

**Measures for Equity Investment Management of  
China CDM Fund**

## Chapter 1 General Provisions

- Article 1** With the aim to strengthen the supervision and management of China Clean Development Mechanism Fund Management Center (hereinafter referred to as “the Management Center”) over equity investment and thus to ensure China Clean Development Mechanism Fund (hereinafter referred to as “CDM Fund”) operates safely and effectively, these measures are formulated by the Management Center on the basis of *Management Measures of China CDM Fund* (hereinafter referred to as *Management Measures*), *Risk Management Measures of China CDM Fund* (hereinafter referred to as *Risk Management Measures*), and relevant laws and regulations in China.
- Article 2** The term equity investment (hereinafter referred to as *investment*) used in these measures refers to the act of CDM Fund to launch activities beneficial to fighting climate changes by law, by means of equity investments such as setting up companies, increasing their investments and transferring equities.
- Article 3** The Management Center Executive Committee (hereinafter referred to as *Executive Committee*) is the decision-making body for CDM Fund’s investment business, and it is responsible for establishing and approving investment projects and making decisions for events with major risks.
- Article 4** Investment Appraisal Committee of the Management Center (hereinafter referred to as *Investment Appraisal Committee*) is the deliberative organ in charge of investment appraisal of projects guaranteed by CDM Fund, and it is obliged to comply with the Management Center’s *Measures of Investment Appraisal Committee*, take charge of reviewing projects guaranteed by CDM Fund, and reports to Executive Committee directly.
- Article 5** Risk Management Committee of the Management Center (hereinafter referred to as *Risk Management Committee*) is the deliberative organ in charge of investment risks in the CDM Fund, and it is obliged to comply with *Measures of Risk Management Committee*, take charge of

risk evaluation and risk management for the investment projects of CDM Fund, and reports to Executive Committee directly.

**Article 6** Project Development Department of the Management Center (hereinafter referred to as *Project Department*) is the specific executive department for investment business, and it is obliged to conduct investment business in comply with *Management Measures*, *Risks Management Measures* and management process for equity investment (see in appendix 1).

**Article 7** In the process of developing investment projects of CDM Fund, the Management Center should adopt the system of “double posts with double duties”, which means the Project Department should assign two project managers to the development of the same investment project, with each of them taking their respective duties.

**Article 8** Department of Finance and Risk Management (hereinafter referred to as *Risk Monitoring Department*) is the risk-monitoring department for investment business of CDM Fund, and it is obliged to work on risk-monitoring for investment business in comply with *Management Measures*, *Risks Management Measures* and these measures.

**Article 9** Other departments in the Management Center should perform their duties in comply with *Measures of Management*, *Measures of Risks* and these measures.

## **Chapter 2 Project Approval and Review**

**Article 10** After accepting investment project application, the Project Department should conduct initial researches into the following aspects: applicant enterprise’s basic conditions, primary businesses, main products, major techniques and intellectual property rights, sale and market share, assets and finance, executive teams and human resources, as well as the development of the industry it is situated in.

**Article 11** In the initial researching process, if there is potential for investment, the Project Department may negotiate with application business on some necessary investment provisions, including investment quota, equity ratio, rights and interests of significant shareholders, incentives

and restraints on the performance of the executive level, withdrawal arrangements, so as to reach an intentional investment agreement.

**Article 12** In regard to projects that meet the requirements in initial researches, the Project Department should submit reports on initial review and hold a meeting, during which project manager gives detailed introduction about the project and answers questions raised by the Project Department about the basic condition of business, the advantages of products and technique, development potential of the market and industry, assets and ownership, financial situation, growth of business, executive team, investment value, investment program, risk prevention and so on. If needed, project manager can give detailed answers in written form after the meeting.

**Article 13** After the project manager's defense, Project Department should submit initial review reports of the projects as required to Risk Monitoring Department for risk evaluation.

**Article 14** Risk Monitoring Department should issue reports on initial risk review in accordance with the initial review reports given by Project Department.

**Article 15** Regarding projects confirmed as qualified, Project Department should submit the initial project review reports and initial risk review reports respectively to Investment Appraisal Committee and Risk Management Committee. If necessary, project managers may be seated among Investment Appraisal Committee and Risk Management Committee to give introductions and answer questions. Projects approved by Investment Appraisal Committee and Risk Management Committee should be reported to Executive Committee for approval.

Regarding projects considered to be unsuitable for investment, relevant documents and materials should be returned to Project Department for disposal.

**Article 16** Executive Committee should make discussions with the principle that the security of CDM Fund's assets can be guaranteed and that risk and profit are balanced. The following decisions should be made

according to the discussion results.

- I. If the project's basic situation is clear, eligible for loans in the Management Center and in comply with basically feasible risk prevention measures, it should be approved for setting up.
- II. If the situation of the project is not clear and thus temporarily not approved to be set up, this case should be dealt with after Project Department finishes its initial review report, and conducted in accordance with article 16 of these measures.
- III. If the project's situation is clear but not eligible for investment, the project cannot be approved to be set up.

**Article 17** According to relevant regulations mentioned in *Management Measures*, the Management Center divides loan projects into two categories according to the sum, including general projects and major projects.

- I. General projects refer to those with a loan amount below 70 million RMB.
- II. Major projects refer to those with a loan amount over (or at) 70 million RMB.

**Article 18** In order to ensure the security and fluidity of CDM Fund's capital, the time limit for investment is generally less than 3 years, with five years as the maximum.

### **Chapter 3 Project Research**

**Article 19** Once a project is approved for launching, the Project Department should start as soon as possible the due diligence process on the applying project.

**Article 20** In the process of due diligence, the Project Department should, on the basis of a comprehensive understanding of the project launching enterprise and conduct researches into aspects including business management, products and technology, market and finance, major agreements and contracts, intellectual property rights, human resources, taxation, territory, properties, environment protection,

industry and market situation, marketing, production, raw material supply, research and development and so on as required by the research checklist. The Project Department should also check the accuracy of materials submitted by the applying enterprise, reveal the potential omitted significant information, and claim additional materials and necessary original certificates.

If necessary, the Project Department may inquire industrial, technological, financial and legal experts about relevant materials including investment proposals, so as to improve the accuracy of the due diligence.

**Article 21** In the process of due diligence, if there is great potential for investment, Project Department finds may make further negotiations with the business about some necessary investment articles, including investment quota, equity ratio, rights and interests of significant shareholders, incentives and restraints on the performance of the executive level, withdraw arrangements, so as to make necessary preparations for the potential investment agreement.

**Article 22** When the due diligence process ends, project managers should write a report in detail according to the research results.

**Article 23** If necessary, the Management Center may employ professional agencies to conduct due diligence. The employed professional agencies should make sure its reports are objective and authentic.

## **Chapter 4 Investment Review**

**Article 24** After the due diligence process, Project Department should submit relevant reports about the business applying for setting up projects to Risk Monitoring Department which should write risk evaluation reports according to due diligence reports. If necessary, with the approval of executive leaders of the Management Center, Risk Monitoring Department may cooperate with project managers to conduct on-site verification for doubtful contents in the reports.

**Article 25** Project Department and Risk Monitoring Department should submit due diligence reports and risk evaluation reports to Investment Appraisal Committee and Risk Management Committee respectively

for evaluation and review.

**Article 26** Investment Appraisal Committee should independently conduct technical and economic evaluation according to the project's feasibility study report, investment proposals, due diligence reports and relevant materials. Members of Investment Appraisal Committee may give suggestions in written form regarding major problems of the project. Project Department should give corresponding explanations or make additional researches, and submit explanations or additional research results to Investment Appraisal Committee as soon as possible. If necessary, all staff or a group of members of Investment Appraisal Committee may be assigned to the enterprise for on-site inspection, and the business should assign relevant personnel to answer questions.

**Article 27** Regarding projects considered eligible for investment, Investment Appraisal Committee should issue review opinions on project investment and submit it, along with investment proposals, research reports and relevant materials, to Executive Committee for its decisions. As for projects considered unsuitable for investment, Investment Appraisal Committee should return relevant documents and materials to Project Department for disposal.

**Article 28** Risk Management Committee should examine due diligence report and risk evaluation report in detail, write risk assessment reports according to deliberation results and submit them to Executive Committee for further deliberation.

## **Chapter 5 Investment Decisions**

**Article 29** Executive Committee should examine review opinions on project investment, investment proposals, risk assessment reports and other relevant materials, and make decisions on investment.

**Article 30** Regarding projects denied in different process, Project Department should, with the approval of executive leaders in the Management Center, submit all relevant confidential documents and materials to the General Administration & HR Department of the Management Center for filing and recording them into the project pool of the

Center.

In each process, if the degree of concern for projects changes due to researches or other factors, project managers should inform relevant information management personnel for registration and keeping records.

## **Chapter 6 Concluding Agreements**

**Article 31** After investment projects are approved to be launched, relevant departments of the Management Center should, in comply with regulations in *Agreement Management Measures of China CDM Fund*, standardize regulations on the review, conclusion and safeguard of equity investment agreements.

**Article 32** Project Department should take standard equity investment agreements in the text library of the Management Center as prototype and sign with relevant parties on legal documents such as investment memos, term sheets and investment agreements.

**Article 33** The review on agreements and documents is conducted mainly in written form, and on-site inspection is allowed if necessary. All departments in the Management center should actively cooperate in project review, provide relevant documents in time and take responsibilities for explanation.

**Article 34** When agreements and documents are approved by the Executive Committee, Project Department may sign agreements with relevant parties under authority. Lawyers may be employed to take part in the project and help handle procedures.

**Article 35** Agreements and documents to be secured include but are not limited to: investment memos, term sheets, investment agreements and shareholder agreements. All of these relevant agreements and documents should be submitted together to the General Administration & HR Department of the Management Center for recording and filing. The catalogue of documents should be at the same time submitted to Risk Monitoring Department for filing.



## **Chapter 7 Subsequent Management and Monitoring**

- Article 36** After investments and other documents have been signed, the Management Center should deal with payments according to regulations in the agreements and supervise and assist the business in completing subsequent legal procedures.
- Article 37** The Management Center should strengthen routine management over the invested projects, pay regular attentions to the operation of the business, monitor significant events including management of business operation, setting and improvement of corporate governance, the accomplishment of business goals, turnover of executive personnel, disposal of rights and interests, capital operation and so on, so as to ensure the security and increment of investment benefits for the CDM Fund.
- Article 38** Project Department should conduct regular examination of invested projects and regularly report to the Management Center about specific finance and audit, as well as about any event that may have negative impacts on the operation and financial condition of the project.
- Article 39** Risk Monitoring Department should regularly monitor the subsequent management of Project Department.

## **Chapter 8 The Termination of Project S**

- Article 40** The Management Center should choose the best way of capital withdrawal.
- Article 41** After the investment project is completed, project managers should submit all the relevant documents used in the whole process from subsequent management to the end of the project to General Administration & HR Department for filing. The catalogue should be at the same time submitted to Risk Monitoring Department for filing.

After the investment project is completed, Project Department should write final reports to be countersigned by Risk Monitoring Department and submitted to executive leadership of the Management Center.

## **Chapter 9**

**Article 42** The Management Center should establish and improve systems for information collection, information arrangements and regular feedbacks, in case of relevant policy risks. Risk Monitoring Department is in charge of information collection, information arrangements and regular feedbacks.

**Article 43** Information collection and arrangement should cover:

I. Relevant policy, laws and regulations including those issued by the country and related to industrial investment, and relevant regional regulations concerning industrial investment.

II. Relevant industrial information including development trends of industries related to measures against climate change, business trends about relevant investment agencies and development trends of investment markets.

Risk Monitoring Department should report to the leadership and various departments about relevant information collected and arranged, once in each quarter.

## **Chapter 10 Supplementary Articles**

**Article 44** Any affairs not included in these measures should be dealt with in accordance with national laws and regulations, administrative rules and relevant regulations in *Management Measures* and *Risks Management Measures*.

**Article 45** These measures should be explained and revised by Executive

Committee.

**Article 46** These measures should come into effect since the day when Executive Committee approves.

## Appendix: Equity Investment Operation Flowchart

