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Beijing Jingneng Clean Energy Co., Limited

北京京能清潔能源電力股份有限公司

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

(Stock Code: 00579)

ANNOUNCEMENT

CONTINUING CONNECTED TRANSACTIONS AND DISCLOSEABLE TRANSACTIONS IN RELATION TO SUPPLEMENTAL FINANCE LEASE FRAMEWORK AGREEMENT

THE SUPPLEMENTAL AGREEMENT

We refer to the announcement of the Company dated 16 October 2019 (the “**Announcement**”) in relation to, among other things, the Finance Lease Framework Agreement entered into between the BEH and the Company. According to the Finance Lease Framework Agreement, BEH and/or its associates agreed to provide financial lease services, including direct leasing services, to the Group. The annual caps for the transactions under the Finance Lease Framework Agreement for the three years ending 31 December 2022 were previously set at RMB450 million per year (the “**Existing Caps**”).

Considering the current business needs of the Company for the direct leasing services, the Company expects that the Existing Caps will not be sufficient. On 28 September 2021, the Company entered into a supplemental finance lease framework agreement with BEH (the “**Supplemental Agreement**”) to revise the Existing Caps.

IMPLICATION OF IFRS 16 (LEASES) ON THE DIRECT LEASE SERVICES

The Company adopted International Financial Reporting Standards (“IFRS”) 16 (Leases) in its consolidated statement of financial position in connection with direct leases with effect from the beginning of its accounting period on 1 January 2019.

Pursuant to the IFRS 16 (Leases), the Company recognises right-of-use assets at the commencement date of the lease period (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at the amount of cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. At the commencement date of the lease period, the Company recognises lease liabilities measured at the present value of lease payments that have not been paid. In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

Accordingly, under IFRS 16 (Leases), the Company will recognise the leased assets of relevant direct lease(s) representing its right to use the leased assets (except short-term leases and low-value leases), subject to the specific lease terms and conditions to be set out in each of the lease agreement.

LISTING RULES IMPLICATIONS

As BEH directly and indirectly holds approximately 68.68% of the issued share capital of the Company as at the date of this announcement, BEH is a controlling shareholder of the Company and thus a connected person of the Company. Accordingly, the transactions between the Group and BEH and/or its associates constitute continuing connected transactions of the Company under the Listing Rules.

As the highest percentage ratio applicable to the annual caps for the direct leasing transactions under the Finance Lease Framework Agreement (as supplemented by the Supplemental Agreement) exceeds 5%, such transactions are subject to the reporting, announcement, circular (including independent financial advice), Shareholders’ approval and annual review requirements under the Chapter 14A of the Listing Rules.

In addition, as the highest applicable percentage ratio in respect of the transactions contemplated under the Finance Lease Framework Agreement (as supplemented by the Supplemental Agreement) exceeds 5% but is less than 25%, such transactions, if carried out, constitute discloseable transactions of the Company which are subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

BOARD CONFIRMATION

The Board (including the independent non-executive Directors) are of the view that the terms of the Supplemental Agreement are arrived at after arm's length negotiations between the parties, entered into in the ordinary course of business of the Group and are of the view that (i) the terms of the Supplemental Agreement, (ii) the transactions contemplated under the Supplemental Agreement and (iii) the proposed Revised Caps for each of the two years ending 31 December 2022 are in normal commercial terms and fair and reasonable and are also in the interest of the Company and its Shareholders as a whole.

Due to their positions in BEH or Beijing State-owned Capital Operation and Management Limited (the sole shareholder of BEH), Mr. Ren Qigui and Ms. Li Juan have all abstained from voting on the Board resolutions approving the Supplemental Agreement.

DESPATCH OF CIRCULAR

The Company will dispatch a circular in accordance with the requirements of the Listing Rules, which will contain, among other things:

- (i) details regarding the Supplemental Agreement;
- (ii) the recommendations from the Independent Board Committee in respect of the proposed continuing connected transaction (including the Revised Caps) under the Supplemental Agreement;
- (iii) the advice from independent financial advisor in respect of the proposed continuing connected transaction (including the Revised Caps) contemplated under the Supplemental Agreement; and
- (iv) other information required to be provided to the Shareholders under the Listing Rules.

The Company expects that the circular will be dispatched on or around 21 October 2021,

INTRODUCTION

We refer to the announcement of the Company dated 16 October 2019 (the “**Announcement**”) in relation to, among other things, the Finance Lease Framework Agreement entered into between the BEH and the Company. Unless the context requires otherwise, terms and expressions used in this announcement shall have the same meanings as those defined in the Announcement.

According to the Finance Lease Framework Agreement, BEH and/or its associates agreed to provide financial lease services, including direct leasing services, to the Group. The annual caps for the transactions under the Finance Lease Framework Agreement for the three years ending 31 December 2022 were previously set at RMB450 million per year (the “**Existing Caps**”).

Considering the current business needs of the Company for direct leasing services, the Company expects that the Existing Caps will not be sufficient. On 28 September 2021, the Company entered into a supplemental finance lease framework agreement with BEH (the “**Supplemental Agreement**”) to revise the Existing Caps.

THE SUPPLEMENTAL AGREEMENT

The principal amendments pursuant to the Supplemental Agreement on the Finance Lease Framework Agreement are summarized as follows:

Finance lease services : **Direct leasing**

Pursuant to the Finance Lease Framework Agreement (as supplemented by the Supplemental Agreement), in respect of the direct leasing service, as requested or instructed by the Group, BEH and/or its associates will provide financial leasing solutions to the Group for the purchase of equipment. BEH and/or its associates will make the payment for the equipment to the suppliers in accordance with the conditions set by the Group and charge the Group with the lease rental for such equipment according to the schedule.

Pursuant to the Supplemental Agreement, when the leasing period expires, the Group is entitled to purchase such equipment at a nominal consideration not exceeding RMB20,000 from BEH and/or its associates.

Sales and leaseback service

Pursuant to the Supplemental Agreement, the scope of the finance lease services to be provided by BEH and/or its associates will be limited to direct leasing service only.

Revised annual caps : Pursuant to the Supplemental Agreement, the annual caps for the direct leasing transactions for the two years ending 31 December 2022 (the “**Revised Caps**”) will be increased to RMB2 billion and RMB3 billion, respectively.

The Supplemental Agreement shall become effective upon (i) being signed by the legal representatives or authorised representatives of BEH and the Company, and (ii) being approved at the general meeting of the Company, and will expire on 31 December 2022.

Save for the above amendments, all other terms and conditions of the Finance Lease Framework Agreement remain unchanged. For the principle terms and details of the Finance Lease Framework Agreement, please refer to the Announcement.

In respect of each finance lease, the relevant member(s) of the Group and BEH and/or its associates will enter into separate implementation contract(s). The terms of each implementation contract will be in line with the terms of the Finance Lease Framework Agreement (as supplemented by the Supplemental Agreement), and each implementation contract shall be subject to and conditional upon the Finance Lease Framework Agreement (as supplemented by the Supplemental Agreement) continuing to be in force.

IMPLICATION OF IFRS 16 (LEASES) ON THE DIRECT LEASE SERVICES

The Company adopted, among others, International Financial Reporting Standards (“**IFRS**”) 16 (Leases) in its consolidated statement of financial position in connection with leases and finance leases with effect from the beginning of its accounting period on 1 January 2019.

Pursuant to the IFRS 16 (Leases), the Company recognises right-of-use assets at the commencement date of the lease period (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at the amount of cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. At the commencement date of the lease period, the Company recognises lease liabilities measured at the present value of lease payments that have not been paid. In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

Accordingly, under IFRS 16 (Leases), the Company will recognise the leased assets of relevant direct lease(s) representing its right to use the leased assets (except short-term leases and low-value leases), subject to the specific lease terms and conditions to be set out in each of the lease agreement.

HISTORICAL AMOUNTS AND PROPOSED REVISED CAPS

The Company did not engage BEH and/or its associates for finance lease service during the two years ended 31 December 2019.

According to the FAQs on Notifiable and Connected Transaction Rules relating to Lease Transactions of Listed Issuers adopting HKFRS/IFRS 16 “Leases” (or similar accounting standards in other jurisdictions) issued by the Hong Kong Stock Exchange, the annual caps for direct leases under the Finance Lease Framework Agreement (as supplemented by the Supplemental Agreement) should be determined based on the total value of right-of-use assets relating to the leases to be entered into by the Company in the corresponding period. The table below sets out the historical amounts of the direct leasing services for the year ended 31 December 2020, the Existing Caps for each of the three years ending 31 December 2022 and the proposed Revised Caps for each of the two years ending 31 December 2022:

	For the year ended 31 December 2020 <i>RMB million</i>	For the year ending 31 December 2021 (for Existing Caps and Revised Caps only) <i>RMB million</i>	For the year ending 31 December 2022 <i>RMB million</i>
Direct leasing			
– Historical amounts	247.7	–	–
– Existing Caps	450	450	450
– Proposed Revised Caps under the Supplemental Agreement	–	2,000	3,000

BASIS FOR THE REVISED CAPS

The proposed Revised Caps in relation to the Supplemental Agreement are determined with reference to, among other things, (i) the pricing basis as set out in the Finance Lease Framework Agreement (as supplemented by the Supplemental Agreement), (ii) the historical amounts, and (iii) the Company’s expected demand for the direct leasing service.

PRICING BASIS

As disclosed in the Announcement, the lease consideration consists of the principal amount and lease interests. The lease consideration will be determined by the Group and BEH and/or its associates after arm's length negotiations and with reference to the market price of the same type of financial leasing assets. When determining the pricing standard, to the extent practicable, management of the Company will take into account the rates of at least two similar and comparable transactions entered with or carried out by Independent Third Parties in the corresponding period of reference.

Cost in respect of such financing services of the Company (including relevant rent plus handling fees and excluding other costs may be saved according to favourable terms, such as deductible VAT) shall be not higher than the consolidated cost (including relevant rent plus handling fees and excluding other costs may be saved according to favourable terms, such as deductible VAT) incurred from similar transactions during the relevant period.

REASONS FOR AND BENEFITS OF ENTERING INTO THE SUPPLEMENTAL AGREEMENT

As BEH and/or its associates have been providing financial lease services to the Group and has a thorough understanding of the operations and development needs of the Group, it is expected that the revision of the Existing Caps will facilitate the Group to continue to receive efficient financial lease services from BEH and/or its associates. Engaging BEH and/or its associates to provide the direct leasing services is to avoid large amount of capital expenditure for the purchase of machinery equipment. Through entering into the direct leasing transactions, the Group will expand its financing channels and methods. It also enables the Company to control financing risks and satisfy the Group's demand of funds for project construction in a timely manner.

INTERNAL CONTROL MEASURES

To safeguard the interests of the Company and the Shareholders as whole, including the minority shareholders, the Company has adopted internal approval and monitoring procedures relating to the transactions under the Finance Lease Framework Agreement (as supplemented by the Supplemental Agreement), which include the followings:

Similar and comparable transactions

The finance management department of the Company (the “**Finance Management Department**”) is responsible for collecting and monitoring the information under the Finance Lease Framework Agreement (as supplemented by the Supplemental Agreement). Prior to entering into individual lease contracts under the Finance Lease Framework Agreement (as supplemented by the Supplemental Agreement), the Finance Management Department will compare the major terms and financing costs associated with such arrangements to, to the extent practicable, at least two similar and comparable transactions entered with or carried out by Independent Third Parties in the corresponding period of reference. Officers handling the relevant matters shall seek approval from the head of the Finance Management Department and the chief financial officer of the Group, which is subject to the preliminary and final review by them based on the relevant rules and regulations.

Pricing terms and mechanism

The Securities & Capital Management of the Company and other relevant operation departments of the Group are jointly responsible for conducting reviews on compliance with relevant laws, regulations, the Group’s internal policies and the Listing Rules in respect of both continuing connected transactions and connected transactions. They are also jointly responsible for evaluating the transaction terms under each underlying agreement of the Finance Lease Framework Agreement (as supplemented by the Supplemental Agreement), in particular, the fairness and reasonableness of the pricing terms under each agreement.

Independent non-executive Directors have also reviewed and will continue to review the Finance Lease Framework Agreement (as supplemented by the Supplemental Agreement) and the transactions thereunder to ensure that the agreements are entered into on normal commercial terms and in the interests of the Company and its Shareholders as a whole.

The Finance Management Department will monitor the direct lease transactions under the Finance Lease Framework Agreement (as supplemented by the Supplemental Agreement) on a regular basis. Meanwhile, the business planning department of the Company (the “**Business Planning Department**”) will be in close contact with the Group’s business teams responsible for direct lease so that the Business Planning Department will be able to reasonably anticipate expected transaction amount in advance.

Independent non-executive Directors and auditors of the Company will conduct annual review of the transactions under the Finance Lease Framework Agreement (as supplemented by the Supplemental Agreement) (including the rates and fees charged in respect of the transactions) and provide annual confirmations in accordance with the Listing Rules that the transactions are conducted in accordance with the terms of the agreements and the Group's pricing policy measures, and to confirm if the price and terms offered are fair and reasonable and comparable to those offered by Independent Third Parties.

As the Group has adopted a set of effective internal control measures to supervise the continuing connected transactions of the Group, the Directors consider that the procedures in place will ensure such transactions be conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority shareholders.

LISTING RULES IMPLICATIONS

As BEH directly and indirectly holds approximately 68.68% of the issued share capital of the Company as at the date of this announcement, BEH is a controlling shareholder of the Company and thus a connected person of the Company. Accordingly, the transactions between the Group and BEH and/or its associates constitute continuing connected transactions of the Company under the Listing Rules.

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BACKGROUND INFORMATION OF THE COMPANY AND BEH

Background Information of the Company

The Company is a clean energy company focusing on gas-fired power and heat energy generation, wind power, photovoltaic power, small to medium hydropower and other clean energy generation businesses, which helps claim the Company the titles of the internationally well-known clean energy enterprise, industry-leading clean energy brand and largest gas-fired power supplier in Beijing and the leading wind power operator in China.

Background Information of BEH

BEH is a limited liability company incorporated in the PRC which principally engages in the businesses of generation and supplying of electricity and heat, production and sale of coal and development of real estate. BEH is wholly owned by Beijing State-owned Capital Operation and Management Limited (北京國有資本運營管理有限公司), an enterprise controlled by the State-owned Assets Supervision and Administration Commission of Peoples Government of Beijing Municipality. BEH is the controlling shareholder of the Company, directly and indirectly holds approximately 68.68% of the issued share capital of the Company, and therefore is a connected person of the Company pursuant to Rule 14A.07(1) of the Listing Rules.

BOARD CONFIRMATION

The Board (including the independent non-executive Directors) are of the view that the terms of the Supplemental Agreement are arrived at after arm's length negotiations between the parties, entered into in the ordinary course of business of the Group and are of the view that (i) the terms of the Supplemental Agreement, (ii) the transactions contemplated under the Supplemental Agreement and (iii) the proposed Revised Caps for each of the two years ending 31 December 2022 are in normal commercial terms and fair and reasonable and are also in the interest of the Company and its Shareholders as a whole.

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DESPATCH OF CIRCULAR

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