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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

MAJOR TRANSACTION

SUMMARY

Continuing Connected Transactions Framework Agreements

We refer to the announcement of the Company dated 25 October 2016 and the circular of the Company dated 14 November 2016, in relation to, among other things, certain continuing connected transactions framework agreements entered into between the Company and BEH and/or its associates. On 16 October 2019, the Company entered into the Continuing Connected Transactions Framework Agreements with BEH and/or its associates, including: (i) the Framework Equipment Maintenance Agreement; (ii) the Framework Service Agreement; (iii) the EPC Framework Agreement; (iv) the Equipment Purchase Framework Agreement; (v) the Financial Lease Framework Agreement; (vi) the Framework Heat Sale and Purchase Agreement; and (vii) the Financial Services Framework Agreement. Each Continuing Connected Transactions Framework Agreement is for a term of three years commencing from 1 January 2020 and ending on 31 December 2022.

As each of the percentage ratio(s) applicable to the transactions under (i) the Framework Equipment Maintenance Agreement, (ii) the Framework Service Agreement, (iii) the EPC Framework Agreement, (iv) the Equipment Purchase Framework Agreement and (v) the Financial Lease Framework Agreement for each of the three years ending 31 December 2022 is more than 0.1% but less than 5% on an annual basis, respectively, each of such transactions constitutes a continuing connected transaction and is subject to the reporting and announcement requirements but are exempted from the independent shareholders' approval requirement according to Chapter 14A of the Listing Rules.

As the highest percentage ratio applicable to the transactions contemplated under the Framework Heat Sale and Purchase Agreement for each of the three years ending 31 December 2022 is more than 5% on an annual basis, such transaction constitutes a continuing connected transaction and is subject to the reporting and announcement requirements and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the highest percentage ratio applicable to the deposit services contemplated under the Financial Services Framework Agreement for each of the three years ending 31 December 2022 is more than 5% on an annual basis, such transaction constitutes a continuing connected transaction and is subject to the reporting and announcement requirements and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The deposit services contemplated under the Financial Services Framework Agreement also constitute a financial assistance under Rule 14.04(1)(e) of the Listing Rules and given that the relevant highest applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) exceeds 25% but is less than 100%, the deposit services contemplated under the Financial Services Framework Agreement constitute major transactions of the Company and are subject to the reporting and announcement requirements and the independent shareholders' approval requirements under Chapter 14 of the Listing Rules.

The loan services to be provided by BEH Finance to the Group under the Financial Services Framework Agreement will constitute financial assistance to be provided by a connected person for the benefit of the Group. As such services are provided on normal commercial terms which are similar to or more favourable than those offered by Independent Third Parties for comparable services in the PRC, and no security over the assets of the Group will be granted in respect thereof, pursuant to the Rule 14A.90 of the Listing rules, such loan services are exempted from reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As each of the percentage ratio(s) applicable to the other financial services under the Financial Services Framework Agreement for each of the three years ending 31 December 2022 is more than 0.1% but less than 5% on an annual basis, respectively, such transaction constitutes the continuing connected transaction and is subject to the reporting and announcement requirements but are exempted from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Property Lease Framework Agreement

Reference is made to the section headed "Connected Transactions" of the Prospectus, the announcement of the Company dated 19 March 2014 and the announcement of the Company dated 25 October 2016, respectively, in which the Company disclosed the annual caps for the three years ended 31 December 2013, the three years ended 31 December 2016 and the three years ended 31 December 2019, respectively, of its continuing connected transactions with BEH and/or its associates contemplated under the Property Lease Framework Agreement dated 23 May 2011. The Property Lease Framework Agreement is for a term of twenty years commencing on the listing date of the Company.

On 16 October 2019, the Board resolved to set the annual caps for such continuing connected transactions under the Property Lease Framework Agreement for the three years ending 31 December 2022.

According to Chapter 14A of the Listing Rules, as each of the percentage ratio(s) applicable to the transaction under the Property Lease Framework Agreement for each of the three years ending 31 December 2022 is more than 0.1% but less than 5% on an annual basis, respectively, such transaction constitutes a continuing connected transaction and is subject to the reporting and announcement requirements but are exempted from the independent shareholders' approval requirement according to Chapter 14A of the Listing Rules.

Board Confirmation

The Board (including the independent non-executive Directors) are of the view that the terms of each of the Continuing Connected Transactions Framework Agreements and the Property Lease Framework Agreement are arrived at after arm's length negotiations between the parties, entered into in the ordinary course of business of the Group (other than the Financial Services Framework Agreement) and are of the view that (i) the terms of each of the Continuing Connected Transactions Framework Agreements and the Property Lease Framework Agreement, (ii) the transactions contemplated under those agreements and (iii) the respective annual caps for the three years ending 31 December 2022 are on 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 BSCOMC (the Sole shareholder of BEH), Mr. Liu Haixia, Mr. Ren Qigui and Ms. Li Juan have all abstained from voting on the Board resolutions approving the aforementioned continuing connected transactions.

Despatch of Circular

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

- (a) details regarding the proposed continuing connected transactions under the Framework Heat Sale and Purchase Agreement and the Financial Services Framework Agreement;
- (b) the recommendations from the Independent Board Committee in respect of the proposed continuing connected transaction under the Framework Heat Sale and Purchase Agreement and the proposed deposit service under the Financial Services Framework Agreement;
- (c) the advice from independent financial advisor in respect of the proposed continuing connected transaction contemplated under the Framework Heat Sale and Purchase Agreement and the proposed deposit service under the Financial Services Framework Agreement; and
- (d) other information required to be provided with the Shareholders under the Listing Rules.

The Company expects that the circular will be dispatched on or around 7 November 2019, which is within 15 business days from the date of this announcement. The Shareholders and potential investors should refer to the circular for further information.

CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTION

I. BACKGROUND AND GENERAL INFORMATION OF THE COMPANY AND ITS CONNECTED PERSONS

1. Background and General 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.

2. Background and General Information of BEH and its Associates

We conduct connected transactions with BEH and/or its associates in the ordinary and usual course of business and on normal commercial terms. We set out below the information regarding the main connected persons under the Continuing Connected Transactions Framework Agreements and the Property Lease Framework Agreement:

- 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 BSCOMC. 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 our connected person pursuant to Rule 14A.07(1) of the Listing Rules.
- BEH Finance, a limited liability company incorporated in the PRC, which engages in providing financial services such as financial consulting, payment, insurance agency, bill acceptance and discounting, entrusted loans to its member units. BEH Finance, as a subsidiary of BEH, is our connected person according to Rule 14A.07(4) of the Listing Rules.

II. CONTINUING CONNECTED TRANSACTIONS FRAMEWORK AGREEMENTS AND MAJOR TRANSACTION

1. Particulars of the Continuing Connected Transactions

(a) Framework Equipment Maintenance Agreement

Description of the Transaction

In the ordinary and usual course of the business, the Company entered into the Framework Equipment Maintenance Agreement with BEH on 16 October 2019, pursuant to which BEH and/or its associates has agreed to provide equipment maintenance services to the Group. The term of such agreement is three years commencing from 1 January 2020 and ending on 31 December 2022.

Pricing Policy

Under the Framework Equipment Maintenance Agreement, the maintenance fees shall be agreed following arm's length negotiations between the parties with reference to the prevailing market rates. Market rates refer to the rates at which the same or similar type of products or services are provided by Independent Third Parties under normal commercial terms.

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.

Annual Caps and Basis of Annual Caps

The Company estimates that the annual caps for the Framework Equipment Maintenance Agreement for each of the three years ending 31 December 2022 is RMB250 million, RMB320 million and RMB352 million, respectively, after taking into account the following considerations:

- the historical amounts of such continuing connected transactions for the two years ended 31 December 2018 and six months ended 30 June 2019 were approximately RMB119.45 million, RMB158.27 million and RMB39.05 million, respectively;
- the market price of the services to be purchased; and
- the rapid growth of the demand in maintaining equipment due to the Company's rapid business development and expansion.

Reasons for the Transactions

Our Group is required to conduct maintenance for our gas-fired powers equipment to comply with relevant PRC laws and regulations. During the ordinary courses of business, we conduct routine maintenance, regular inspections and repairs for our gas-fired power equipment. As BEH and/or its associates have extensive experience in our industry and are familiar with the equipment, the Company considers that the maintenance requirement of our Group could be better satisfied by entering such agreement with BEH and/or its associates.

(b) Framework Service Agreement

Description of the Transaction

In the ordinary and usual course of the business, the Company entered into the Framework Service Agreement with BEH on 16 October 2019, pursuant to which BEH and/or its associates has/have agreed to provide various services to the Group from time to time, including (i) property management services, including cleaning, security and catering services; and (ii) administration services. The term of such agreement is three years commencing from 1 January 2020 and ending on 31 December 2022.

Pricing Policy

Under the Framework Services Agreement, the service fees are agreed based on the following pricing policy:

- the price to be agreed following arm's length negotiations between the relevant parties with reference to government guided price; or
- where no government guided-price is involved, the price to be agreed following arm's length negotiations between the relevant parties with reference to the prevailing market rates. Market rates refer to the rates at which the same or similar type of products or services are provided by Independent Third Parties under normal commercial terms. 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.

Annual Caps and Basis of Annual Caps

The historical amounts and proposed annual caps of each type of the transactions under the Framework Service Agreement are set out as the table below:

Transaction	Historical amount (RMB millions)			Proposed annual caps (RMB millions)		
	for the year ended		for the six months ended	for the year ending		
	31 December 2017	2018	30 June 2019	2020	2021	2022
property management services	43.66	49.61	6.9	68.7	69.5	71.0
administration services	—	—	—	56.0	66.0	41.0
Total	<u>43.66</u>	<u>49.61</u>	<u>6.9</u>	<u>124.7</u>	<u>135.5</u>	<u>112.0</u>

In determining the above annual caps, the Company has considered (i) the historical transaction amounts; (ii) its future demand for such services in line with the development of the Company's business; and (iii) the estimated increase in market rates to be charged for these services to be received attributable to the increase in labor cost.

Reasons for the Transactions

(i) As Jingneng Electricity Logistic Services Co., Ltd., a subsidiary of BEH, is engaged in providing property management services and has been providing property management services on normal commercial terms or better to our Group since 2010, it is unnecessary for the Group to engage third parties to provide the same services. (ii) As Beijing Inbasis Technology Co., Ltd., a subsidiary of BEH, is engaged in providing information technology services and has been providing such services on normal commercial terms or better to our Group since 2018, it is unnecessary for the Group to engage third parties to provide the same services. (iii) As BEH and/or its associates have/has conference centers in certain locations where we operate and their service charge is competitive, our Directors believe it is in the interest of the Company to receive such services from BEH and/or its associates. (iv) As BEH and/or its associates are familiar with the Company's business operation and project development process, and could provide project management services at a competitive rates, our Directors believe it is in the interest of the Company to receive such services from BEH and/or its associates.

(c) *EPC Framework Agreement*

Description of the Transaction

In the ordinary and usual course of the business, the Company entered into the EPC Framework Agreement with BEH on 16 October 2019, pursuant to which BEH and/or its associates have/has agreed to provide energy performance contracting services to the Group. The term of such agreement is three years commencing from 1 January 2020 and ending on 31 December 2022.

Pricing Policy

Under the EPC Framework Agreement, the service fees are agreed following arm's length negotiations between the parties with reference to the prevailing market rates. Market rates refer to the rates at which the same or similar type of products or services are provided by Independent Third Parties under normal commercial terms.

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.

Annual Caps and Basis of Annual Caps

The Company estimates that the proposed annual caps for the EPC Framework Agreement for each of the three years ending 31 December 2022 are RMB46.5 million, after taking into account:

- the historical amounts of such continuing connected transactions for the two years ended 31 December 2018 and six months ended 30 June 2019 were approximately nil, RMB6.99 million and nil, respectively;

- the future demand of such service by the Company; and
- the estimated increase in market rates charged for providing such service.

Reasons for the Transactions

BEH and/or its associates have extensive knowledge and experience in energy management. The Directors believe that energy performance contracting services provided by BEH and/or its associates can help the Company to reduce operating cost and save energy.

(d) *Equipment Purchase Framework Agreement*

Description of the Transaction

In the ordinary and usual course of the business, the Company entered into the Equipment Purchase Framework Agreement with BEH on 16 October 2019, pursuant to which, BEH and/or its associates has agreed to purchase equipment for the Group. The goods purchased under Equipment Purchase Framework Agreement is mainly “non-core” materials and spare parts such as lubrication oil and other materials. The term of such agreement is three years commencing from 1 January 2020 and ending on 31 December 2022.

Pricing Policy

Fees payable to BEH for the equipment purchase include equipment cost and service charges. Equipment cost shall be the actual purchase price paid by BEH. The service charges shall be agreed following arm’s length negotiation between the parties with reference to prevailing market rates. Market rates refer to the rates at which the same or similar type of products or services are provided by Independent Third Parties under normal commercial terms.

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.

Annual Caps and Basis of Annual Caps

The Company estimates that the proposed annual caps for the Equipment Purchase Framework Agreement for each of the three years ending 31 December 2022 are RMB250 million, RMB263 million and RMB276 million, respectively, after taking into account the following considerations:

- the historical amounts of such continuing connected transactions for the two years ended 31 December 2018 and six months ended 30 June 2019 were approximately RMB115.70 million, RMB109.86 million and RMB55.75 million, respectively;
- the market price of the equipment to be purchased; and
- the rapid growth of the demand for equipment purchase service due to the Company’s rapid business development and expansion.

Reasons for the Transaction

BEH and/or its associates have extensive knowledge and experience in the industry which the Company operates its business and has stronger bargaining power as a group in the procurement process. As disclosed in the Prospectus, BEH, through one of its subsidiaries, has established a centralized procurement and tendering platform and has been purchasing equipment for BEH's associates since the establishment of that subsidiary. The Company considers procuring equipment in a centralized way could help the Company obtain more favorable terms as suppliers generally offer better price to customers with large orders.

(e) *Finance Lease Framework Agreement*

Description of the Transaction

In the ordinary and usual course of the business, the Company entered into the Finance Lease Framework Agreement with BEH on 16 October 2019, pursuant to which, BEH and/or its associates has agreed to provide financial lease services to the Group. The term of such agreement is three years commencing from 1 January 2020 and ending on 31 December 2022.

Financial Lease Services

Pursuant to the Finance Lease Framework Agreement, BEH and/or its associates will provide finance lease services, including but not limited to, direct leasing and leaseback services to the Group.

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.

In respect of the leaseback service, based on the financing needs of the Group, BEH and/or its associates will purchase equipment owned by the Group which is in accordance with the requirement of the leaseback service within the extent permitted by laws, and lease such equipment back to the Group with the lease rental. The equipment leased under the Finance Lease Framework Agreement is high value and large equipment such as wind turbine set and photovoltaic generator equipment.

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, and each implementation contract shall be subject to and conditional upon the Finance Lease Framework Agreement (or its renewal agreement) continuing to be in force.

Lease Consideration

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.

Annual Caps and Basis for the Annual Caps

The Company did not engage BEH and/or its associates for finance lease service during the two years ended 31 December 2018 and six months ended 30 June 2019. Currently, the Company is expanding its financing channels by adopting finance lease to its future purchase of large machinery equipment and estimates that the proposed annual caps for the Finance Lease Framework Agreement for each of the three years ending 31 December 2022 are RMB450 million, after taking into account the following consideration:

- the expected demand for the financial leasing service of the Group in accordance with the Company's current business strategy; and
- the capacity of providing financial lease services by BEH and/or its associates.

Reasons for the Transaction

The reason for entering into the Finance Lease Framework Agreement is to avoid large amount of capital expenditure for the purchase of the large machinery equipment, since the Company is paying for the cost of equipment by installments. The entering into of the Finance Lease Framework Agreement and participation in the finance lease business will expand the financing channels and innovate the financing methods of the Company. It also enables the Company to control financing risk and lower the financing cost for the follow-on construction projects of the Company as well as satisfy our demand of funds for project construction in a timely manner. The Company could enjoy a more favorable cost of finance lease from BEH and/or its associates (including relevant rent plus handling fees and excluding other costs may be saved according to favourable terms, such as deductible VAT), which 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.

Under the Finance Lease Framework Agreement, the Company may purchase equipment from BEH and/or its associates at the expiration of the leasing period or sell equipment to BEH and/or its associates for purpose of leasing back such equipment from BEH and/or its associates. If any transaction to be carried out under each concrete agreement also falls under Chapter 14 of the Listing Rules, the Company will comply with the relevant requirements under the Listing Rules (including rules in relation to the aggregation of transactions) if applicable.

(f) Framework Heat Sale and Purchase Agreement

Description of the Transaction

In the ordinary and usual course of the business, the Company entered into the Framework Heat Sale and Purchase Agreement with BEH on 16 October 2019, pursuant to which, the Group agrees to sell as BEH and/or its associates agrees to purchase from time to time, heat generated by power plants of the Group. The term of such agreement is three years commencing from 1 January 2020 and ending on 31 December 2022.

Pricing Policy

Heating is the basic living needs of Beijing urban and rural residents in winter, and heat supply is infrastructural public service directly relating to the public interests. The transaction under the Framework Heat Sale and Purchase Agreement is conducted at state-prescribed unit price, which is determined by Beijing Municipal Commission of Development and Reform from time to time.

The Company is of the view that the pricing in respect of the transaction under the Framework Heat Sale and Purchase Agreement is reasonable and sufficient to cover the costs incurred by the Company after taking into account the following considerations: (i) according to the Interim Measures for the Price Control of Urban Heat Supply (FA GAI JIA GE [2007] No.1195) (《城市供熱價格管理暫行辦法》(發改價格[2007]1195號)), the state-prescribed unit price is determined by reference to, among other things, the costs incurred by the heat suppliers (such as the price of natural gas, electricity, water, fixed asset depreciation, repairs, wages), the consideration for the profitability of the heat suppliers and the tax imposed on the heat suppliers; and (ii) the gas-fired power and heat energy generation business of the Company based on the operation model of “heat-power cogeneration” (熱電聯產) is profitable as evidenced by the historical financial results of the Company.

Annual Caps and Basis of Annual Caps

The Company estimates that the proposed annual caps for the Framework Heat Sale and Purchase Agreement are RMB2,271.80 million for each of the three years ending 31 December 2022.

The historical amounts of such continuing connected transactions for the two years ended 31 December 2018 and six months ended 30 June 2019 were approximately RMB1,439.83 million, RMB1,728.00 million and RMB996.06 million, respectively.

The proposed annual caps for the Framework Heat Sale and Purchase Agreement for the three years ending 31 December 2022 are determined after taking into account: (i) the aforesaid historical amounts of such transactions (ii) the total production capacity and historical heat supply volume (in GJ) of the power plants of the Group, (iii) the current state-prescribed unit price of 91 RMB/GJ in respect of the heat energy, as stipulated in the Notice of the Beijing Development and Reform Commission on the Fluctuation of the Thermal Ex-Factory Price of the Gas-Fired Thermal Power Plant in the City during the Heating Season of 2018-2019 (《北京市發展和改革委員會關於2018-2019供暖季本市燃氣熱電廠熱力出廠價格浮動問題的通知》); and (iv) the prescribed 4-month heat supply period in Beijing, which is from 15 November to 15 March next year, as stipulated in the Administrative Measures of Heat Supply and Heating of Beijing Municipality (《北京市供熱採暖管理辦法》).

The Company currently operates seven gas-fired cogeneration plants. Historically, only four gas-fired cogeneration plants of the Company supplies to BEH. In response to Guiding Opinions on the Separation and Transfer of “Three Supply and One Property” in the Family Areas of Staff and Workers of State-Owned Enterprises (《關於國有企業職工家屬區“三供一業”分離移交工作指導意見》) and for a better centralized management and aftersales management (e.g. dispute resolution, payment collection, etc.), the Company is optimizing its heat supply mechanism from “the Group supplies to BEH and also other clients/end-users at the same time” to “the Group supplies to BEH only and then BEH supplies to other clients/end-users”. Historically there was a substantial increase of in heat supply volume (in GJ) of the gas-fired cogeneration plants of the Company in total from 2016 to 2017 and 2017 to 2018, respectively, while there was no material difference in heat supply volume (in GJ) for the six months ended 30 June 2019 as compared to that for the six months ended 30 June 2018. As such, the Company expects that the heat supply volume (in GJ) of the gas-fired cogeneration plants of the Group for each of the three years ending 31 December 2022 would remain the same level as for the year ended 31 December 2018 (i.e. approximately 25.0 million GJ). The state-prescribed unit prices of heat supply period of 2016, 2017 and 2018 were 87 RMB/GJ, 89 RMB/GJ and 91 RMB/GJ, respectively, which is prescribed by Beijing Development and Reform Commission (北京市發展和改革委員會). Based on the historical trend, the state-prescribed unit price is expected to be stable with minor fluctuations. Therefore, the maximum amount payable by BEH (the proposed annual caps) in each year is approximately RMB2,271.80 million.

The Company considers such annual caps, based on the abovementioned factors are reasonable, taking into account the following circumstances: (i) the implementation of the relevant clean-air action plans of Beijing Municipal, which will further reduce the coal-fired heat supply and increase the use of gas-fired heat in Beijing; (ii) the Company’s objective to make full use of the current production capacity so as to increase utilization rate and improve production efficiency; and (iii) the public policy reasons associated with this transaction given the heat supplied to BEH and/or its associates is used for heating during winter times for citizens in Beijing.

To ensure the proposed annual caps for the transaction under the Framework Heat Sale and Purchase Agreement will not be exceeded, the Company will monitor the transaction under the Framework Heat Sale and Purchase Agreement in accordance with the terms of the Framework Heat Sale and Purchase Agreement. The Company will also compile report of continuing connected transaction on a quarterly basis, cross-check the actual amounts against the proposed annual caps to ensure the proposed annual caps will not be exceeded.

Reasons for the Transactions

The gas-fired power and heat energy generation business of the Company based on the operation model of “heat-power cogeneration” (熱電聯產) can make full use of power plants of the Group and is more profitable compared to the single power generation or single heat generation business model.

According to Administrative Measures of Heat Supply and Heating of Beijing Municipality《(北京市供熱採暖管理辦法)》, heat supply should comply with the principle of unified planning and localized management. As Beijing District Heating (Group) Co., Ltd. (the “**BDHG**”), a wholly-owned subsidiary of BEH, is the only central heat supply company whose network covers the area where power plants of the Group are located and thus, the Company must sell the gas-fired heat energy through BDHG network in the absence of any alternative purchasers, and more importantly, the Company must sell heat energy generated by power centers to BDHG in order to meet the requirement of “subject to the unified schedule by BDHG based on heat supply standard”.

As heating is the basic living needs of Beijing urban and rural residents in winter, and heat supply is infrastructural public service directly relating to the public interests, heat supply during the heat supply period is and will become the Group’s yearly permanent and stable source of income. As such, the Board is of the view that the entering into of the Framework Heat Sale and Purchase Agreement is in the interest of the Company and the Shareholders as a whole.

(g) Financial Services Framework Agreement

BEH Finance and the Company entered into the Financial Services Framework Agreement on 16 October 2019, pursuant to which, BEH Finance has agreed to provide the Group with deposit services, loan services and the other financial services, subject to the terms and conditions provided therein. The term of such agreement is three years commencing from 1 January 2020 and ending on 31 December 2022.

Principal terms and Pricing Policy

Pursuant to the Financial Services Framework Agreement, BEH Finance shall provide the following financial services to the Group on normal commercial terms no less favourable than those available to the Group from Independent Third Parties:

(i) Deposit Services

The Group may from time to time deposit cash with BEH Finance. The terms (including the interest rates and commission charged) offered by BEH Finance in respect of the transactions under the Financial Services Framework Agreement shall be no less favourable than those offered by independent domestic commercial banks for provision of similar services to the Group and the interest rate to be paid by BEH Finance for the Group's deposits with BEH Finance shall not be lower than the same level deposit interest rate as published by the People's Bank of China for the same periods.

(ii) Loan Services

The Group may from time to time request BEH Finance to provide loan services to it. The interest rate for loans granted to the Group by BEH Finance shall refer to the benchmark interest rates as published by the People's Bank of China from time to time and should not be higher than the interest rates granted by independent commercial banks which provide similar service on the same conditions.

(iii) Other Financial Services

The other financial services which may be provided by BEH Finance to the Group including but not limited to: accounting and financing consulting service, credits and related consulting and agency, insurance agency, providing guarantees, acceptance and discount of bills, entrusted loans, finance leasing and underwriting of corporate bonds.

BEH Finance charges commission for the other financial services provided to the Group. The other financial services to be provided by BEH Finance to the Group shall be made on normal commercial terms and on terms similar to or no less favourable than those offered by Independent Third Parties for same services in the PRC.

Annual Caps and Basis of Annual Caps

(i) Deposit Services

The Company estimates that the proposed annual caps for the maximum daily deposit balance (including any interest accrued thereon) with BEH Finance are RMB3.0 billion, RMB4.0 billion and RMB5.0 billion, respectively, for each of the three years ending 31 December 2022.

The proposed annual caps of the deposit services under the Financial Services Framework Agreement for the three years ending 31 December 2022 are determined after taking into account: (i) the maximum daily deposit balance (including interest accrued thereon) for the two years ended 2018 and the six months ended 30 June 2019 were RMB1,220.00 million, RMB1,455.00 million and RMB1,899.75 million, respectively, which are close to the approved annual caps of RMB1,500.00 million, RMB1,750.00 million and RMB2,000.00 million, respectively, during the relevant periods; (ii) the anticipated increase in the daily outstanding balances of deposits of the Group attributable to the expected increase in revenue, which is in line with the increase in revenue in recent years and the expected increase of the Group's business operation; and (iii) the cash and equivalents and trade and bills receivable (which will convert into cash if such trade receivables are settled) of our Group as of 30 June 2019 of approximately RMB3.94 billion and RMB5.67 billion, respectively, due to the nature of business, the concentrated settlement arrangements and internal funds allocation requirements of the Group. Given that BEH Finance has a more thorough understanding of the business operation and development of the Group and can provide the financial services in a more timely manner and at comparable or better terms to the Group, the Company intends to place more deposit with BEH Finance to further strengthen its capital management.

(ii) Loan Services

As the loan services provided by BEH Finance to the Group are on normal commercial terms which are similar to or no less favourable than those offered by Independent Third Parties for comparable services in the PRC, and no security over the assets of the Group will be granted in respect of such loan services, the loan services are exempted from reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. As such, no cap has been set for such services.

(iii) Other Financial Services

The proposed annual caps for the other financial services under the Financial Services Framework Agreement for the three years ending 31 December 2022 are 30 million, which are determined after taking into account: (i) the historical transaction amount of such services for the two years ended 2018 and the nine months ended 30 September 2019 were RMB7.56 million, RMB10.55 million and RMB8.59 million, respectively; and (ii) the need for larger and more flexible capital investment and management of the Group in line with the developments of business operation of the Group.

(iv) Internal Control Measures

To safeguard the interests of our Shareholders as whole, including the minority shareholders, the Company has adopted internal approval and monitoring procedures relating to the transactions under the Financial Services Framework Agreement, which include the followings:

- Before entering into any new deposit arrangements with BEH Finance, the Company will obtain quotes from other independent financial institutions for similar deposit services for similar duration. Such quotes, together with the offer from BEH Finance, will be reviewed and the offer from BEH Finance has to pass the internal approval process of the Company before it can be accepted;
- BEH Finance shall provide the Company with a daily report on each business day on the status of the Group's deposits with it to allow it to monitor and ensure that the aggregate daily deposit balance (including interests accrued thereon) would not exceed the caps;
- BEH Finance shall set up and maintain, or procure the setting up and maintaining of, secured and stable on-line systems through which the relevant member of the Group which deposits money with it can view the balance of such deposits at any time on any day; and
- the independent non-executive Directors and auditors of the Company will conduct annual review of the transactions under the Financial Services Framework 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 agreement, on normal commercial terms and in accordance with the pricing policy.

Reasons for and Benefits of the Transaction

BEH Finance is under the supervision of the China Banking Regulatory Commission and it has been maintaining satisfactory operating results and financial position with good risks control and well-regulated management in the past years.

We believe BEH Finance has a more thorough understanding of the business development and capital needs of the fellow subsidiaries of the Company at a lower cost and in a more timely manner. As such, BEH Finance has an advantage in communicating information on capital needs and business development of the Company with its fellow subsidiaries.

The entering into of the Financial Services Framework Agreement will not prevent the Group from using services offered by other independent PRC commercial banks. The Group may still select other major and independent PRC commercial banks to act as its financial services providers as it thinks fit and appropriate for the benefits of the Group.

The transactions under the Financial Services Framework Agreement form part of the daily operations of the Group. In addition, the operation of the Group requires flexible and diversified financial services. The terms (including the interest rates and commission charged) offered by BEH Finance in respect of the transactions under the Financial Services Framework Agreement shall be no less favourable than those offered by domestic commercial banks for provision of similar services to the Group and the interest rate to be paid by BEH Finance for the Group's deposits with BEH Finance shall not be lower than the same level deposit interest rate as published by the People's Bank of China for the same periods. The Company is of the view that the transactions do not have any adverse effect on the assets and liabilities of the Group. Instead, the Group can earn interests out of the deposit transactions and enjoy benefits derived from diversified financing channels.

2. Listing Rules Implications

As BEH directly and indirectly holds approximately 68.68% of the issued share capital of the Company, it 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 connected transactions of the Company under the Listing Rules.

As each of the percentage ratio(s) applicable to the transactions under (i) the Framework Equipment Maintenance Agreement, (ii) the Framework Service Agreement, (iii) the EPC Framework Agreement, (iv) the Equipment Purchase Framework Agreement and (v) the Finance Lease Framework Agreement for each of the three years ending 31 December 2022 is more than 0.1% but less than 5% on an annual basis, respectively, each of such transactions constitutes a continuing connected transaction and is subject to the reporting and announcement requirements but are exempted from the independent shareholders' approval requirement according to Chapter 14A of the Listing Rules.

As the highest percentage ratio(s) applicable to the transactions contemplated under the Framework Heat Sale and Purchase Agreement for each of the three years ending 31 December 2022 is more than 5% on an annual basis, such transactions constitute the continuing connected transaction and is subject to the reporting and announcement requirements and the independent shareholders' approval requirements.

As the highest percentage ratio applicable to the deposit services contemplated under the Financial Services Framework Agreement for each of the three years ending 31 December 2022 is more than 5% on an annual basis, such transaction constitutes a continuing connected transaction and is subject to the reporting and announcement requirements and the independent shareholders' approval requirements.

The deposit services contemplated under the Financial Services Framework Agreement also constitute a financial assistance under Rule 14.04(1)(e) of the Listing Rules and given that the relevant highest applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) exceeds 25% but is less than 100%, the deposit services contemplated under the Financial Services Framework Agreement constitute major transactions of the Company and are subject to the reporting and announcement requirements and independent shareholders' approval requirements under Chapter 14 of the Listing Rules.

The loan services to be provided by BEH Finance to the Group under the Financial Services Framework Agreement will constitute financial assistance to be provided by a connected person for the benefit of the Group. As such services are provided on normal commercial terms which are similar to or more favourable than those offered by Independent Third Parties for comparable services in the PRC, and no security over the assets of the Group will be granted in respect thereof, pursuant to the Rule 14A.90 of the Listing rules, the loan services are exempted from reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

According to Chapter 14A of the Listing Rules as each of the percentage ratio(s) applicable to the other financial services under the Financial Services Framework Agreement for each of the three years ending 31 December 2022 is more than 0.1% but less than 5% on an annual basis, respectively, such transaction constitutes the continuing connected transaction and is subject to the reporting and announcement requirements but are exempted from the independent shareholders' approval requirement.

III. PROPERTY LEASE FRAMEWORK AGREEMENT

1. Particulars of the Continuing Connected Transaction

Description of the Transaction

Reference is made to the section headed "Connected Transactions" of the Prospectus, the announcement of the Company dated 19 March 2014 and the announcement of the Company dated 25 October 2016, respectively, in which the Company disclosed the annual caps for the three years ended 31 December 2013, the three years ended 31 December 2016 and the three years ended 31 December 2019, respectively, of its continuing connected transactions with BEH and/or its associates contemplated under the Property Lease Framework Agreement dated 23 May 2011. The Property Lease Framework Agreement is for a term of twenty years commencing on the listing date of the Company.

On 16 October 2019, the Board resolved to set the annual caps for such continuing connected transactions under the Property Lease Framework Agreement for the three years ending 31 December 2022.

Pricing Policy

Under the Framework Property Lease Agreement, the rent shall be agreed following arm's length negotiations between the relevant parties with reference to the prevailing market rates. Market rates refer to the rates at which the same or similar type of products or services are provided by Independent Third Parties under normal commercial terms.

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.

Annual Caps and Basis of Annual Caps

The Company estimates that the proposed annual caps for the Property Lease Framework Agreement for each of the three years ending 31 December 2022 are RMB60.1 million.

In determining the above annual caps, the Company has considered:

- the historical amounts of such continuing connected transactions for the two years ended 31 December 2018 and six months ended 30 June 2019 were approximately RMB54.29 million, RMB49.77 million and RMB23.69 million, respectively;
- the rentals to be paid for the existing leases;
- the potential rise in rent for premises in the vicinity of the relevant properties; and
- the recent development of the property market.

Reasons for the Transactions

As disclosed in the Prospectus, the long term nature of the property lease agreement enables the Group to secure a location for its business operation at a fair market price and to prevent unnecessary cost, effort, time and interruption of business caused by relocation in the case of short term leases.

2. Listing Rules Implications

As each of the percentage ratio(s) applicable to the transaction under the Property Lease Framework Agreement for each of the three years ending 31 December 2022 is more than 0.1% but less than 5% on an annual basis, respectively, such transaction constitutes a continuing connected transaction and is subject to the reporting and announcement requirements but are exempted from the independent shareholders' approval requirement according to Chapter 14A of the Listing Rules.

IV. BOARD CONFIRMATION

The Board (including the independent non-executive Directors) are of the view that the terms of each of the Continuing Connected Transactions Framework Agreements and the Property Lease Framework Agreement are arrived at after arm's length negotiations between the parties, entered into in the ordinary course of business of the Group (other than the Financial Services Framework Agreement) and are of the view that (i) the terms of each of the Continuing Connected Transactions Framework Agreements and the Property Lease Framework Agreement, (ii) the transactions contemplated under those agreements and (iii) the respective annual caps for the three years ending 31 December 2022 are on 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 BSCOMC (the sole shareholder of BEH), Mr. Liu Haixia, Mr. Ren Qigui and Ms. Li Juan have all abstained from voting on the Board resolutions approving the aforementioned continuing connected transactions.

V. DESPATCH OF CIRCULAR

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

- (i) details regarding the proposed continuing connected transactions under the Framework Heat Sale and Purchase Agreement and the Financial Services Framework Agreement;
- (ii) the recommendations from the Independent Board Committee in respect of the proposed continuing connected transaction under the Framework Heat Sale and Purchase Agreement and the proposed deposit service under the Financial Services Framework Agreement;
- (iii) the advice from independent financial advisor in respect of the proposed continuing connected transaction contemplated under the Framework Heat Sale and Purchase Agreement and the proposed deposit service under the Financial Services Framework Agreement; and
- (iv) other information required to be provided with the Shareholders under the Listing Rules.

The Company expects that the circular will be dispatched on or around 7 November 2019, which is within 15 business days from the date of this announcement in accordance with the Listing Rules. The Shareholders and potential investors should refer to the circular for further information.

DEFINITIONS

The following expressions have the meanings set out below unless the context requires otherwise:

“BEH”	北京能源集團有限責任公司 (Beijing Energy Holding Co., Ltd.), a limited liability company incorporated in the PRC and the controlling shareholder of the Company
“BEH Finance”	京能集團財務有限公司 (BEH Finance Co., Ltd.), a limited liability company incorporated in the PRC and a connected person of our Group, with 2% of its equity interest being held by the Company and 98% of its equity interest being held by BEH as at the date of this announcement
“Board”	the board of Directors of the Company
“BSCOMC”	北京國有資本經營管理中心 (Beijing State-owned Capital Operation and Management Center), a Shareholder which directly held 2.721% of the total issued share capital of the Company as at the date of this announcement. BSCOMC is the sole shareholder of BEH
“Company”, “we”, “our” or “us”	北京京能清潔能源電力股份有限公司 (Beijing Jingneng Clean Energy Co., Limited), a joint stock limited company incorporated in the PRC, whose H Shares are listed on Hong Kong Stock Exchange
“Continuing Connected Transaction Framework Agreements”	(i) the Framework Equipment Maintenance Agreement, (ii) the Framework Service Agreement, (iii) the EPC Framework Agreement, (iv) the Equipment Purchase Framework Agreement, (v) the Finance Lease Framework Agreement, (vi) the Framework Heat Sale and Purchase Agreement and (vii) the Financial Services Framework Agreement
“Director(s)”	the director(s) of the Company
“EPC Framework Agreement”	《合同能源管理框架協議》(EPC Framework Agreement), entered into between BEH and the Company on 16 October 2019
“Equipment Purchase Framework Agreement”	《物資採購框架協議》(Equipment Purchase Framework Agreement), entered into between BEH and the Company on 16 October 2019

“Finance Lease Framework Agreement”	《融資租賃業務框架協議》(the Finance Lease Framework Agreement), entered into between BEH and the Company on 16 October 2019
“Financial Services Framework Agreement”	《金融服務框架協議》(Financial Services Framework Agreement), entered into between BEH Finance and the Company on 16 October 2019
“Framework Equipment Maintenance Agreement”	《設備維修框架協議》(Framework Equipment Maintenance Agreement), entered into between BEH and the Company on 16 October 2019
“Framework Heat Sale and Purchase Agreement”	《熱力銷售框架協議》(Framework Heat Sale and Purchase Agreement), entered into between BEH and the Company on 16 October 2019
“Framework Service Agreement”	《服務框架協議》(Framework Service Agreement), entered into between BEH and the Company on 16 October 2019
“Group”	the Company and its subsidiaries
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	a committee of the Board established for the purpose of considering the terms and the transaction caps of the proposed transaction contemplated under the Framework Heat Sale and Purchase Agreement and the deposit services contemplated under the Financial Services Framework Agreement, comprising Mr. Huang Xiang, Mr. Zhang Fusheng, Mr. Chan Yin Tsung and Mr. Han Xiaoping, the independent non-executive Directors of the Company
“Independent Third Parties”	parties who are not connected (within the meaning of the Listing Rules) with any Director, supervisor, chief executive or substantial shareholder of the Company or any of its subsidiaries or any associate of any of them
“Jingneng Electricity Logistic Services Co., Ltd.”	京能電力後勤服務有限公司 (Jingneng Electricity Logistic Services Co., Ltd.), a subsidiary of BEH
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

“PRC” or “China”	the People’s Republic of China and for the purpose of this announcement, excluding the Hong Kong Special Administrative Region of the People’s Republic of China, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Property Lease Framework Agreement”	《物業租賃框架協議》(Property Lease Framework Agreement) entered into between BEH and the Company on 23 May 2011
“Prospectus”	the prospectus issued by the Company on 12 December 2011
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	means the ordinary share(s) of RMB1.00 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the ordinary share(s) of the Company
“%”	means per cent

The terms “associate”, “connected person”, “connected transaction”, “controlling shareholder”, “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the Listing Rules, unless otherwise defined above or where the context otherwise requires.

Beijing, the PRC
16 October 2019

As at the date of this announcement, the non-executive directors of the Company are Mr. Liu Haixia, Mr. Ren Qigui, Ms. Li Juan and Mr. Wang Bangyi; the executive directors of the Company are Mr. Zhang Fengyang, Mr. Zhu Jun and Mr. Cao Mansheng; and the independent non-executive directors of the Company are Mr. Huang Xiang, Mr. Zhang Fusheng, Mr. Chan Yin Tsung and Mr. Han Xiaoping.