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北京控股環境集團有限公司
BEIJING ENTERPRISES ENVIRONMENT GROUP LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 154)

MAJOR TRANSACTION
INVESTMENT AGREEMENT FOR OPERATING LICENSE
OF SHIYAN URBAN DISTRICT HOUSEHOLD WASTE
INCINERATION POWER GENERATION PROJECT

INVESTMENT AGREEMENT

On 26 May 2023, Shiyan Management Committee and the Company entered into the Investment Agreement, pursuant to which, Shiyan Management Committee will grant the Operating License to the Project Company to be established by Shiyan Urban Holding and Beikong Environment Investments (a wholly-owned subsidiary of the Company). The Project Company will be responsible for the investment and financing, construction, operation and maintenance of the Shiyan Project and will transfer the project to the entity designated by the government at zero consideration upon the expiry of the Operating License. The estimated total investment of the Shiyan Project is RMB457,100,000 (equivalent to approximately HK\$507,889,000), with an operating license period of 30 years. The Company will have a 90% interest in the Project Company.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios calculated with reference to Rule 14.07 of the Listing Rules in respect of the capital commitment of the Project Company to be established by the Company under the Investment Agreement exceed 25% but are less than 100%, the entering into the Investment Agreement and the transactions contemplated thereunder constitute a major transaction of the Company under Chapter 14 of the Listing Rules and are subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Pursuant to Rule 14.44 of the Listing Rules, (i) no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Investment Agreement and the transactions contemplated thereunder; and (ii) written approval of the Investment Agreement and the transactions contemplated thereunder having been obtained from a Shareholder or a closely allied group of Shareholders (who together hold more than 50% of the issued Shares and having the right to attend and vote at a general meeting), the Shareholders' approval may be obtained by way of written Shareholders' approval instead of convening a general meeting.

To the best knowledge of the Company after having made all reasonable enquiries, no Shareholder has a material interest in the Investment Agreement and the transactions contemplated thereunder. Accordingly, no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Investment Agreement and the transactions contemplated thereunder. As of the date of this announcement, BEHL and Idata, a wholly-owned subsidiary of BEHL, are interested in 17,445,000 Shares and 738,675,000 Shares, respectively, and form a closely allied group of Shareholders holding an aggregate of 756,120,000 Shares (representing approximately 50.4% of the total number of Shares in issue). As BEHL and Idata do not have any material interest in the Investment Agreement and the transactions contemplated thereunder other than through their interests in the Shares, and the Company has obtained written approval from BEHL and Idata, no extraordinary general meeting of the Company will be convened for the purpose of approving the Investment Agreement and the transactions contemplated thereunder pursuant to Rule 14.44 of the Listing Rules.

A circular containing, among other things, (i) the details of the Shiyan Project, the Investment Agreement and the transactions contemplated thereunder; (ii) the financial information of the Group; and (iii) the business valuation report of the Shiyan Project will be despatched to the Shareholders in accordance with the Listing Rules on or before 16 June 2023 for information purposes only.

INVESTMENT AGREEMENT

On 26 May 2023, Shiyan Management Committee and the Company entered into the Investment Agreement, pursuant to which, Shiyan Management Committee will grant the Operating License to the Project Company to be established by Shiyan Urban Holding and Beikong Environment Investments (a wholly-owned subsidiary of the Company). The Project Company will be responsible for the investment and financing, construction, operation and maintenance of the Shiyan Project (including phase I, phase II and all the contents of the project) and will transfer the project to the entity designated by the government at zero consideration upon the expiry of the Operating License.

Beikong Environment Investments and Shiyan Urban Holding will establish the Project Company in Shiyan City in accordance with the PRC laws within 45 days after the signing of the Investment Agreement. The Project Company and Shiyan Management Committee will officially sign the Operating License Agreement within 15 working days after the establishment of the Project Company.

Summary of the Shiyan Project

The Shiyan Project includes the construction of a household waste incineration power plant and the transformation of the ancillary fly ash landfill:

- The household waste incineration power plant is located in Zhangwan District, Shiyan City, Hubei Province, the PRC with a construction land area of 110 mu and a total construction capacity of 1,200 tonnes/day and will be implemented in two phases. The capacity of the phase I construction is 600 tonnes/day and it will adopt a grate incinerator with a capacity of 600 tonnes/day with an ancillary waste heat boiler with medium temperature and sub-high pressure and a selected 15MW condensing turbo generator unit. The construction land for phase II with a capacity of 600 tonnes/day is reserved.
- It will conduct an ancillary transformation of the previous waste landfill in western Shiyan and convert it into a fly ash landfill, which is about 5 kilometers from the incineration power plant with a storage capacity for fly ash of about 400,000 cubic meters.

According to the feasibility study report of the Shiyan Project and the Company's estimation, the estimated total investment of the Shiyan Project is RMB457,100,000 (equivalent to approximately HK\$507,889,000).

Establishment of Project Company

The organisational form of the Project Company is a limited liability company. The Project Company will set up a board of directors comprising 5 members, 1 of which will be recommended by Shiyan Urban Holding and 4 will be recommended by Beikong Environment Investments. The board of directors shall have a chairman who shall be elected by the board of directors.

The registered capital of the Project Company is determined to be RMB91,420,000 (equivalent to approximately HK\$101,578,000), representing 20% of the estimated total investment of the Shiyang Project of RMB457,100,000 (equivalent to approximately HK\$507,889,000). Shiyang Urban Holding will contribute RMB9,142,000 (equivalent to approximately HK\$10,158,000) in cash, holding 10% equity interest of the Project Company. Beikong Environment Investments will contribute RMB82,278,000 (equivalent to approximately HK\$91,420,000) in cash, holding 90% equity interest of the Project Company. Beikong Environment Investments will pay up RMB70,000,000 (equivalent to approximately HK\$77,778,000) within three months after the establishment of the Project Company and the remaining funds will be paid up based on the construction progress during the construction period.

For the part in addition to the registered capital, i.e. 80% of the estimated total investment of the Shiyang Project, RMB365,680,000 (equivalent to approximately HK\$406,311,000) will be raised by the Project Company through financing from banks.

Major Terms and Contents of the Operating License Agreement

1. Operation Model of the Project

The Shiyang Project will adopt the “BOT+ROT” operation approach, among which, the household waste incineration power plant will adopt the “Build-Operate-Transfer” (BOT) model and the ancillary fly ash landfill will adopt the “Reconstruct-Operate-Transfer” (ROT) model.

2. Contents of the Operating License of the Project

The People’s Government of Shiyang City will authorise Shiyang Management Committee to grant the Operating License to the Project Company. During the term of the Operating License, the Project Company will be responsible for the investment and financing, construction, operation and maintenance of the Shiyang Project (including phase I, phase II and all the contents of the project) and will transfer the project to the entity designated by the government at zero consideration upon the expiry of the Operating License.

During the term of the Operating License, the Project Company will provide waste treatment services within the scope of the Operating License, be responsible for handling the fly ash under the requirements arising from the Shiyang Project, and have the right to obtain the waste treatment service fees paid by the government in accordance with the Operating License Agreement and the revenue from the on-grid sale of power generated from waste incineration, steam supply and the recycling of other relevant products.

- The waste treatment service fee is RMB73.38 (equivalent to approximately HK\$81.53) (value added tax inclusive) per tonne and is paid by the government.
- The Project Company and the grid company will enter into a power sale contract and the grid company will pay the on-grid electricity fees.

3. *Term of the Operating License*

The term of the Operating License of the Shiyang Project is 30 years from the date of the official signing and effectiveness of the Operating License Agreement to the date of transfer. Among which, the construction period is 2 years (including the preliminary work and the construction period) and the operation period is 28 years. The Shiyang Project is expected to complete the construction and put into operation by the end of 2024.

4. *Minimum Waste Demand (Guaranteed Minimum Volume)*

The minimum household waste demand of the waste incineration and treatment project in the first, second and third years will be 70%, 75% and 80% of the designed capacity, respectively. The minimum demand in the fourth and subsequent years will be 85% of the designed capacity. When the volume of waste input is less than the minimum demand in the corresponding year, the government will pay the household waste treatment service fees at the minimum demand level to the Project Company.

5. *Price Adjustment Mechanisms of Waste Treatment Service Fees*

The Shiyang Project sets up three price adjustment mechanisms, namely the price adjustment on changes in total investment in the project (the impact of the audited results of the total investment in the project on the unit price of waste treatment service fees), the price adjustment on changes in costs and the price adjustment on changes in on-grid electricity fees.

6. Construction and Operation of the Phase II of the Project

The capacity of 1,200 tonnes of the Shiyan Project is set based on the current amount of waste, the estimation on the future population, the waste separation and the stock of perishable waste at the waste landfill in western Shiyan. When the phase I treatment capacity is unable to meet the demand for urban household waste treatment or the governance plan on the western waste landfill is carried out, the Project Company, as the construction company, will invest and initiate the construction of the phase II incineration power generation project based on the phase I operation model upon reporting to the municipal government for approval. The corresponding marginal conditions and the calculation of the treatment fees will be principally extended from the requirement of the phase I project. At present, the Company has no concrete plans (including financial projections or timelines) to invest and initiate the construction of the phase II incineration power generation project.

INFORMATION ON BEIKONG ENVIRONMENT INVESTMENTS, SHIYAN MANAGEMENT COMMITTEE AND SHIYAN URBAN HOLDING

Beikong Environment Investments is an investment holding company established in Beijing, the PRC, which is an indirect wholly-owned subsidiary of the Company and will become a shareholder of the Project Company with a 90% equity interest in the Project Company.

Shiyan Management Committee is a department of the People's Government of Shiyan City, Hubei Province, the PRC, and is responsible for urban management. Shiyan Management Committee is the implementing body of the Shiyan Project and has the right (including but not limited to) to grant the Operating License to the Project Company.

Shiyan Urban Holding is a state-owned enterprise wholly owned by the State-owned Assets Supervision and Administration Commission of the People's Government of Shiyan City, Hubei Province, the PRC. It is principally engaged in the operation and management of state-owned assets authorised by the government. Shiyan Urban Holding will become a shareholder of the Project Company holding a 10% equity interest in the Project Company.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, Shiyan Management Committee, Shiyan Urban Holding and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

REASONS AND BENEFITS

The Company is a company incorporated in Hong Kong with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 154). The Company is an investment holding company and its subsidiaries are principally engaged in the environmental protection and solid waste treatment business in the PRC. Currently, the Group invests in and operates ten solid waste treatment projects within the PRC, including nine household waste incineration power generation projects (with a total waste treatment capacity of 12,475 tonnes/day) and one hazardous and medical waste treatment project. For the year ended 31 December 2022, the Group processed 3.84 million tonnes of household waste with 1,161 million kWh of on-grid electricity.

The Group is principally engaged in household waste incineration power generation. Owing to the adverse impacts of the waste separation policy and the decrease in national subsidies, the increasingly stringent national environmental protection policies and the correspondingly increase in operating costs posed certain challenges to the profit growth of the Group. The Group has actively negotiated with the local government departments in respect of the alteration and/or expansion works of the existing waste incineration plants, increased capital investment in environmental protection technology, propelled the development of the dual carbon businesses and actively expanded the collaborative treatment of sludge businesses in order to create business opportunities for the Group's operating prospects and sustainable development. In addition, the Group is constantly seeking potential investment opportunities to strengthen the overall competitiveness and market position of the Group in the solid waste treatment industry.

Shiyan is a prefecture-level city in Hubei Province, the PRC and is a regional hub in the borders of Hubei, Henan, Shaanxi and Chongqing, an ecological and cultural tourism area as well as a key base for the automobile industry in the PRC. Currently, there is no independent household waste incineration power plant in the urban areas of Shiyan. With the economic development and the increase in the urban population, the construction of the Shiyan Project is essential and the operation of the project enjoys a bright prospect with stable economic benefits.

According to the 14th Five-Year Plan for Circular Economy Development, the construction of the Shiyan Project is of significance in the establishment and improvement of the economic system on the green, low-carbon and circular development in Shiyan City. The market of the waste incineration power generation projects have become increasingly competitive. Not only the investment of the Group in the Shiyan Project increase the total capacity of the Group in terms of solid waste treatment, but also the positive significance of the government, the industry and the public.

PROJECT RISKS

1. Risk of waste supply

The Shiyang Project may face the risk of insufficient waste supply during the term of the Operating License. Based on the comprehensive consideration that Shiyang City is a tourism city and its future population growth, the Shiyang Project is located in urban areas and enjoys advantages in waste transportation. The Shiyang Project enjoys the guarantee on the minimum waste demand (the guaranteed minimum volume). Shiyang Urban Holding is a shareholder of the Project Company, which is conducive to the coordination with the municipal government in waste allocation and guaranteeing the volume of waste input.

2. Policy risk of on-grid electricity fees

The Shiyang Project will implement the competitive on-grid pricing mechanism for waste incineration power generation with national subsidies during the operation period. For the power generated not exceeding 280 kWh per tonne of household waste, it shall be lower than the national standard benchmark electricity tariff on waste incineration power generation of RMB0.65 per kWh. In addition, the future changes in policies on national subsidies for on-grid electricity fees will lead to a significant impact on the economic benefits of the project, which is the risk faced by the entire industry nationwide. The Operating License Agreement will set out the price adjustment mechanisms and specify in the terms of the price adjustment mechanisms on electricity fees to adjust the waste treatment service fees accordingly.

Moreover, steam supply is an important measure for solving the decrease in national subsidies on on-grid electricity fees for waste incineration power generation projects. Based on the dual carbon targets, the replacement by steam is also a means of carbon reduction. The Shiyang Project will tackle the risks of the declining electricity fees through the sales of steam.

FINANCIAL AND OTHER EFFECTS

Upon establishment of the Project Company, it will become a non-wholly owned subsidiary of the Company, in which 90% of equity interest will be held indirectly by the Company, and its financial results, assets and liabilities will be consolidated into the accounts of the Group.

It is expected that upon the entering into the Investment Agreement, the establishment of the Project Company and the entering into the Operating License Agreement, there will not be any immediate impact on the earnings of the Group. The impact on the future earnings of the Group will depend on, among other things, the construction profit during the construction period and the operating results of the Project Company. The Directors expect that the establishment of the Project Company and the entering into the Operating License Agreement will have a positive impact on the future earnings of the Group.

The capital commitment of the Company to the Project Company will be financed in cash from internal resources of the Group.

As disclosed in the annual report of the Company for the year ended 31 December 2022, the audited consolidated total assets and total liabilities of the Group as at 31 December 2022 were approximately HK\$12,167,226,000 and HK\$8,057,430,000, respectively. The establishment of the Project Company and the estimated investment in the Shiyan Project with a total investment amount of RMB457,100,000 (equivalent to approximately HK\$507,889,000) will increase both the consolidated total assets and total liabilities of the Group based on the construction progress of the Shiyan Project, and the gearing ratio (a ratio of total liabilities to total assets) of the Group will increase accordingly. The Group will continuously maintain a strong capital position.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios calculated with reference to Rule 14.07 of the Listing Rules in respect of the capital commitment of the Project Company to be established by the Company under the Investment Agreement exceed 25% but are less than 100%, the entering into the Investment Agreement and the transactions contemplated thereunder constitute a major transaction of the Company under Chapter 14 of the Listing Rules and are subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Pursuant to Rule 14.44 of the Listing Rules, (i) no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Investment Agreement and the transactions contemplated thereunder; and (ii) written approval of the Investment Agreement and the transactions contemplated thereunder having been obtained from a Shareholder or a closely allied group of Shareholders (who together hold more than 50% of the issued Shares and having the right to attend and vote at a general meeting), the Shareholders' approval may be obtained by way of written Shareholders' approval instead of convening a general meeting.

To the best knowledge of the Company after having made all reasonable enquiries, no Shareholder has a material interest in the Investment Agreement and the transactions contemplated thereunder. Accordingly, no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Investment Agreement and the transactions contemplated thereunder. As of the date of this announcement, BEHL and Idata, a wholly-owned subsidiary of BEHL, are interested in 17,445,000 Shares and 738,675,000 Shares, respectively, and form a closely allied group of Shareholders holding an aggregate of 756,120,000 Shares (representing approximately 50.4% of the total number of Shares in issue). As BEHL and Idata do not have any material interest in the Investment Agreement and the transactions contemplated thereunder other than through their interests in the Shares, and the Company has obtained written approval from BEHL and Idata, no extraordinary general meeting of the Company will be convened for the purpose of approving the Investment Agreement and the transactions contemplated thereunder pursuant to Rule 14.44 of the Listing Rules.

A circular containing, among other things, (i) the details of the Shiyang Project, the Investment Agreement and the transactions contemplated thereunder; (ii) the financial information of the Group; and (iii) the business valuation report of the Shiyang Project will be despatched to the Shareholders in accordance with the Listing Rules on or before 16 June 2023 for information purposes only.

RECOMMENDATIONS

None of the Directors has a material interest in the Investment Agreement and the transactions contemplated thereunder or are required to abstain from voting on the Board resolutions for considering and approving the Investment Agreement and the transactions contemplated thereunder.

The Directors (including the independent non-executive Directors) are of the view that the Investment Agreement has been entered into in the ordinary and usual course of business of the Company and on normal commercial terms, and the terms of the Investment Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

If the Investment Agreement and the transactions contemplated thereunder are required to be proposed at the general meeting of the Company for consideration and approval, the Board recommends the Shareholders to approve the same.

DEFINITIONS

In this announcement, the following expressions shall have the meanings set out below unless the context requires otherwise:

“associate”	has the meanings ascribed to it by the Listing Rules;
“BEHL”	Beijing Enterprises Holdings Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 392);
“Beikong Environment Investments”	Beijing Beikong Environment Investments Co., Ltd.* (北京北控環境投資有限公司), a company incorporated under the laws of the PRC with limited liability and is indirectly wholly owned by the Company;
“Board”	the board of Directors;
“Company”	Beijing Enterprises Environment Group Limited, a company incorporated in Hong Kong with limited liability, the Shares of which are listed on the main board of the Stock Exchange (stock code: 154);
“connected person(s)”	has the meanings ascribed to it by the Listing Rules;

“Director(s)”	the directors of the Company;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Idata”	Idata Finance Trading Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly owned by BEHL, is the immediate holding company of the Company;
“Investment Agreement”	the Investment Agreement for Operating License of Shiyang Urban District Household Waste Incineration Power Generation Project entered into by Shiyang Management Committee and the Company for the implementation of the Shiyang Project;
“kwh”	kilowatt hour;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“MW”	Megawatt;
“Operating License”	the operating license for the Shiyang project;
“Operating License Agreement”	the Operating License Agreement of Shiyang Urban District Household Waste Incineration Power Generation Project to be entered into by Shiyang Management Committee and the Project Company pursuant to the Investment Agreement;
“PRC”	the People’s Republic of China (excluding, for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan);

“Project Company”	a limited company to be established by Shiyan Urban Holding and Beikong Environment Investments under the PRC law and the Investment Agreement, and to be granted with the Operating License;
“RMB”	Renminbi, the lawful currency of the PRC;
“Share(s)”	ordinary share(s) in the share capital of the Company;
“Shareholder(s)”	holders of the Shares;
“Shiyan Urban Holding”	Shiyan Urban Holding Asset Management Co., Ltd.* (十堰市城控資產經營有限公司);
“Shiyan Management Committee”	Shiyan Urban Management and Law Enforcement Committee* (十堰市城市管理執法委員會);
“Shiyan Project”	Shiyan Urban District Household Waste Incineration Power Generation Project* (十堰市城區生活垃圾焚燒發電項目);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“%”	per cent.

For the purpose of this announcement and for illustrative purposes only, RMB is converted into HK\$ at the rate of RMB0.90 to HK\$1. No representation is made that any amount in RMB has been or could be converted at the above rate or any other rates.

* *For identification purposes only*

By order of the Board
Beijing Enterprises Environment Group Limited
Ke Jian
Chairman

Hong Kong, 26 May 2023

As at the date of this announcement, the board of directors of the Company comprises five executive directors, namely Mr. Ke Jian, Ms. Sha Ning, Mr. Chen Xinguo, Mr. Yu Jie and Mr. Ng Kong Fat, Brian, and five independent non-executive directors, namely Dr. Jin Lizuo, Dr. Huan Guocang, Dr. Wang Jianping, Prof. Nie Yongfeng and Mr. Cheung Ming.