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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)

DISCLOSEABLE AND CONNECTED TRANSACTION UPDATE ON THE PROPOSED SUBSCRIPTION

The Board hereby announces that on 5 November 2019, after arm's length negotiation among the parties, BEH, the Company, Jingneng Power and BEH Finance entered into the 2019 New Capital Increase Agreement, pursuant to which, the registered capital of BEH Finance will be increased from RMB3 billion to RMB5 billion, of which, RMB0.06 billion, RMB0.94 billion and RMB1 billion are to be subscribed by BEH, the Company and Jingneng Power, respectively.

Following the execution of the 2019 New Capital Increase Agreement, the 2018 Original Capital Increase Agreement has been terminated with immediate effect.

A general meeting of the Company will be convened to consider and, if thought fit, approve the Proposed Subscription.

A circular containing, among other things, (i) further details in relation to the Proposed Subscription, (ii) the recommendation of the Independent Board Committee in relation to the Proposed Subscription, (iii) a letter from Gram Capital in relation to the Proposed Subscription and (iv) other information required under the Listing Rules, is expected to be despatched to the Shareholders in due course.

I. INTRODUCTION

Reference is made to the announcements of the Company dated 30 October 2018 and 10 December 2018 and circular of the Company dated 15 January 2019 (the “**Circular**”) in relation to the proposed subscription of the registered capital of BEH Finance by the Company. Unless otherwise specified, capitalised terms used in this announcement shall have the same meanings as defined in the Circular.

As stated in the Circular, BEH, the Company, Jingneng Power and BEH Finance entered into a capital increase agreement on 10 December 2018 (the “**2018 Original Capital Increase Agreement**”), pursuant to which, the registered capital of BEH Finance will be increased from RMB3 billion to RMB5 billion, of which, RMB0.06 billion, RMB0.94 billion and RMB1 billion are to be subscribed by BEH, the Company and Jingneng Power, respectively.

The Proposed Subscription has been approved at the general meeting of the Company held on 30 January 2019 and the assets valuation results of the proposed capital increase of BEH Finance has been approved by the Beijing SASAC on 26 March 2019. As at the date of this announcement, the Proposed Subscription is still subject to certain conditions precedent, among which, the approval of Proposed Subscription by the Beijing Branch of China Banking and Insurance Regulatory Commission. However, the original valuation report on BEH Finance prepared by CUAA dated 28 November 2018 has expired on 30 August 2019 and CUAA was engaged to prepare an updated valuation report on BEH Finance (the “**New Valuation Report**”) as required by the relevant government authorities in the PRC. With reference to the appraised net assets value of BEH Finance as stated in the New Valuation Report, the subscription price of the increased registered capital of BEH Finance has been increased to RMB1.30 per unit BEH Finance Registered Capital (representing an increase of approximately 2.4% as compared with the subscription price under the 2018 Original Capital Increase Agreement (i.e. RMB1.27 per unit BEH Finance Registered Capital)).

Considering the change of subscription price as stated above, the Board hereby announces that on 5 November 2019, after arm’s length negotiation among the parties, BEH, the Company, Jingneng Power and BEH Finance entered into a new capital increase agreement (the “**2019 New Capital Increase Agreement**”), pursuant to which, the registered capital of BEH Finance will be increased from RMB3 billion to RMB5 billion, of which, RMB0.06 billion, RMB0.94 billion and RMB1 billion are to be subscribed by BEH, the Company and Jingneng Power at the subscription price of RMB1.30 per unit BEH Finance Registered Capital, respectively.

Pursuant to the 2019 New Capital Increase Agreement, the 2018 Original Capital Increase Agreement has been terminated with immediate effect.

II. 2019 NEW CAPITAL INCREASE AGREEMENT

1. Principal Terms of the New Capital Increase Agreement

Date : 5 November 2019

Parties : BEH;

The Company (together with BEH, the “**Existing Shareholders of BEH Finance**”);

Jingneng Power; and

BEH Finance (as the “**Target Company**”)

Increase in Capital of BEH Finance and the Proposed Subscription : Pursuant to the 2019 New Capital Increase Agreement, the registered capital of the Target Company will be increased from RMB3 billion to RMB5 billion, which comprises:

(i) RMB0.06 billion, which are offered to be subscribed by BEH;

(ii) RMB0.94 billion, which are offered to be subscribed by the Company; and

(iii) RMB1 billion, which are offered to be subscribed by Jingneng Power.

Upon completion of the proposed subscription of the registered capital of BEH Finance by the parties pursuant to the 2019 New Capital Increase Agreement (the “**Proposed Subscription**”), BEH, the Company and Jingneng Power will hold 60%, 20% and 20% of the equity interest in BEH Finance, respectively.

Consideration : In relation to the increased registered capital of BEH Finance, BEH, the Company and Jingneng Power shall contribute RMB78,000,000, RMB1,222,000,000 and RMB1,300,000,000, respectively.

Basis of Consideration

- : The subscription price represents RMB1.30 per unit BEH Finance Registered Capital, which was determined after arm's length negotiation between the parties with reference to the appraised net assets value of BEH Finance as stated in the New Valuation Report prepared by CUAA (i.e. RMB3,912.1843 million), which is subject to registration by BEH (as authorized by the Beijing SASAC).

Accordingly, the final subscription price of the increased registered capital of BEH Finance will be determined in accordance with the following formula:

Subscription price of each unit BEH Finance Registered Capital in relation to the increased registered capital of BEH Finance = appraised net assets value of BEH Finance as registered by BEH (as authorized by the Beijing SASAC)/BEH Finance's existing registered capital (i.e. RMB3 billion).

For illustration purpose, based on the appraised net assets value of BEH Finance as stated in the New Valuation Report prepared by CUAA and above, the subscription price of each unit BEH Finance Registered Capital of the increased registered capital of BEH Finance is RMB1.30 per unit BEH Finance Registered Capital.

Conditions precedent

- : The effectiveness of the New Capital Increasing Agreement is conditional upon the fulfilment of the following conditions:
- (i) the internal corporate approvals having been obtained by all parties under the 2019 New Capital Increase Agreement pursuant to relevant applicable laws and regulations;
 - (ii) the registration by BEH (as authorized by the Beijing SASAC) for the appraised value of the assets involved in the proposed increase in registered capital of BEH Finance having been obtained; and

- (iii) the approval from the Beijing Branch of China Banking and Insurance Regulatory Commission in relation to the proposed increase in the registered capital of BEH Finance having been obtained.

Payment schedule

- : Subject to the fulfilment of the above-mentioned conditions, BEH, the Company and Jingneng Power shall pay their respective subscription monies within 10 Business Days after the 2019 New Capital Increase Agreement takes effect.

Transitional Period

- : The Existing Shareholders of BEH Finance shall be entitled to all the undistributed profit of the Target Company on or before the valuation reference date of the New Valuation Report (being 31 August 2019) (the “**New Valuation Reference Date**”).

BEH, the Company and Jingneng Power shall be entitled to the profits, and shall be responsible for any loss, of the Target Company during the period from the New Valuation Reference Date (excluding the New Valuation Reference Date) to the date when the filing with the relevant administration for industry and commerce authority in relation to the Proposed Subscription are completed (including such date) in proportion to their respective shareholding in the Target Company upon the completion of the Proposed Subscription. Notwithstanding the above, if the Target Company didn’t receive all monies the parties shall contribute under the 2019 New Capital Increase Agreement on or before 31 March 2020, the Existing Shareholders of BEH Finance shall be entitled to the profits, and shall be responsible for any loss, of the Target Company from 1 September 2019 to 31 December 2019 (both days inclusive) in proportion to their respective shareholding in the Target Company before the Proposed Subscription.

2. PRINCIPAL ASSUMPTIONS OF THE VALUATION

The parties to the 2019 New Capital Increase Agreement have engaged CUAA to perform the valuation in respect of the net assets of the Target Company.

As the valuation was prepared based on the income approach, which involves the use of the discounted cash flow, the valuation as set out in the New Valuation Report prepared by CUAA is regarded as a profit forecast under Rule 14.61 of the Listing Rules.

The valuation was performed based on the following principal assumptions:

(i) General assumptions

- transaction assumption: all assets to be appraised are assumed to be already in the process of transaction, and the valuer appraise the value based on the trading conditions of the assets to be appraised in a simulated market. The transaction assumption is one of the most basic prerequisites that assets valuation can be carried out.
- open market assumption: it is assumed that for assets to be traded or intended to be traded in the market, the parties to an asset transaction shall have equal status, and also have opportunity and time to gain sufficient market information, so as to make rational judgment on functions, purposes and trading prices of assets. The open market assumption is based on the fact that assets can be publicly traded on the market.
- asset going-concern assumption: the valuation methods, parameters and basis shall be determined correspondingly based on the fact that the assets under valuation will continue to be used according to the current use and the mode, scale, frequency and environment, etc. or used on a change basis when appraising.

(ii) Special assumptions

- There is no significant change in the current macroeconomic and tax policies of PRC.
- There is no significant change in the socio-economic environment where the appraised enterprise is operated as well as the taxes, tax rates and other policies implemented.
- The scope of valuation shall be only limited to the evaluation return provided by BEH Finance without taking into account its contingent assets and contingent liabilities that may exist outside the list provided by the appraised entity.

- The future management team of the appraised enterprise will perform its duties satisfactorily and continue to maintain going concern of its existing business operation model.
- The appraised enterprise will continue to lease and use its current office premise in the future.
- The main business income of the appraised enterprise is mainly derived from the current business operations and investment income without taking into account the incremental business that the enterprise may have in the future.
- The valuation is only based on the current business strategies, operating capabilities and operating conditions as at the New Valuation Reference Date without taking into account possible changes in the future due to the change in management team.
- There will be no significant change in the central bank exchange rate during the forecast period.
- The appraised entity shall withdraw the surplus reserve and general risk reserve in accordance with the relevant regulations, and distribute its remaining profits in full if the regulatory standards for capital adequacy ratio are satisfied.
- The business scale of the appraised entity is limited to the existing capital scale without taking into account the impact of future possible capital increase on its business scale development.

If any of the assumption above-mentioned changes, generally the valuation will be invalid.

The letter from the Board and the report from the auditor of the Company as required by Rule 14.62 of the Listing Rules with regards to the calculations of the discounted future cash flows used in the valuation are expected to be published within fifteen (15) Business Days after the publication of this announcement pursuant to Rule 14.60A of the Listing Rules.

3. SHAREHOLDING STRUCTURE OF BEH FINANCE

The following diagram sets out the shareholding structure of BEH Finance immediately before and after completion of the Proposed Subscription:

Name of shareholder	Immediately before the completion of the Proposed Subscription		Immediately after the completion of the Proposed Subscription	
	Registered capital of BEH Finance (in RMB)	Percentage	Registered capital of BEH Finance (in RMB)	Percentage
BEH	2,940,000,000	98%	3,000,000,000	60%
The Company	60,000,000	2%	1,000,000,000	20%
Jingneng Power	–	–	1,000,000,000	20%
Total	3,000,000,000	100%	5,000,000,000	100%

4. FINANCIAL INFORMATION OF BEH FINANCE

Based on the audited consolidated financial statements of the Target Company for the financial years ended 31 December 2017 and 2018 prepared in accordance with the PRC GAAP, the net profits before and after taxation for the financial years ended 31 December 2017 and 2018 are set out below:

	For the year ended 31 December 2017	For the year ended 31 December 2018
Profit before taxation	474,057,530.46	478,208,086.70
Profit after taxation	355,000,748.46	358,219,690.07

Based on the consolidated financial statements of the Target Company for the eight months ended 31 August 2019 prepared in accordance with the PRC GAAP, the net assets of the Target Company as at 31 August 2019 was approximately RMB3,653,495,444.48.

5. REASONS FOR AND BENEFITS OF THE PROPOSED SUBSCRIPTION AND THE EFFECT OF THE PROPOSED SUBSCRIPTION

Upon completion of the Proposed Subscription, the shareholding of the Company in BEH Finance will be increased from 2% to 20%, which allows the Company to benefit more from the business expansion and growth in net profits of BEH Finance. Accordingly, the further investment in BEH Finance through the Proposed Subscription is expected to generate more investment return for the Company.

The Proposed Subscription also represents a unique opportunity for the Company to invest in a company which engages in the provision of financial services. BEH Finance is a non-banking financial institution approved by the relevant PRC authorities to engage in the provision of various financing services, including taking deposit and providing loans, and is primarily providing financial services to companies within the group members of BEH. Through participating in the business operation of BEH Finance, the Company can have further understanding about the operation of a financial institution and gain more knowledge in relation to its capital management, which enables the Company to negotiate for better terms with commercial banks for capital required for its business development and better manage its own working capital.

In addition, since the incorporation of BEH Finance, the Company has engaged BEH Finance to provide various financial services, details of which were set out in the announcements issued by the Company on 25 October 2016 and 16 October 2019. The Company expects to continue to engage BEH Finance to provide such service as BEH Finance has a more thorough understanding of the business development and capital needs of the subsidiaries of the Company and is able to provide such services in a timely manner. Given the Company pays BEH Finance for the services it received based on normal commercial terms, increasing shareholding in BEH Finance by the Company is also in the interest of the Company since the Company will enjoy a larger portion of the profit and revenue earned by BEH Finance.

Based on the above, the Directors (excluding the independent non-executive Directors, who will give their opinion after taking into account the advice of Gram Capital, details of which will be included in the circular of the general meeting of the Company) consider that the terms of the 2019 New Capital Increase Agreement are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

As the shareholding of the Company in BEH Finance will increase from 2% to 20% upon completion of the Proposed Subscription, the investment in BEH Finance of the Company will be recognised by the Company as investment in associate under the equity method, instead of currently being recognised by the Company using cost method.

6. LISTING RULES IMPLICATION

As the highest applicable percentage ratio in respect of the Proposed Subscription exceeds 5% but is less than 25%, the Proposed Subscription constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As at the date of the announcement, BEH directly and indirectly holds 68.68% equity interest in the Company and is a connected person of the Company under Chapter 14A of the Listing Rules. BEH Finance is a subsidiary of BEH and thus constitutes a connected person of the Company by virtue of being an associate of BEH. Accordingly the Proposed Subscription also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio in respect of the Proposed Subscription exceeds 5%, the Proposed Subscription is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Due to their positions in BEH and/or its associates, Mr. Liu Haixia, Mr. Ren Qigui and Ms. Li Juan have abstained from voting on the Board resolution approving the Proposed Subscription.

Beijing International Electric Engineering Co., Ltd., Beijing District Heating (Group) Co., Ltd. and Beijing Energy Investment are wholly-owned subsidiaries of BEH and BEH is wholly-owned by BSCOMC. Therefore, BEH (directly holding approximately 61.639% of the equity interests in the Company), Beijing International Electric Engineering Co., Ltd. (directly holding approximately 1.124% of the equity interests in the Company), BSCOMC (directly holding approximately 2.721% of the equity interests in the Company), Beijing District Heating (Group) Co., Ltd. (directly holding approximately 0.194% of the equity interests in the Company) and Beijing Energy Investment (directly holding approximately 5.72% of the equity interests in the Company), holding an aggregate of 5,886,444,144 Shares and representing approximately 71.4% of the equity interests in the Company, are required to abstain from voting on the resolution to be proposed at the general meeting of the Company to approve the Proposed Subscription.

7. INFORMATION OF THE PARTIES

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.

BEH is a limited liability company incorporated in the PRC, which 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 Center. BEH is the controlling shareholder of the Company, holding approximately 68.68% of the issued share capital of the Company as at the date of this announcement.

Jingneng Power is a joint stock limited liability company incorporated in the PRC whose shares are listed on the Shanghai Stock Exchange (stock code: 600578), which engages in production of electric power and thermal products, general cargo and cargo transportation (tank type), sales of electric power and thermal products, operation of electric power equipment, detection and repair of power generation equipment, and sale of desulfurization gypsum. Jingneng Power is a subsidiary of BEH.

BEH Finance is 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 is a subsidiary of BEH.

III. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee (comprising Mr. Huang Xiang, Mr. Zhang Fusheng, Mr. Chan Yin Tsung and Mr. Han Xiaoping, all being independent non-executive Directors) has been established to advise the Independent Shareholders in connection with the Proposed Subscription. Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Proposed Subscription.

IV. GENERAL MEETING

A general meeting of the Company will be convened to consider and, if thought fit, approve the Proposed Subscription.

A circular containing, among other things, (i) further details in relation to the Proposed Subscription, (ii) the recommendation of the Independent Board Committee in relation to the Proposed Subscription, (iii) a letter from Gram Capital in relation to the Proposed Subscription and (iv) other information required under the Listing Rules, is expected to be despatched to the Shareholders in due course.

By Order of the Board