

Xingyuan Environment Beautifies Zhelin Lake - Introduction to Cases on PPP Demonstration Projects

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I. Introduction to Private Partner

Xingyuan Environment Technology Co., Ltd. ("Xingyuan Environment") is the selected private partner for the PPP demonstration project of the Ministry of Finance - Project on Zhelin Lake Ecological and Environmental Protection, Jiujiang City.

Xingyuan Environment is a listed company mainly engaged in the comprehensive environmental management services (stock code: SZ300266). Upon listing in 2011, the company has enhanced its business strength in sectors such as sewage treatment in rural areas, ecological restoration and intelligent control through acquiring and integrating relevant specialized firms. At present, the main business scope of Xingyuan Environment and its holding subsidiaries includes: municipal water supply and drainage, industrial wastewater treatment, sewage treatment in rural areas, dredging of rivers and lakes, environmental restoration for water basins, as well as municipal landscaping and greening; the company and its subsidiaries also have the ability to research, develop and manufacture solid waste treatment and related environmental protection equipment.

II. Experience regarding Private Capital's Involvement

Since 2014, under the macro background that the country aims to stabilize the growth and implement the "ten articles on water", the government has given more and more attention to the PPP model, introducing PPP policies at all levels. This was a good opportunity for the development of PPP model, and the company seized it by setting up an investment business unit. At the end of 2014, the Ministry of Finance released 30 PPP demonstration projects, including the Project on Zhelin Lake Ecological and Environmental Protection. After the agency for the project implementation initiated the procedures for procurement, the company decisively registered for this project and passed the pre-qualification, and eventually became one of the companies providing private capital that bided formally for the project, competing with Jiangxi Water Conservancy Investment Group Co., Ltd., and listed companies Orient Landscape (002310) and Palm Landscape (002431).

For the smooth operation of the bid for the project, the company formed a bidding team dedicated to the PPP Project on Zhelin Lake led by the investment business department and consisting of backbone personnel, and engaged consulting service providers, to prepare for the project in terms of technical solutions, financing sources and financial estimates. This project involved two counties and one district, consisting of a total of 21 sub-projects. The company understood each detail of the project, and fully discussed the feasibility of each process of the project, striving to achieve best in risk control, cost control and rationality. It also consulted with the financing platforms within Jiangxi Province including the four state-owned banks, CITIC Bank and the Industrial Bank, attempting to design a comprehensive financing

solution, so as to ensure reliable sources of financing for the project and optimize the financial estimates for project implementation. Through these above efforts, the company won the bid.

III. Implications for Nongovernmental Investors

As a policy vigorously promoted by the Central Government, PPP will produce far-reaching impacts in terms of specialization and time spans, providing an opportunity to support the long-term and stable development of environmental companies.

2014 and 2015 saw the implementation of many new PPP projects, and another round of PPP projects on water conservancy has been in process currently. In this upsurge in environmental innovation, the company should be committed to completing PPP projects on water conservancy with Xingyuan Characteristics, identify accurately the market position, and on the basis of full understanding of market rules, give play the specialized advantages of each subsidiary, so as to achieve success in those conservancy projects.

In the current market competition, more and more enterprises bring in capital and technology, generating a tremendous driving force in the environmental and PPP markets. However, phenomena of vicious competition emerge constantly. Seeking quick success and instant benefits regardless of the cost and consequences, will not only destroy irrational enterprises, but result in great harm to PPP projects as well, bringing incalculable consequences to local governments and enterprises. It is recommended that in practical PPP operations, local governments shall further regulate the procedures, maintain reasonable

thresholds for eligibility, set restrictions on the base number of a bid, and guarantee the reasonable profits that should be earned for the projects, so as to maintain long-term stability of the projects.

(Contributed by: Xingyuan Environment Technology Co., Ltd.)