolidated into  $n$  Shares);  $Q$  represents the adjusted number of Restricted A Shares.

***(iii) Rights Issue***

$$Q = Q_0 \times P_1 \times (1 + n) / (P_1 + P_2 \times n)$$

Where:  $Q_0$  represents the number of Restricted A Shares before the adjustment;  $P_1$  represents the closing price as at the record date;  $P_2$  represents the price of the rights issue;  $n$  represents the ratio of the rights issue (i.e. the ratio of the number of Shares to be issued under the rights issue to the total share capital of the Company before the rights issue);  $Q$  represents the adjusted amount of Restricted A Shares.

***(iv) Dividends, Issuance of new Shares***

The number of subject Shares shall not be adjusted in the event the Company distributes dividends and issuance of new Shares.

**II. Method of adjusting the grant price of the Restricted A Shares**

In case during the period from the announcement date of the Incentive Scheme to the completion of registration of Restrictive Shares by the Participants, in the event of any dividend distribution, issue of Shares by conversion of capital reserve, bonus issue, sub-division, consolidation, rights issue, an adjustment to the grant price shall be made by the Company accordingly. The method of adjustment in principle is set out below:

***(i) Issue of Shares by conversion of capital reserve, bonus issue and sub-division of Shares***

$$P = P_0 / (1 + n)$$

Where:  $P_0$  represents the grant price before the adjustment;  $n$  represents the ratio of increase per Share resulting from the issue of Shares by conversion of capital reserve, bonus issue and sub-division of Shares to each Share;  $P$  represents the adjusted grant price.

***(ii) Consolidation of Shares***

$$P = P_0 / n$$

Where:  $P_0$  represents the grant price before the adjustment;  $n$  represents the ratio of consolidation of Shares;  $P$  represents the grant price after the adjustment.

***(iii) Dividend distribution***

$$P = P_0 - V$$

Where:  $P_0$  represents the grant price prior to adjustment;  $V$  represents the dividend per Share;  $P$  represents the grant price after adjustment.

*(iv) Rights issue*

$$P = P_0 \times (P_1 + P_2 \times n) / (P_1 \times (1 + n))$$

Where:  $P_0$  represents the grant price before the adjustment;  $P_1$  represents the closing price as at the record date;  $P_2$  represents the price of the rights issue;  $n$  represents the ratio of the rights issue;  $P$  represents the adjusted grant price.

*(v) Issuance of new Shares*

The grant price of Underlying Shares shall not be adjusted in the event the Company conducts issuance of new Shares.

**III. Adjustment procedures for the Incentive Scheme**

The general meeting of Dongjiang Environmental has authorized the Board to adjust the number and grant price of the Restricted A Shares to be granted within the scope of the reasons set out in this Chapter. The Board should make timely announcement and inform the Participants after making adjustment to the number and grant price of the Restricted A Shares to be granted in accordance with the abovementioned provisions. The Company shall engage a legal adviser to provide professional advice to the Board whether such adjustment is in compliance with the provisions of relevant laws and regulations, Articles of Association and the Incentive Scheme.

Any adjustment to the number and grant price of the Restricted A Shares to be granted or other terms due to other reasons shall be resolved by the Board, and later submitted to the general meeting of the Company for review and approval.



**CHAPTER 9 ACCOUNTING UNDER THE RESTRICTED A SHARE INCENTIVE  
SCHEME****I. Accounting under the Restricted A Share Incentive Scheme*****(i) Accounting of Grant Date***

The share capital and capital reserve shall be determined according to the issuance of shares to the Participants by the Company.

***(ii) Accounting within the Lock-up Period***

According to the requirements of accounting standards, the equity-settled share-based payment for employees shall be included in cost or expense at fair value of the equity instrument on the grant date, and the capital reserve shall be increased accordingly. At each balances sheet date within the lock-up period of restricted A shares, the services acquired during the current period shall be included in relevant costs or expenses and capital reserve at fair values of restricted A shares on the grant date on basis of best estimation of the numbers of the restricted A shares that may be unlocked.

***(iii) Accounting at the unlocking date***

At the unlocking date, the shares can be unlocked if all conditions of unlocking are satisfied; if all or part of shares are unlocked and thus become invalid or null, they shall be cancelled by the Company upon repurchase and dealt with according to accounting standards and relevant requirements.

**II. Calculation Method of fair value of the Restricted A Shares**

According to Enterprise Accounting Standard No. 11-Share-based Payments and Enterprise Accounting Standard No. 22-Financial Instruments: Recognition and Measurement were issued by Ministry of Finance on 15 February 2006 and the relevant requirements regarding the recognition of fair value under Enterprise Accounting Standard No. 22-Financial Instruments: Recognition and Measurement. After argumentation, the Company have chosen appropriate valuation model for the calculation of the fair value of the Restricted A Shares. The Company uses Black-Scholes Model to calculate the fair value of the Restricted A Shares. Black-Scholes Model was used in the preliminary calculation of the fair value of Restricted A Shares, using the date of Board meeting as the reference day (official calculation will be conducted at the time of grant).

**III. Rationality of valuation of significant parameters which involved in the valuation model****1. Valuation model**

The fair value of the Restricted A Shares will be determined according to the Black-Scholes Model.

**2. Rationality of valuation of significant parameters**

Definition	Value	Rationality
Fair value of the Restricted Shares	Value of the share on the grant date	
Current price of the Restricted Shares	Closing price on the grant date. The closing price of Shares of Dongjiang on 17 August 2016 of \$20.14 per share was used in the preliminary calculation.	
The grant price of the Restricted Shares	The basis of determination of the grant price of the Restricted Shares under First Grant shall not be lowered than any of the below, whichever is higher, 50% of the average closing prices of the Shares of the Company for the last 1 trading day preceding the date of announcement of the Shares Incentive Scheme, 50 % of the average closing prices of the Shares of the Company for the last 20 trading days, 60 trading days or 120 trading days preceding the date of announcement of the Shares Incentive Scheme, the valuation of the Company will be 50% of the average closing price of the Company 120 trading days preceding the date of announcement of the consideration and approval of the Scheme by the Board resolution.	In compliance with the requirements of the Administrative Measures on Share Incentive of Listed Companies. See Chapter 6 “GRANT PRICE AND BASIS OF DETERMINATION OF THE GRANT PRICE OF THE RESTRICTED SHARES” of this revised draft for details.
Maturity of the Restricted Shares	From the grant date to the first unlocking date of each period, being 1, 2 and 3 years respectively.	See Chapter 5 “VALIDITY PERIOD, DATE OF GRANT, LOCK-UP PERIOD AND UNLOCKING PERIOD OF THE INCENTIVE SCHEME” of this revised draft for details.
Risk-free interest rate	1.50%, 2.10% and 2.75% for 1, 2 and 3 years respectively.	Using the 1, 2 and 3 years benchmark deposit rates of the People’s Bank of China for financial institutions respectively.
Volatility of the Shares	Historical volatility of the SME Index in the previous 1, 2 and 3 years	The volatility of the SME sector, in which the Company belongs, in the three years prior to the date of grant can reasonably reflect the volatility of the subject shares
Dividend yield of the Shares	0.48%	The average dividend yield of the Company in the last three years prior to the announcement of the Incentive Scheme

**IV. The expected impact on the operation results by the implementation of the Restricted Shares**

The fair value of the Restricted Shares on the grant date which is determined in accordance with the relevant valuation method, and the costs of payment of shares under the Scheme is determined finally, which will be amortized evenly per month during the implementation of the Scheme. The costs incurred from the Incentive Scheme will be charged to the recurring profit and loss.

According to the accounting standards of the PRC, the effects of the costs of Restricted Shares under the First Grant of the Incentive Scheme on each accounting period are as follows:

<b>Number of Restricted Shares under the First Grant (0'000)</b>	<b>Total costs to be amortized (RMB 0'000)</b>	<b>2016 (RMB 0'000)</b>	<b>2017 (RMB 0'000)</b>	<b>2018 (RMB 0'000)</b>	<b>2019 (RMB 0'000)</b>
1,862.00	4,145.09	604.49	2,107.08	1,019.00	414.51

Assuming the 1,380,000 Shares reserved will be granted in March 2017 and the grant price and estimation parameters are the same as in this estimation, the effects of the costs on each accounting period of the reserved Restricted Shares are as follows:

<b>Number of Restricted Shares reserved (0'000)</b>	<b>Total costs to be amortized (RMB 0'000)</b>	<b>2017 (RMB 0'000)</b>	<b>2018 (RMB 0'000)</b>	<b>2019 (RMB 0'000)</b>
138.00	321.22	180.69	120.46	20.08

According to the preliminary evaluation of the Company based on the information available, without taking into account the stimulus effects of the Scheme on the results of the Company, the amortization of the costs of Restricted A Shares shall affect the net profit of each year during the validity period and hence affect the performance target in relation to the net profit growth rate, although the extent of which would not be substantial. Taking into consideration the positive impact of the Restricted A Share Incentive Scheme on the development of the Company, such as motivating the management team and key employees, increasing the operational efficiency, the benefits generated from the improvement in the Company's results due to the Scheme shall far exceed the increase in costs.

**CHAPTER 10 PROCEDURES OF IMPLEMENTATION, GRANT AND UNLOCKING  
UNDER THE RESTRICTED A SHARE INCENTIVE SCHEME****I. Procedures of implementation of Restricted A Shares**

- (i) The Remuneration and Appraisal Committee of the Board draw up this draft scheme;
- (ii) The Board reviews and considers this draft scheme drawn up by the Remuneration and Appraisal Committee;
- (iii) Independent directors give their independent opinions in respect of whether the Scheme is beneficial to the sustainable development of the Company and there having any noticeable damage to the interests of the Company and all shareholders or not;
- (iv) The Company should carry out self-investigation on the trading of shares and derivatives of the Company by insiders during the 6 months' period prior to the announcement of the draft scheme to examine whether the behavior of insider trading exists;
- (v) The Supervisory Committee gives opinions in respect of whether the Scheme is beneficial to the sustainable development of the Company and there having any noticeable damage to the interests of the Company and all shareholders or not, and verifies the list of participants under the Scheme;
- (vi) The Board makes announcements of its resolution, the summary of this draft scheme and opinions from independent directors within 2 trading days after the approval of this draft scheme;
- (vii) The Company engages a lawyer to issue legal opinions on this Scheme;
- (viii) The Company issues the notice for convening the general meeting and make announcements of legal opinions; before convening the general meeting, the Company announces the name and position of the Participants internally via company website or other channels for not less than 10 days;
- (ix) Disclose the explanation of the Supervisory Committee regarding the verification of the list of participants under the Scheme and the status of publicity 5 days prior to the consideration of the Share Incentive Scheme by the general meeting;
- (x) Independent directors collect voting by proxies in connection with this Scheme from all shareholders;
- (xi) The Scheme is reviewed and resolved by ways of on-site meeting and network voting at the general meeting, and the Supervisory Committee shall make explanations on its verification of the list of participants at the meeting;

- (xii) The Scheme shall be implemented upon approval at the general meeting. Directors shall handle matters in relation to the grant and unlocking of the Restricted A Shares with the authorization granted at the general meeting.

## **II. Procedures of grant of restricted A shares**

- (i) Upon approval of the Scheme at the Company's general meeting and in compliance with the conditions of grant, the Company shall grant the Restricted A Shares to the Participants within 60 days after the approval at the general meeting. The Grant Date must be a trading day and have to comply with the relevant requirements in relation to the grant date of the Scheme. The Company shall also grant the interests within 60 days after the approval at the general meeting and make an announcement and submit registration;
- (ii) Upon approval of the Scheme at the Company's general meeting, the Company is entitled to issue a Subscription Letter to the Participants before the grant date. The Participants shall sign the Subscription Letter within 3 days and return one of the original copies to the Company; meanwhile the Participants shall pay their funds for subscription of Restricted A Shares into a designated account of the Company as requested by the Company within the time frame specified in the Subscription Letter; otherwise it shall be regarded as waiving subscription of the granted Restricted A Shares by the Participants;
- (iii) The Company enters into the Agreement for Grant of Restricted A Shares with Participants within 2 days upon the confirmation of the grant date to agree on the rights and obligations of both parties;
- (iv) The Company issues the Notice of Grant of Restricted A Shares and Confirmation Letter to participants on the grant date;
- (v) The Company prepares a management register of the restricted A shares scheme pursuant to signature of agreement by the participants, in which sets out names of participants, numbers of grants, the grant date, the Subscription Letter, Agreement for Grant of Restricted A Shares and Notice of Grant of Restricted A Shares and Confirmation Letter, etc;
- (vi) The board of the Company deals with other relevant matters concerning implementation of the Scheme in accordance with related requirements of the CSRC, SZSE and Securities Depository and Clearing Corporation.

**III. Procedures of unlocking of restricted A shares**

- (i) The participants submit Application for Unlocking Restricted A Shares to propose their unlocking applications within the unlocking period that determined by the Board;
- (ii) The Remuneration and Appraisal Committee checks and confirms the qualification of unlocking from applicants and whether relevant conditions are achieved;
- (iii) The Company makes application of unlocking to SZSE after the applications from participants are confirmed by the Board;
- (iv) After confirmed by SZSE, the Company will make application to the Securities Depository and Clearing Corporation for transacting registration and settlement;
- (v) The participant has right to transfer its unlocked Underlying Shares, while as for the participant such as directors, senior management of the Company transferring their unlocked Underlying Shares, it shall be in compliance with the relevant provisions of the Company Law, the Securities Law and Articles of Association and other laws and regulations.

**CHAPTER 11 RESPECTIVE RIGHTS AND OBLIGATIONS OF THE COMPANY AND  
PARTICIPANTS AND DISPUTE SETTLEMENT MECHANISM****I. Rights and obligations of the Company**

- (i) The Company has right to ask participants to work for the Company based on the requirements of positions. In the event the participants failed in the performance assessment, the Company will repurchase and cancel their unlocked restricted A shares after approved by the Board;
- (ii) If the participants make serious damages to the Company's interests or reputation as result of such acts as breaking laws, violation of professional ethics, unauthorized disclosure of the Company's information, negligence of duties or misconduct, the Company will repurchase and cancel their unlocked restricted A shares after approved by the Board; If the circumstances are serious, the Company is entitled to claim compensations for the losses resulting therefrom according to the requirements of relevant laws and regulations;
- (iii) The Company has right to withhold and remit the individual income tax and other taxes which should be paid by participants according to provisions of the tax laws and regulations of the PRC;
- (vi) The Company shall not provide loans and any other forms of finance assistance, including provision of guarantee for loans, to the participants for acquiring the Restricted A Shares under this Scheme;
- (v) The Company shall actively cooperate with the participants who are qualified for subscription and unlocking to perform subscription and unlocking according to this Scheme and relevant regulations of the CSRC, Stock Exchange and Securities Depository and Clearing Corporation. The Company assumes no responsibilities for the participants' failing to subscription at their own willingness and incurring losses due to reasons from the CSRC, Stock Exchange and Securities Depository and Clearing Corporation;
- (vi) The Company shall perform its obligations such as reporting and disclosure of information in a timely manner according to the requirements of related laws, regulations and regulatory documents;
- (vii) The Company shall have the right to construe and execute the Scheme;
- (viii) Other relevant rights and obligations as stipulated under the laws, regulations and this Draft.

**II. Rights and obligations of Participants**

- (i) The Participants shall perform their own duties diligently and devotedly in line with position requirements;
- (ii) The Participants shall not participate in two or above share incentives schemes of listed companies;
- (iii) The funds used for subscription of Restricted A Shares by the Participants pursuant to this Scheme shall be self-financed;
- (iv) The Participants shall lock the acquired Restricted A Shares according to this Scheme. The Restricted A Shares granted to the Participants do not have rights of disposal such as being transferred or used as guarantees or repayment of debts before they are unlocked;
- (v) Upon completion of registration by the Securities Depository and Clearing Corporation, the Restricted A Shares granted to the Participants shall have the same rights as shares, including but not limited to the rights of dividend, rights issue and voting right conferred by such shares. However, the bonus shares, shares by conversion of capital reserve, rights issue shares and the shares placed to original shareholders upon issuance of new shares which are acquired by the participants due to grant of Restricted A Shares during the lock-up period, shall be locked simultaneously, and shall not be sold or otherwise transferred in the secondary market. The ending date of the lock-up period of such shares is the same as that of the Restricted A Shares;
- (vi) When the Company declares cash dividends, the cash dividends which should be enjoyed by the Participants in connection with the granted restricted A shares will be received by the Company after withholding and paying the individual income tax, and later will be returned to the Participants once such part of restricted A shares are unlocked; If such part of restricted A shares can not be unlocked, then the cash dividends received will not be returned, and the Company will cancel such part of restricted A shares upon repurchase and made corresponding accounting treatment;
- (vii) The gains acquired by the Participants as a result of this Scheme shall be subject to individual income tax and other taxes and fees according to tax laws and regulations of the PRC, and the participants shall perform tax declaration obligations;
- (viii) The transfer of shares by the Participants when the underlying shares are unlocked shall comply with this Scheme and requirements of related laws, regulations and regulatory documents as well as other rights and obligations that the Participants possess as stipulated in related laws, regulations and regulatory documents and the articles of association.



**III. Dispute or Quarrel Settlement Mechanism for the Company and the Participants**

During the implementation process of the Scheme, if there are any disputes or quarrels between the Company and the Participants arising from the implementation of the Scheme, all parties should negotiate amicably for the settlement. In case of negotiation failure, either party has the right to submit the case to the Shenzhen Arbitration Commission for arbitration.

**CHAPTER 12 IMPLEMENTATION OF INCENTIVE SCHEME IN THE EVENT OF  
CHANGES IN THE COMPANY AND PARTICIPANTS****I. Changes in the control of the Company, merger and spin-off**

In the event of changes in the control of the Company, merger or spin-off, the Scheme shall remain unaffected and shall be implemented according to its provisions.

**II. Change of position, resignation and removal of a Participant**

If the position of a Participant changes but he/she remains a Director (if any) (except independent director), senior management and key employee of the Company or he/she has been transferred by the Company to any of its subsidiaries or branch offices, all Restricted A Shares already granted to him/her shall remain unchanged in principle.

If a position of a Participant changes such that the he/she is no longer eligible to be a Participant under the Incentive Scheme or such Participant resigns from and terminates the employment contract with the Company or its subsidiaries or branch offices or such Participant is removed by the Company or its subsidiaries or branch offices, the Board may decide to cancel the grant of Restricted A Shares which are not yet unlocked to the Participant and such Restricted A Shares shall be cancelled by the Company upon repurchase.

If the Company disposes of its shareholding interest in a subsidiary so that the accounts of such subsidiary shall no long be consolidated into the financial statements of the Company or if the Company de-registers a subsidiary or a branch office such that a Participant no longer has a labor relationship with the Company, or a subsidiary of the Company which accounts are consolidated into the financial statements of the Company, or its branch office (duly subsisted), the Board may decide to cancel the grant of Restricted A Shares which are not yet unlocked to the Participant and such Restricted A Shares shall be cancelled by the Company upon repurchase.

**III. Retirement, incapability, civil incapacity and death arising out of work of the Participant**

If a Participant retires, resigns due to incapability or civil incapability or dies arising out of and in the course of his/her employment, the unlocked Shares shall be exercisable by the Participant according to the requirements of the Incentive Scheme. The locked-up Restricted A Shares shall follow the procedures and period for unlocking. The Participants shall no longer be bound by the unlocking condition in relation to the business performance, whilst other unlocking conditions shall remain effective.

If the Participant retires during the Validity Period of the Scheme and the Company re-employs such Participant and the Participant accepts the offer and continues to work in the Company, the Restricted A Shares granted under the Scheme will follow the required procedures and period for unlocking.

**CHAPTER 13 CHANGE AND TERMINATION OF THE RESTRICTED INCENTIVE  
SHARES SCHEME****I. Change of the Restricted Incentive Shares Scheme**

The Company may change the restricted A share incentive scheme before the consideration and approval of it at the general meeting. The change requires consideration and approvals by the Board. The Company shall timely announce and propose to the general meeting for consideration upon the approval of change of restricted A share incentive scheme considered at the general meeting and shall not include the followings:

1. Circumstance that accelerates the exercise or early release of restricted sale;
2. Circumstance that lower the exercise price or grant price.

**II. Termination of the Restricted Incentive Shares Scheme**

If any of the following events has occurred to the Company, the Incentive Scheme shall be terminated. Restricted A Shares which are granted under the Incentive Scheme but not yet unlocked by the Participants shall be cancelled by the Company upon repurchase:

1. issue of the Company's financial and accounting report for the most recent accounting year in which a certified public accountant gives an adverse opinion or indicates the inability to give an opinion;
2. issue of the Company's financial report and internal control for the most recent accounting year in which a certified public accountant gives an adverse opinion or indicates the inability to give an opinion;
3. occurrence of circumstances under which the Company is inability of profit distribution in compliance with the laws and regulation, the articles of association as well as the public undertaking for the last 36 months after Listing;
4. the prohibition of the implementation of the Share Incentive Scheme stipulated by laws and regulations;
5. other circumstances as determined by the CSRC.

For those who are personally liable for the above mentioned circumstances, the repurchase price shall not exceed the grant price.

**III. Others of the Restricted Incentive Shares Scheme**

- (i) During the implementation of the Incentive Scheme, the Participants will lose qualifications to participate in the Scheme if any of the following events occurs to a Participant. All his/her Restricted A Shares granted but not yet unlocked shall be cancelled by the Company upon repurchase:
1. The Participant is declared as an ineligible candidate by any stock exchange in the last 12 months;
  2. have been identified as an ineligible candidate by the CSRS and such authority delegated by the CSRC in the last 12 months;
  3. have been imposed with administrative penalties or a sanction of banning of entry into the securities market by the CSRC and such authority delegated by the CSRC during the last 12 months due to material non-compliance of laws and regulations;
  4. are prohibited from acting as a director or a member of the senior management pursuant to the Company Law of PRC;
  5. are prohibited from participating the share incentive scheme of listing companies pursuant to the laws and regulations;
  6. other circumstances identified by the CSRS.

For the above mentioned circumstances, the repurchase price shall not be higher than the grant price.

- (ii) If any other circumstances not provided in the Scheme occur to the Company or any of the Participants, the Board will adopt the relevant procedures in respect to the concerned Restricted A Shares held by such party.

Except for the second paragraph headed “Termination of the restricted incentive shares scheme” and the reasons of the Company or the incentive participants stipulated in the first provision of the third paragraph headed “Others of the restricted incentive shares scheme” of this section, if there is occurrence of the need to repurchase restricted A shares for cancellation, the repurchase price shall not higher than the sum of the grant price and the bank deposit interest for the same period.

Upon the approval obtained at the general meeting, the Board may terminate the Scheme by way of resolution if it considers necessary. From the date on which the Board resolution is passed, the unlocked Restricted A Shares of the Participants shall remain valid and the Restricted A Shares not yet unlocked shall be cancelled by the Company upon repurchase.

## CHAPTER 14 PRINCIPLES OF REPURCHASE AND CANCELLATION

The Restricted A Shares shall be cancelled by the Company upon repurchase pursuant to the provisions of the Scheme. The repurchase price shall be the grant price, unless otherwise adjusted thereunder.

**I. Adjustment method for the repurchase price**

In the event that the Company issues additional shares, publicly or otherwise, after granting Restricted A Shares which are then repurchased and cancelled pursuant to the requirements of the Scheme, no adjustments shall be made to the repurchase price. In the event of any conversion of capital reserve, bonus issue, dividends distribution, rights issue, by the Company under which adjustments may be made on the Company's total number of shares or on the share price on an ex-right or ex-dividend basis, corresponding adjustments shall be made to the repurchase price of the Restricted A Shares which have not been unlocked.

**1. Issue of Shares by conversion of capital reserve, bonus issue and sub-division of Shares**

$$P = P_0 \div (1 + n)$$

Where:  $P_0$  represents the grant price before the adjustment;  $n$  represents the ratio of increase per Share resulting from the issue of Shares by conversion of capital reserve, bonus issue and sub-division of Shares;  $P$  represents the adjusted grant price.

**2. Consolidation of Shares**

$$P = P_0 \div n_1$$

Where:  $P_0$  represents the grant price before the adjustment;  $n_1$  represents the ratio of consolidation of Shares;  $P$  represents the adjusted grant price.

**3. Declaration of dividend**

$$P = P_0 - V$$

Where:  $P_0$  represents the grant price prior to adjustment;  $V$  represents the dividend rate per Share;  $P$  represents the adjusted grant price.

**4. Rights issue**

$$P = P_0 \times (P_1 + P_2 \times n_2) / (P_1 \times (1 + n_2))$$

Where:  $P_0$  represents the grant price before the adjustment;  $P_1$  represents the closing price as at the record date;  $P_2$  represents the price of the rights issue;  $n_2$  represents the basis of the rights issue (i.e. the number of Shares to be issued under the rights issue to the total share capital of the Company prior to the rights issue);  $P$  represents the adjusted grant price.

## **II. Adjustment procedures for the repurchase price**

1. The general meeting of the Company has authorized the Board to adjust the number and price of the Restricted A Shares to be repurchased with the reasons set out above. The Board should make timely announcement after making adjustment to the number and price of the Restricted A Shares to be repurchased in accordance with the abovementioned provisions.
2. Any adjustment to the number and price of the Restricted A Shares to be repurchased due to other reasons, after being reviewed by the Board, shall be submitted to the general meeting of the Company for consideration and approval.

## **III. Procedures of repurchase and cancellation**

Upon the termination of the scheme, the situation that the incentive participant is disqualified for the grant of restricted A share, the falling short of conditions to release restricted sale or other circumstances of repurchase required by laws, the Company shall convene Board meeting for the consideration of share repurchase scheme and propose the share repurchase scheme according to the law at the general meeting for approval. The share repurchase scheme includes, but not limited to, the followings:

1. The reasons for share repurchase;
2. Price of share repurchase and the basis of the price determination;
3. Types, quantity and the proportion of the target A share of the share incentive scheme and the proportion of the total share equity;
4. Total amount of capital for the proposed repurchase and the source of capital;
5. Change in share equity structure of the Company after repurchase and the impact on the results of the Company.

The Company shall apply to the Shenzhen Stock Exchange for unlocking the Restricted A Shares upon the repurchase implemented according to the provisions of the Scheme. The Company shall also pay the repurchase payment to the Participants and complete the transfer of relevant shares with the securities depository and clearing corporation within 10 business days upon unlocking. Within the reasonable period upon share transfer, the Company shall cancel these Shares.

**CHAPTER 15 SUPPLEMENTARY PROVISIONS**

The Scheme is drawn up by the Remuneration and Appraisal Committee and reviewed and approved by the Board. The Scheme shall become effective from the date of approval at the general meeting of the Company.

The final explanation right of this Scheme belongs to the Board of the Company.

**METHOD OF APPRAISAL FOR RESTRICTED A SHARE  
INCENTIVE SCHEME 2016**

According to the Administrative Measures on Share Incentive of Listed Companies issued by China Securities Regulatory Commission on 13 July 2016, the Company made further revision, supplement and refinement on the Method of Appraisal for restricted A share incentive scheme 2016 of Dongjing Environmental Company Limited, and amended as (revised) Method of Appraisal for restricted A share incentive scheme 2016 of Dongjing Environmental Company Limited.

**I. GENERAL PROVISIONS****1.1 Purpose of Appraisal**

The purpose is to further improve the establishment of corporate governance and form a scientific value distribution system, in addition to improving the performance appraisal system and incentive system for the senior management and key employees (key technicians and key personnel), prompting them to work with integrity and diligence, so that the results of the Company could have a sustaining and healthy growth in long term and achieve the long-term strategic objectives.

**1.2 Principle of Appraisal**

We uphold the principles of being fair, impartial and objective; uphold the principle in combining the indicators of organization performance and individual performance; insist on considering short-term business targets as well as the long-term development targets; uphold the complementation of incentives and restrictions.

**1.3 Participants of Appraisal**

The Method of Appraisal is applicable to the Incentive Participants of the Restricted A Share Incentive Scheme of the Company.

**II. RESPONSIBILITY OF APPRAISAL****2.1 Organization of Appraisal**

The Remuneration and Appraisal Committee of the Board (hereinafter referred as the “Remuneration and Appraisal Committee”) is responsible for organizing and auditing appraisal work; Human Resources Department is responsible for the specific implementation work of appraisal; the relevant departments, such as the Secretary Office of the Board, the Audit and Supervision Department and Finance Department, are responsible for assisting relevant appraisal work, such as collection, provision and revision of information, and take responsibility for the accuracy and reliability of such information.



**III. CONTENT OF APPRAISAL****3.1 Indicator of Appraisal**

Performance appraisal indicator mainly consists of indicators of organization performance and indicators of individual performance. Through indicators of organization performance, employees are associated with the performance appraisal result of the organization units they were located in for the year or employees are associated with the performance appraisal result of the organization divisions they managed for the year, which emphasizes the relationship between organizations and individuals; the indicators of individual performance is an indicator on employees' personal requirements for important works, team building and individual professional behavior.

**3.2** Every appraisal indicator should have evaluation criteria set in ranges and have a clear quantitative scoring system as well as clear data sources.

**3.3** The appraisal period is the accounting year before the unlocking of restricted A share granted to the incentive participants. The period for implementing the appraisal is once during the share incentive period.

**IV. PROCESS OF APPRAISAL****4.1 Confirmation of the annual performance indicator**

At the beginning of every appraisal year, based on the contents, such as the individual working plan of appraisal participants, the annual operating plan of the Company and the annual working plan of the department, and through communication with appraisal participants, an annual assessment indicator is set and an "individual performance appraisal statement" is signed with the appraisal participants for the ground of annual appraisal which will be sent to the Remuneration and Appraisal Committee for record.

**4.2 Feedback of the Performance**

During the performance appraisal period, every level of management shall communicate with, give feedback to and discuss with the appraisal participants in relation to the progress of targets regularly or irregularly to enhance their performance. When appraisal participants need to adjust the "individual performance statement" established at the beginning of the year based on the actual changes of the Company and the work requirements, the Company will submit it to the Remuneration and Appraisal Committee of the Board for record after review and confirmation.

**4.3 Assessment of Performance**

The performance appraisal of senior management is the direct responsibility of the Remuneration and Appraisal Committee. The performance appraisal reports of Incentive Participants other than senior management will be submitted by Assessment Panel of the Company to the chairman of the Company, then to the Remuneration and Appraisal Committee after the consideration of the chairman.

**4.4** Finally, the Remuneration and Appraisal Committee will consider and confirm all appraisal results of the appraisal participants.

**V. APPLICATION OF APPRAISAL RESULTS****5.1 Distribution of the Performance Appraisal Results**

Performance appraisal result of the incentive participants is an individual performance score assessed according to the combination of the indicator of individual performance and the score from organization. There is five grades for the individual performance, including A (Excellent), B (Beyond Expectation), C (Average), D (Rooms for Improvement) and E (Eliminate).

**5.2 Application of the Performance Appraisal Results**

The appraisal result of the incentive participants is the ground for restricted A share incentive scheme. If the score is more than 70 and the grade between A to D for the accounting year before the unlocking application, then the restricted A shares granted to the incentive participant can be unlocked corresponding to their unlocking period. If the score is less than 70 or the grade is E, then the restricted A share granted to the incentive participants will be repurchased by the Company for cancellation corresponding to their unlocking period.

**VI. MANAGEMENT OF APPRAISAL RESULTS**

**6.1** Upon the completion of Appraisal, the Remuneration and Appraisal Committee of the Company will adjust the assessment indicators and appraisal results which have been materially affected by the change of objective environment.

**6.2** The appraisal participants are entitled to know their appraisal results. The Human Resources Department shall notify the appraisal participants the appraisal results within five business days after the completion of the appraisal.

**6.3** If there is disagreement on the appraisal results, the appraisal participants could appeal to the Human Resources Department within three business days after the completion of appraisal. The disagreement may be finally submitted to the Remuneration and Appraisal Committee of the Board. The Remuneration and Appraisal Committee of the Board will investigate the situation promptly and give a final opinion.

- 6.4 Upon the completion of performance appraisal, the appraisal record such as “Performance Appraisal Statement” will be filed by the Human Resources Department. To ensure the validity of the appraisal records, no alteration of the appraisal records is allowed. If amending or replacing the record is really needed, the signature of the party involved is needed.

**VII. SUPPLEMENTARY PROVISIONS**

- 7.1 The Method shall be established, interpreted and amended by the Board of the Company.
- 7.2 The Method is implemented since the date of its consideration and approval at the General Meeting of the Company.

Details of the resolution in relation to the approval of the Proposed Grant and granting of mandate to the Board or its authorized persons to deal with matters pertaining to the Restricted A Share Incentive Scheme are set out as follows:

According to the Administrative Measures on Share Incentive of Listed Companies issued by CSRC 13 July 2016 (implemented on 13 August 2016), and in order to complete the work in respect of the Incentive Scheme of Dongjiang Environmental Company Limited (Hereinafter referred to as the “Company”) legally and efficiently, the board of directors of the Company propose to the 51th general meeting of the fifth board for authorization to the board of directors to approve for further revision, supplement and refinement on the proposal of grant and the authorisation be granted to the board of directors at the general meeting to deal with matters relating to the restricted A share incentive scheme with absolute discretion, and amended as the (revised) proposal of grant and the authorisation to be granted to the board of directors at the general meeting to deal with matters relating to the restricted A share incentive scheme with absolute discretion, and handle the related matters on the 2016 Restricted A Shares Incentive Scheme (Hereinafter referred to as the “Shares Incentive Scheme” in accordance with the Company Law of the People’s Republic of China, the Securities Law of the People’s Republic of China, Measures for the Administration of the Equity Incentives of Listed Companies and other relevant laws and regulations, and the relevant provisions of the Articles of Association of Dongjiang Environmental Company Limited, including but not limited to:

1. To authorize the board of director to determine the Grant Date of this Incentive Scheme;
2. To authorize the board of directors to adjust the granted quantity and price of the Restricted A Shares as per the methods as required in this Incentive Scheme in the case of the issue of shares by conversion of capital reserve, bonus issue, sub-division or rights issue, consolidation of shares by the Company;
3. To authorize the board of directors to grant the Participants the Restricted A Shares and handle all the required matters in case the Participants are eligible for this Incentive Scheme;
4. To authorize the board of directors to examine and grant approval on the satisfaction by the Participants of the qualifications and conditions of unlocking, and approve the board of directors to grant such right to the Remuneration and appraisal Committee of the Company to exercise;
5. To authorize the board of directors to determine whether the Participants can be unlocked;

6. To authorize the board of directors to handle all the matters concerning the unlocking of the Participants, including but not limited to unlocking application to the stock exchange, application for completion of relevant registration and settlement business, amendment of the Articles of Association and register the change of the registered capital of the Company;
7. To authorize the board of directors to handle matters concerning the locking of the Restricted A Shares subject to lock-up;
8. To authorize the board of directors to disqualifying the unlocking of the Participants, and handling matters concerning about the compensation and inheritance specific to lock-up of the dead Participants;
9. To authorize the board of directors to manage the Incentive Scheme;
10. To authorize the board of directors to allocate and adjust the total limit of the Restricted A Shares between each of the Participants, in accordance with the established methods and procedures;
11. To authorize the board of directors to handle other affairs concerning this Incentive Scheme, with exception to the rights exercised by the general meeting expressly provided by relevant documents.

**EXECUTIVE DIRECTORS****Liu Ren**

Mr. Liu 1, aged 49, with a Master Degree of Economics. He had worked in the headquarter of the investment bank of Xiangcai Securities Co., Ltd., the headquarter of the investment bank of Fortune Securities Co., Ltd. (財富証券有限責任公司) and The 23rd Metallurgical Construction Group Co., Ltd. of Minmetals. He has served as an Assistant General Manager and Minister of Capital Operations of Guangdong Rising Assets Management Co., Ltd. since May 2014. Mr. Liu 1 has also served as a Director in Xinsheng Futures Co., Ltd., E Fund Management Co., Ltd., Foshan Nationstar Optoelectronics Co. Ltd. (listed on Shenzhen Stock Exchange, stock code: 002449), Foshan Electrical and Lighting Co., Ltd. (listed on Shenzhen Stock Exchange, stock code: 000541) and Rising Nonferrous Metals Share Co., Limited (listed on Shanghai Stock Exchange, stock code: 600259).

Save as serving in Guangdong Rising Assets Management Co., Ltd, which holds above 5% equity interests of the Company and some companies which is invested by Guangchong Rising Assets Management, Mr. Liu 1 does not maintain other associate relationship with the Company, nor holds any shares of the Company, nor he has been punished by the CSRC and other relevant authorities and any stock exchange. He complies with the conditions of serving as a Director under the relevant laws, regulations and provisions including the Companies Law. As at the date of this Announcement, Mr. Liu does not have any interest in the share of the Company within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong.

Save as disclosed above, Mr. Liu 1 has confirmed that there is no any information to be disclosed by the Company pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules and there are no other matters about his appointment that need to be brought to the attention of the shareholders of the Company.

**NON-EXECUTIVE DIRECTORS****Liu Boren**

Mr. Liu 2, aged 46, with a Bachelor's Degree. He had worked in Guangdong Branch of the People's Bank of China, Guangzhou Branch of People's Bank of China and Guangdong Regulatory Bureau of China Banking Regulatory Commission. Since March 2014, he has served as an Assistant General Manager in Guangdong Rising Assets Management Co., Ltd.

Save as serving in Guangdong Rising Assets Management Co., Ltd, which holds above 5% equity interests of the Company, Mr. Liu 2 does not maintain other associate relationship with the Company, nor holds any shares of the Company, nor he has been punished by the CSRC and other relevant authorities and any stock exchange. He complies with the conditions of serving as a Director under the relevant laws, regulations and provisions

including the Companies Law. As at the date of this Announcement, Mr. Liu 2 does not have any interest in the share of the Company within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong.

Save as disclosed above, Mr. Liu 2 has confirmed that there is no any information to be disclosed by the Company pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules and there are no other matters about his appointment that need to be brought to the attention of the shareholders of the Company.

### **Deng Qian**

Mr. Deng, aged 39, with a Master Degree. He has served as an Office Secretary, Director and Senior Director of Business Development and Deputy General Manager of Investment and Development Department in Shenzhen Zhongjin Lingnan Nonfemet Co. Ltd. Since May 2016, he has served as a Minister of Overseas Development Department of Guangdong Rising Assets Management Co., Ltd. Mr. Deng Qian also serves as the director of ALBA Rising Green Fuel (Hong Kong) Ltd. and the chairman and legal representative of ALBA Rising Green Fuel (Jieyang) Ltd., joint stock companies of Guangdong Rising Assets Management Company Limited. ALBA Rising Green Fuel (Hong Kong) Ltd. and ALBA Rising Green Fuel (Jieyang) Ltd. is principally engaged in using the European Union technical for the treatment of city daily waste, which has certain similarity with the Company's business.

Save as serving in Guangdong Rising Assets Management Co., Ltd, which holds above 5% equity interests of the Company, Mr. Deng does not maintain other associate relationship with the Company, nor holds any shares of the Company, nor he has been punished by the CSRC and other relevant authorities and any stock exchange. He complies with the conditions of serving as a Director under the relevant laws, regulations and provisions including the Companies Law. As at the Latest Practicable Date, Mr. Deng does not have any interest in the share of the Company within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong.

Save as disclosed above, Mr. Deng has confirmed that there is no any information to be disclosed by the Company pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules and there are no other matters about his appointment that need to be brought to the attention of the shareholders of the Company.

### **Huang Yiming**

Mr. Huang, aged 42, with a Bachelor's Degree. He had worked in Guangdong International Trust and Investment Corporation, Bestfound Law Firm, etc. Since April 2016, he has served as a Minister of Legal Affairs Department in Guangdong Rising Assets Management Co., Ltd.

Save as serving in Guangdong Rising Assets Management Co., Ltd, which holds above 5% equity interests of the Company, Mr. Huang does not maintain other associate relationship with the Company, nor holds any shares of the Company, nor he has been

punished by the CSRC and other relevant authorities and any stock exchange. He complies with the conditions of serving as a Director under the relevant laws, regulations and provisions including the Companies Law. As at the date of this Announcement, Mr. Huang does not have any interest in the share of the Company within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong.

Save as disclosed above, Mr. Huang has confirmed that there is no any information to be disclosed by the Company pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules and there are no other matters about his appointment that need to be brought to the attention of the shareholders of the Company.

#### **INDEPENDENT NON-EXECUTIVE DIRECTORS**

##### **Zhu Zhengfu**

Mr. Zhu Zhengfu, aged 51, a senior lawyer with a Doctoral Degree. He has currently served as a Director and Directing Partner of Guangdong Dong Fang Kun Lun Law Office. Mr. Zhu Zhengfu also serves as an Independent Director of E Fund Management Co., Ltd., Guangdong Guangzhou Daily Media Co., Ltd. (listed on Shenzhen Stock Exchange, stock code: 0002181), Poly Real Estate Group Co., Ltd. (listed on Shanghai Stock Exchange, stock code: 600048), Beijing Honggao Creative Construction Design Co., Ltd. (listed on Shenzhen Stock Exchange, stock code:002504) and O Luxe Holdings Limited (listed on Hong Kong Stock Exchange, stock code:00860), and a Supervisor of CSSC Offshore & Marine Engineering (Group) Company Limited (listed on Hong Kong stock exchange (stock code: 0317) and Shanghai Stock Exchange (stock code:600685)).

Mr. Zhu does not maintain other associate relationship with the Company, nor holds any shares of the Company, nor he has been punished by the CSRC and other relevant authorities and any stock exchange. He complies with the conditions of serving as a Director under the relevant laws, regulations and provisions including the Companies Law. As at the date of this Announcement, Mr. Zhu does not have any interest in the share of the Company within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong.

Save as disclosed above, Mr. Zhu has confirmed that there is no any information to be disclosed by the Company pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules and there are no other matters about his appointment that need to be brought to the attention of the shareholders of the Company.



## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this 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. (i) INTERESTS OF DIRECTORS, SUPERVISORS, CHIEF EXECUTIVE OF THE COMPANY

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange were as follows:

Name	Position In the Company	Number of A shares of the Company held as personal interest	Capacity	Approximate percentage of interest in the Company/A Shares of the Company as at the Latest Practicable Date
Li Yong Peng	Executive Director	30,741,495 A Shares	Beneficial owner	3.54%/4.59%
Chen Shu Sheng	Executive Director	14,379,182 A Shares	Beneficial owner	1.65%/2.15%

Save as disclosed above, as at the Latest Practicable Date, so far as the Company is aware, none of the Directors, supervisors or chief executive of the Company and their respective associates had any interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such Director, supervisor or chief executive of the Company was taken or deemed to have under such provisions of the SFO), or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which are required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in appendix 10 to the Hong Kong Listing Rules to be notified to the Company and the Hong Kong Stock Exchange (which for this purpose shall be deemed to apply to the supervisors of the Company to the same extent as it applies to the Directors).

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or supervisors was also a director or employee of a company which had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO.

## (ii) SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date and to the best knowledge of the Directors and the chief executive of the Company, persons having interests and short positions in 5% or more in the Shares, underlying Shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, and required to be recorded in the register of interests and short positions required to be kept by the Company pursuant to section 336 of the SFO were as follows:

Name of shareholder	Capacity and nature of interest	Number of Shares held	As at the Latest Practicable Date, approximate percentage of interest of the Company/ A shares held by the Company
Mr. Zhang	Directly beneficially owned	182,080,302 A shares	20.94%/22.21%
Guangdong Rising Assets Management Co., Ltd.	Directly beneficially owned	60,682,871 A shares	6.98%/7.40%

## 3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Director or supervisor of the Company had entered into any service contract with any member of the Group (excluding contracts expiring or determinable by the relevant member of the Group within one year without payment of compensation (other than statutory compensation)).

## 4. NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2015, being the date to which the latest published audited accounts of the Company were made up.

**5. COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors or the supervisors of the Company or their respective close associates (as defined under the Hong Kong Listing Rules) had any interest in other business which competes or is likely to compete with the business of the Group as if each of them were treated as a controlling shareholder of the Company under Rule 8.10 of the Hong Kong Listing Rules.

**6. INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP**

As at the Latest Practicable Date, none of the Directors, supervisors of the Company or F.E. Corporate Finance Advisory Limited had any direct or indirect interest in any assets which had been since 31 December 2015 (being the date to which the latest published audited accounts of the Company were made up) acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

As at the Latest Practicable Date, none of the Directors or supervisors of the Company was materially interested in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

**7. CONSENT AND QUALIFICATION OF EXPERT**

F.E. Corporate Finance Advisory Limited has given and has not withdrawn its written consent to the issue of this circular with its letter of advice included in the form and context in which it appears.

The following sets out the qualifications of the F.E. Corporate Finance Advisory Limited:

<b>Name</b>	<b>Qualifications</b>
F.E. Corporate Finance Advisory Limited	Type 6 (advising on corporate finance) regulated activity as defined under the SFO

As at the Latest Practicable Date, F.E. Corporate Finance Advisory Limited did not have any shareholding in any member of the Group or any 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, F.E. Corporate Finance Advisory Limited did not have any direct or indirect interest in any assets which had been, since 31 December 2015, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

The letter and recommendation given by F.E. Corporate Finance Advisory Limited is given as at the date of this circular for incorporation herein.

**8. MATERIAL LITIGATION**

As at the Latest Practicable Date, certain members of the Group were a party to certain litigations arising from the ordinary course of business or assets acquisition. The likely outcome of these contingent liabilities, litigations or other legal proceedings cannot be ascertained at present, but the management of the Group believes that any possible legal liability which may result from the aforesaid cases will not have material adverse effect on the financial position and operating results of the Group. Save as disclosed, as at the Latest Practicable Date, no material litigation or claims were pending or threatened or made against the Group so far as the Directors are aware.

**9. MISCELLANEOUS**

- (a) The registered office of the Company is situated at 1st Floor, 3rd Floor, North of 8th Floor, 9th – 12th Floor, Dongjiang Environmental Building, No.9 Langshan Road, North Zone of Hi-tech, Industrial Park, Nanshan District, Shenzhen, The PRC.
- (b) The business office of the Company is situated at Suites 1603, 16th Floor, China Building, Queen's Road No. 29, Central, Hong Kong.
- (c) The Hong Kong H share registrar and H share transfer office of the Company is Tricor Tengis Limited situated at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) The English text of this circular (except for Appendix I, Appendix II and Appendix III to this circular) shall prevail over its Chinese text in the case of inconsistency. In respect of Appendix I and Appendix II, the Chinese text shall prevail over its English text in the case of inconsistency.

**10. DOCUMENTS AVAILABLE FOR INSPECTION**

A copy of each of the (i) the letter from the Board, the text of which is set out on pages 5 to 32 of this circular; (ii) the letter from the Independent Board Committee, the text of which is set out on pages 33 to 34 of this circular; and (iii) the letter from the Independent Financial Adviser, the text of which is set out on pages 35 to 58 of this circular will be available for inspection at 22/F World-Wide House, Central, Hong Kong during normal business hours on any weekday (except public holidays) from the date of this circular up to and including the date of the Meetings.

The following documents are available for inspection at 22/F World-Wide House, Central, Hong Kong, during normal office hours (9:00 a.m. to 5:00 p.m) from the date of this circular up to and including the date of the EGM and the class meeting:

- (a) the letter from the Board, the text of which is set out on pages 5 to 32 of this circular;
- (b) the letter from the Independent Board Committee, the text of which is set out on pages 33 to 34 of this circular;
- (c) the letter from F.E. Corporate Finance Advisory Limited, the text of which is set out on pages 35 to 58 of this circular;
- (d) the Articles;
- (e) the letter of consent referred to in the paragraph headed “Consent and qualification of expert” in this appendix; and
- (f) the circular.

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**NOTICE OF THE SECOND EXTRAORDINARY  
GENERAL MEETING IN 2016**

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**DONGJIANG ENVIRONMENTAL COMPANY LIMITED\***

**東江環保股份有限公司**

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

**(Stock code: 00895)**

**NOTICE OF THE SECOND  
EXTRAORDINARY GENERAL MEETING IN 2016**

**NOTICE IS HEREBY GIVEN** that the second extraordinary general meeting (the “EGM”) of Dongjiang Environmental Company Limited\* (the “Company”) in 2016 will be held at 11th Floor, Dongjiang Environmental Building, No. 9 Langshan Road, Nanshan District, Shenzhen, the People's Republic of China (the “PRC”) at 2:00 p.m. on Tuesday, 11 October 2016 for the purpose of considering and, if thought fit, passing the following resolutions:

**ORDINARY RESOLUTIONS**

1. To consider and approve the election of the executive directors and the non-executive directors (“Non Independent Directors”) of the Board of the Company
  - 1.1 The election of Mr. Liu Ren as the executive director of the fifth session of the Board
  - 1.2 The election of Mr. Liu Boren as the non-executive director of the fifth session of the Board
  - 1.3 The election of Mr. Deng Qian as the non-executive director of the fifth session of the Board
  - 1.4 The election of Mr. Huang Yiming as the non-executive director of the fifth session of the Board
2. To consider and approve the election of Mr. Zhu Zhengfu as the independent non-executive director of the fifth session of the board

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## NOTICE OF THE SECOND EXTRAORDINARY GENERAL MEETING IN 2016

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### SPECIAL RESOLUTIONS

3. To consider and approve the special mandate granted to the board for the issuance of A shares pursuant to the “2016 Restricted Share Incentive Scheme of Dongjiang Environmental Company Limited (Revised Draft)”
4. To consider and approve the “2016 Restricted Share Incentive Scheme of Dongjiang Environmental Company Limited (Revised Draft)” and its summary
  - 4.1 The basis for determining the participants and the scope of the participants
  - 4.2 The class, source, number and distribution of the restricted shares
  - 4.3 The validity period, the grant date, the locking period and the unlocking period of the incentive scheme
  - 4.4 The granted price of the restricted shares and the basis of determination for the granted price
  - 4.5 The conditions of the grant and the unlocking of the restricted shares
  - 4.6 The adjusting methods and procedures for the restricted share incentive scheme
  - 4.7 The accounting policies of the restricted share incentive scheme
  - 4.8 The implementation, grant and unlocking procedures of the restricted share incentive scheme
  - 4.9 The respective rights and obligations of the Company and the participants and Dispute Settlement Mechanism
  - 4.10 The solutions on implementation of incentive scheme for the change of circumstances of the Company and participants
  - 4.11 Change and Termination of the Restricted Incentive Shares Scheme
  - 4.12 The principles of repurchase for cancellation
5. To consider and approve the revised “2016 Method of Appraisal for Restricted Share Incentive Scheme of Dongjiang Environmental Company Limited”
6. To consider and approve the revised proposed grant and the authorisation be granted to the board of directors at the general meeting to deal with matters relating to the restricted share incentive scheme with absolute discretion

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## NOTICE OF THE SECOND EXTRAORDINARY GENERAL MEETING IN 2016

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7. To consider and approve the amendment of the Articles of Association of the Company

By order of the Board  
**Dongjiang Environmental Company Limited\***  
**Chen Shu Sheng**  
*Executive Director*

Shenzhen, the PRC, 24 August 2016

*Notes:*

- (a) The register of members of the Company was closed from Friday, 9 September 2016 to Tuesday, 11 October 2016 (both days inclusive) during which no transfer of shares will be effected. Holders of the Shares whose name appear on the register of members of the Company at 4:30 p.m. on Thursday 8 September 2016 will be entitled to attend and vote at the EGM.
- (b) Whether or not you are able to attend the EGM, you are requested to complete the enclosed and form of proxy in accordance with the instructions printed thereon and return it to the Company's H share registrar, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong (for holders of H Shares) as soon as possible but in any event, not less than 24 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so wish.
- (c) A form of proxy for use at the EGM is enclosed herewith. In the case of a joint holding, the form of proxy may be signed by any joint holder, but if more than one joint holder is present at the EGM, whether in person or by proxy, that one of the joint holders whose name stands first on the register of members in respect of the relevant joint holding shall alone be entitled to vote in respect thereof.
- (d) The voting of executive director and non-executive director (together "Non-Independent Directors") will be conducted separately from the voting of the independent director. Regarding the resolutions 1.1-1.4 of the voting of the Non-Independent Directors, each vote has the same number of voting right as to the number of the candidate of the Non-Independent Directors. Shareholders can use their voting right to vote for the same (one) candidate, or to vote for different candidates. The vote cannot exceed the maximum number of voting right conferred by their votes, otherwise, the votes on the resolutions will be invalid and deemed abstain.
- (e) If the proxy form is signed by a person under a power of attorney or other authority, a notarially certified copy of that power of attorney or authority shall be deposited at the same time as mentioned in the proxy form.
- (f) Shareholders and their proxies should produce identity proof when attending the EGM.
- (g) The EGM is not expected to last for more than half day. Shareholders and their proxies shall be responsible for their own travelling and accommodation expenses for attending the EGM.

\* *for identification purpose only*



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**NOTICE OF THE SECOND CLASS MEETING  
OF HOLDERS OF A SHARES IN 2016**

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**DONGJIANG ENVIRONMENTAL COMPANY LIMITED\***

**東江環保股份有限公司**

*(a joint stock limited company incorporated in the People's Republic of China)*  
**(Stock code: 00895)**

**NOTICE OF THE SECOND CLASS MEETING  
OF HOLDERS OF A SHARES IN 2016**

**NOTICE IS HEREBY GIVEN** that the second class meeting (the “A Shares Class Meeting”) of the holders of A shares of Dongjiang Environmental Company Limited\* (the “Company”) in 2016 will be held at 11th Floor, Dongjiang Environmental Building, No. 9 Langshan Road, Nanshan District, Shenzhen, the People’s Republic of China (the “PRC”) at 3:00 p.m. on 11 October 2016 (or immediately after the conclusion or adjournment of the second extraordinary general meeting of the Company in 2016 to be held on the same date) for the purpose of considering, and if thought fit, passing the following resolutions:

**SPECIAL RESOLUTIONS**

1. To consider and approve the special mandate granted to the board for the issuance of A Shares pursuant to the “2016 Restricted Share Incentive Scheme of Dongjiang Environmental Company Limited (Revised Draft)”
2. To consider and approve the “2016 Restricted Share Incentive Scheme of Dongjiang Environmental Company Limited (Revised Draft)” and its summary
  - 2.1 The basis for determining the participants and the scope of the participants
  - 2.2 The class, source, number and distribution of the restricted shares
  - 2.3 The validity period, the grant date, the locking period and the unlocking period of the incentive scheme
  - 2.4 The granted price of the restricted shares and the basis of determination for the granted price
  - 2.5 The conditions of the grant and the unlocking of the restricted shares
  - 2.6 The adjusting methods and procedures for the restricted share incentive scheme
  - 2.7 The accounting policies of the restricted share incentive scheme

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## NOTICE OF THE SECOND CLASS MEETING OF HOLDERS OF A SHARES IN 2016

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- 2.8 The implementation, grant and unlocking procedures of the restricted share incentive scheme
- 2.9 The respective rights and obligations of the Company and the participants and Dispute Settlement Mechanism
- 2.10 The solutions on implementation of incentive scheme for the change of circumstances of the Company and participants
- 2.11 Change and Termination of the Restricted Incentive Shares Scheme
- 2.12 The principles of repurchase for cancellation
- 3. To consider and approve the revised “2016 Method of Appraisal for Restricted Share Incentive Scheme of Dongjiang Environmental Company Limited”
- 4. To consider and approve the revised proposed grant and the authorisation be granted to the board of directors at the general meeting to deal with matters relating to the restricted share incentive scheme with absolute discretion

By order of the Board  
**Dongjiang Environmental Company Limited\***  
**Chen Shu Sheng**  
*Executive Director*

Shenzhen, the PRC, 24 August 2016

*Notes:*

- (A) Holders of A shares shall refer to the relevant documentation issued and made available to the holders of A shares by the Company on the Shenzhen Stock Exchange as appropriate.
- (B) The A Shares Class Meeting is expected to last for about thirty minutes. Shareholders and their proxies attending the A Shares Class Meeting shall be responsible for their own travelling and accommodation expenses for attending the meeting.

\* *for identification purpose only*

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**NOTICE OF THE SECOND CLASS MEETING  
OF HOLDERS OF H SHARES IN 2016**

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**DONGJIANG ENVIRONMENTAL COMPANY LIMITED\***

**東江環保股份有限公司**

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

**(Stock code: 00895)**

**NOTICE OF THE SECOND CLASS MEETING  
OF HOLDERS OF H SHARES IN 2016**

**NOTICE IS HEREBY GIVEN** that the second class meeting (the “H Shares Class Meeting”) of the holders of H shares of Dongjiang Environmental Company Limited\* (the “Company”) in 2016 will be held at 11th Floor, Dongjiang Environmental Building, No. 9 Langshan Road, Nanshan District, Shenzhen, the People’s Republic of China (the “PRC”) at 4:00 p.m. on Tuesday, 11 October 2016 (or immediately after the conclusion or adjournment of the second class meeting of the holders of A shares of the Company in 2016 to be held on the same date) for the purpose of considering, and if thought fit, passing the following resolutions:

**SPECIAL RESOLUTIONS**

1. To consider and approve the special mandate granted to the board for the issuance of A Shares pursuant to the “2016 Restricted Share Incentive Scheme of Dongjiang Environmental Company Limited (Revised Draft)”
2. To consider and approve the “2016 Restricted Share Incentive Scheme of Dongjiang Environmental Company Limited (Revised Draft)” and its summary
  - 2.1 The basis for determining the participants and the scope of the participants
  - 2.2 The class, source, number and distribution of the restricted shares
  - 2.3 The validity period, the grant date, the locking period and the unlocking period of the incentive scheme
  - 2.4 The granted price of the restricted shares and the basis of determination for the granted price
  - 2.5 The conditions of the grant and the unlocking of the restricted shares
  - 2.6 The adjusting methods and procedures for the restricted share incentive scheme
  - 2.7 The accounting policies of the restricted share incentive scheme

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## NOTICE OF THE SECOND CLASS MEETING OF HOLDERS OF H SHARES IN 2016

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- 2.8 The implementation, grant and unlocking procedures of the restricted share incentive scheme
- 2.9 The respective rights and obligations of the Company and the participants and Dispute Settlement Mechanism
- 2.10 The solutions on implementation of incentive scheme for the change of circumstances of the Company and participants
- 2.11 Change and Termination of the Restricted Incentive Shares Scheme
- 2.12 The principles of repurchase for cancellation
- 3. To consider and approve the revised “2016 Method of Appraisal for Restricted Share Incentive Scheme of Dongjiang Environmental Company Limited”
- 4. To consider and approve the revised proposed grant and the authorisation be granted to the board of directors at the general meeting to deal with matters relating to the restricted share incentive scheme with absolute discretion

By order of the Board  
**Dongjiang Environmental Company Limited\***  
**Chen Shu Sheng**  
*Executive Director*

Shenzhen, the PRC, 24 August 2016

*Notes:*

- (A) For the purpose of identification of shareholders who are qualified to attend and vote at the H Shares Class Meeting, the register of members of H shares of the Company was closed from Friday, 9 September 2016 to Tuesday, 11 October 2016 (both days inclusive) during which period no transfer of the H shares of the Company will be effected.
- (B) Holders of H shares whose names appear on the register of members of H shares of the Company at 4:30 p.m. on Thursday, 8 September 2016 are entitled to attend and vote at the H Share Class Meeting.
- (C) Holders of H shares may appoint one or more proxies to attend and vote on their behalves at the H Shares Class Meeting. A proxy need not be a member of the Company.
- (D) A form of proxy for use at the H Shares Class Meeting is enclosed herewith. In the case of a joint holding, the form of proxy may be signed by any joint holder, but if more than one joint holder is present at the meeting, whether in person or by proxy, that one of the joint holders whose name stands first on the registers of members of the Company in respect of the relevant joint holding shall alone be entitled to vote in respect thereof.
- (E) In order to be valid, the proxy form must be deposited by hand or post, to the Company's H share registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong (for holders of H shares) not less than 24 hours before the time for holding the H Shares Class Meeting. If the proxy form is signed by a person under a power of attorney or other authority, a notarially certified copy of that power of attorney or authority shall be deposited at the same time as mentioned in the proxy form.
- (F) Shareholders and their proxies should produce identity proof when attending the H Shares Class Meeting.

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## **NOTICE OF THE SECOND CLASS MEETING OF HOLDERS OF H SHARES IN 2016**

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- (G) The H Shares Class Meeting is expected to last for about thirty minutes. Shareholders and their proxies attending the H Shares Class Meeting shall be responsible for their own travelling and accommodation expenses for attending the meeting.

\* *for identification purpose only*