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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)

CONTINUING CONNECTED TRANSACTIONS
STEAM SUPPLY CONTRACT FOR YANZHOU PROJECT

STEAM SUPPLY CONTRACT

On 30 May 2023, Beifa Heli entered into a Steam Supply Contract with Sun Paper, pursuant to which, Beifa Heli supplies industrial steam to Sun Paper for a validity period until 31 December 2025.

LISTING RULES IMPLICATION

Beifa Heli is a 75% owned non-wholly owned subsidiary of the Company and Yongyue Environmental, a wholly-owned subsidiary of Sun Paper, holds a 15% equity interest in Beifa Heli. Accordingly, Sun Paper is a connected person of the Company at the subsidiary level under Chapter 14A of the Listing Rules and the transactions contemplated under the Steam Supply Contract constitute continuing connected transactions of the Company.

The Board has approved the Steam Supply Contract and the transactions contemplated thereunder, and the independent non-executive Directors have also confirmed that the Steam Supply Contract and the terms of the transactions contemplated thereunder are fair and reasonable, and the transactions are conducted on normal commercial terms or better commercial terms and are in the interests of the Company and the Shareholders as a whole. Therefore, the continuing connected transactions contemplated under the Steam Supply Contract are subject to the annual review, reporting and announcement requirements under Chapter 14A of the Listing Rules pursuant to Rule 14A.101 of the Listing Rules, but are exempt from the circular, the independent financial advice and the shareholders' approval requirements.

STEAM SUPPLY CONTRACT

The principal terms of the Steam Supply Contract are summarised as follows:

Date:	30 May 2023
Parties:	(i) Beifa Heli; and (ii) Sun Paper.
Validity period:	From the date of supplying industrial steam (temporarily determined at 1 July 2023) to 31 December 2025.
Principal terms:	Beifa Heli supplies industrial steam to Sun Paper with a pressure of 0.80 ± 0.05 MPa and a temperature of $190 \pm 5^{\circ}\text{C}$. Sun Paper supplies steam condensate and desalinated water to Beifa Heli according to its actual demand.
Product price (including VAT):	(i) Industrial steam unit price: RMB165 per ton (equivalent to approximately HK\$187.5) (ii) Steam condensate unit price: RMB20 per ton (equivalent to approximately HK\$22.7) (iii) Desalinated water unit price: RMB10 per ton (equivalent to approximately HK\$11.4)
Fee settlement:	Fee settlement of industrial steam: industrial steam unit price x steam consumption volume – steam condensate unit price x steam condensate recovery volume – desalinated water unit price x desalinated water consumption volume

Within one week (before the 5th day of each month) after the monthly meter reading is confirmed by signing by both parties, Beifa Heli will issue an invoice for fee settlement, and Sun Paper will pay within one week (before the 15th day of each month) after receiving the invoice.

Condition precedent: The Steam Supply Contract is conditional upon the Company being in compliance with the relevant requirements of the Listing Rules regarding the Steam Supply Contract.

After contract expiry: The parties shall negotiate for an extension of the Steam Supply Contract and determine the unit price of industrial steam, steam condensate and desalinated water in accordance with local government industrial steam guideline prices or power plant coal prices.

BASIS FOR PRICE DETERMINATION

In determining the overall terms and conditions of the Steam Supply Contract (including but not limited to the unit price of industrial steam, the unit price of steam condensate and the unit price of desalinated water), the Group has taken into account all relevant factors, including but not limited to the local government's guideline prices for industrial steam, the range and terms of pricing for the same or (in the event of not having the same) comparable or similar services provided by independent third parties in the market. The overall terms and conditions of the Steam Supply Contract (including but not limited to the base unit price of industrial steam, the unit price of steam condensate and the unit price of desalinated water) are no less favourable to the Group than the overall terms and conditions provided to the independent third parties and are on normal commercial terms and on an arm's length basis.

ANNUAL CAPS AND DETERMINATION

Based on the industrial steam consumption volume under the normal production condition of Sun Paper and the industrial steam production capacity of Beifa Heli, it is estimated that (1) the industrial steam supply capacity will be 40 tonnes per hour in 2023, with 184 days (4,416 hours) of operation; (2) the industrial steam supply capacity will be increased to 60 tonnes per hour in 2024 and 2025, with 350 days (8,400 hours) of operation every year. Base on the steam condensate recovery rate of approximately 80% and desalinated water consumption volume of approximately 20%, with fee settlement of industrial steam at RMB147 per tonne (i.e. $\text{RMB}165 - \text{RMB}20 \times 80\% - \text{RMB}10 \times 20\%$, equivalent to approximately HK\$167), the fee settlement of industrial steam (VAT inclusive) under the Steam Supply Contract for the years ending 31 December 2023, 2024 and 2025 will amount to RMB25,966,000 (equivalent to approximately HK\$29,507,000), RMB74,088,000 (equivalent to approximately HK\$84,191,000) and RMB74,088,000 (equivalent to approximately HK\$84,191,000) respectively.

The annual caps (a 5% buffer amount has been set aside for general supply/recovery volume and a further 10% buffer amount has been set aside to respond to the fluctuation of the RMB against the Hong Kong dollar exchange rate and after deducting 9% VAT) for the fee settlement for the transactions contemplated under the Steam Supply Contract are determined as follows:

Year ending 31 December 2023:	HK\$32,000,000
Year ending 31 December 2024:	HK\$90,000,000
Year ending 31 December 2025:	HK\$90,000,000

GENERAL INFORMATION OF BOTH PARTIES

Beifa Heli is a company established under the laws of the PRC with limited liability and is a 75% indirectly owned non-wholly owned subsidiary of the Company. In January 2020, Beifa Heli was granted an operating license for the Yanzhou Project to invest and finance, design, construct, operate and maintain the Yanzhou Project and to hand over the project to a designated government agency at zero consideration upon the expiry of the operating license for a term of 30 years. The Yanzhou Project has been in operation since 2022.

Sun Paper is a company established under the laws of the PRC with limited liability and its shares are listed on the Shenzhen Stock Exchange of the PRC (stock code: 002078). Sun Paper is ultimately controlled by Mr. Li Hongxin, the largest shareholder of Shandong Sun Holdings Group Co., Ltd. (the controlling shareholder of Sun Paper). Sun Paper is a leading global integrated forestry, pulp and paper group with world-leading pulp and paper production lines, a national green factory and one of the top 500 enterprises in China. In January 2020, Sun Paper established a co-operation company, Beifa Heli, with the Group through its wholly-owned subsidiary, Yongyue Environmental, holding a 15% equity interest in Beifa Heli.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, except for the holding of 15% equity interest in Beifa Heli, Sun Paper and its ultimate beneficial owner 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 Group is principally engaged in the environmental protection and solid waste treatment business in the PRC. The ultimate holding company of the Company is Beijing Enterprises Group Company Limited, which is a state-owned enterprise established in the PRC and is wholly-owned by The State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality.

Currently, the Group invests in and operates ten solid waste treatment projects in 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 principal business of the Group is household waste incineration power generation, which has been adversely affected by the policy of waste separation and national subsidies. Coupled with the increasingly stringent environmental protection policies and the corresponding increase in operating costs, the Group is facing certain challenges in its profit growth. The Group has been actively developing its market and business by combining its own situation of the Yanzhou Project and analysis of the local market situation:

- I. Given the pulp and paper production lines of Sun Paper are adjacent to the Yanzhou Project, Sun Paper needs to purchase industrial steam externally, and the Yanzhou Project has a geographical advantage in supplying industrial steam to Sun Paper.
- II. The industrial steam supply price is basically equivalent to the local government's industrial steam guideline price. The temperature of the reused steam condensate is about 80-90 °C, which can recover part of the heat, and the price is appropriate. The purchase of desalinated water will reduce the investment in desalinated water, and the price of desalinated water is slightly lower than the production cost inside the plant.
- III. According to the cost and benefit analysis of the industrial steam supply and on-grid electricity generated from the incineration of domestic waste from the Yanzhou Project, the operating income produced from the industrial steam supply is more than that from the on-grid electricity. Considering that the Yanzhou Project is facing a shortage of household waste input, purchasing industrial steam supply from industrial waste incineration will be more beneficial than on-grid electricity.
- IV. The Steam Supply Contract provides monthly settlements between the two parties, which will result in faster payback. Compared with the uncertainty of the payback period of national subsidy on on-grid electricity, the Steam Supply Contract can guarantee the cash flow of the Yanzhou Project.

LISTING RULES IMPLICATION

Beifa Heli is a 75% owned non-wholly owned subsidiary of the Company and Yongyue Environmental, a wholly-owned subsidiary of Sun Paper, holds a 15% equity interest in Beifa Heli. Accordingly, Sun Paper is a connected person of the Company at the subsidiary level under Chapter 14A of the Listing Rules and the transactions contemplated under the Steam Supply Contract constitute continuing connected transactions of the Company.

The Board has approved the Steam Supply Contract and the transactions contemplated thereunder, and all the Directors (including the independent non-executive Directors) are of the opinion that the entering into of the Steam Supply Contract is conducted in the ordinary and usual course of business of the Group, the terms of the Steam Supply Contract and the transactions contemplated thereunder are fair and reasonable, and the transactions are on normal commercial terms or better commercial terms and are in the interests of the Company and the Shareholders as a whole. Therefore, the continuing connected transactions contemplated under the Steam Supply Contract are subject to the annual review, reporting and announcement requirements under Chapter 14A of the Listing Rules pursuant to Rule 14A.101 of the Listing Rules, but are exempt from the circular, the independent financial advice and the shareholders' approval requirements.

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

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;
“Beifa Heli”	Beifa Heli (Jining) Environmental Power Co., Ltd.* (北發合利(濟寧)環保電力有限公司), a company established under the laws of the PRC with limited liability and is a non-wholly owned subsidiary of 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;
“kwh”	kilowatt hour;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“MPa”	Megapascal;
“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);
“RMB”	Renminbi, the lawful currency of the PRC;
“Steam Supply Contract”	the Industrial Steam and Condensate Water Supply Contract;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“subsidiary”	any entity within the meaning of the term “subsidiary” as defined in the Listing Rules;
“Sun Paper”	Shandong Sun Paper Company Limited (山東太陽紙業股份有限公司), a company established under the laws of the PRC with limited liability, the shares of which are listed on the Shenzhen Stock Exchange of the PRC (stock code: 002078);
“VAT”	value added tax;

“Yanzhou Project”	the Jining Yanzhou Household Waste Incineration Power Generation PPP Project* (濟寧市兗州區生活垃圾焚燒發電PPP項目);
“Yongyue Environmental”	Jining Yongyue Environmental Energy Co., Ltd.* (濟寧市永悅環保能源有限公司), a company established under the laws of the PRC with limited liability;
“°C”	degree Celsius; and
“%”	per cent.

For the purpose of this announcement and for illustrative purpose only, RMB is converted into HK\$ at the rate of RMB0.88 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, 30 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.