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CAPITAL ENVIRONMENT HOLDINGS LIMITED

首創環境控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 03989)

DISCLOSEABLE TRANSACTION IN RELATION TO THE ACQUISITION OF THE SALE INTERESTS IN THE TARGET COMPANY

THE ACQUISITION

On 8 September 2021 (after trading hours), the Vendor, the Purchaser, an indirect wholly-owned subsidiary of the Company, and the Target Company entered into the Agreement, pursuant to which the Purchaser has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the Sale Interests, representing approximately 85.64% equity interests in the Target Company at the Consideration of approximately RMB238.1 million.

Upon Completion, the Target Company will be owned as to approximately 85.64% by the Purchaser and will become a non-wholly-owned subsidiary of the Company and the financial results of the Target Company will be consolidated into the financial statements of the Group.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Acquisition is greater than 5% but less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As the Valuation Report was prepared based on the discounted cash flow method, the valuation of the entire equity interest in the Target Company as set out in the Valuation Report constitutes a profit forecast under Rule 14.61 of the Listing Rules.

Pursuant to Rule 14.60A of the Listing Rules, the Company shall publish further announcement within 15 business days after publication of this announcement. Pursuant to Rule 14.62 of the Listing Rules, the Company is required to submit the required information to the Stock Exchange.

Further announcement(s) will be made by the Company in relation to the required information under Rule 14.60A of the Listing Rules as and when appropriate in accordance with the Listing Rules.

Completion is subject to the fulfillment of the terms and conditions precedent set out under the Agreement and the Acquisition may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

THE ACQUISITION

On 8 September 2021 (after trading hours), the Vendor, the Purchaser and the Target Company entered into the Agreement, pursuant to which the Purchaser has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell the Sale Interests, representing approximately 85.64% equity interests in the Target Company at the Consideration of approximately RMB238.1 million.

THE EQUITY TRANSFER AGREEMENT

The principal terms of the Agreement are set out below:

Date

8 September 2021

Parties

- (i) the Vendor, as the vendor;
- (ii) the Purchaser, as the purchaser; and
- (iii) the Target Company.

As at the date of this announcement, the Target Company is owned as to approximately 85.64% by the Vendor and 14.36% by Zhumadian Industry Investment, an Independent Third Party.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, both the Vendor and its ultimate beneficial owners are Independent Third Parties.

Subject Matter to be acquired

Pursuant to the Agreement, the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, the Sale Interests, representing approximately 85.64% of the equity interests in the Target Company held by the Vendor as at the date of this announcement.

Consideration

The consideration payable for the sale and purchase of the Sale Interests shall be approximately RMB238.1 million which shall be paid by the Purchaser in the following manner:

- (a) RMB60 million shall be paid within 10 days from the date of the Agreement to the Vendor or such other party as may be designated by the Vendor;
- (b) RMB168.1 million shall be paid within 10 days upon completion of the registration of the change in shareholders of the Target Company, which shall be completed within 10 days from the date of the Agreement, to the Vendor or such other party as may be designated by the Vendor; and
- (c) RMB10 million shall be paid within 10 days after the end of the six-month period following the completion of the registration of change in shareholders of the Target Company to the Vendor or such other party as may be designated by the Vendor.

The Consideration was determined between the Vendor and the Purchaser after arm's length negotiations with reference to, among other things, (i) the estimated value of 100% equity interest in the Target Company as at 31 December 2020 of approximately RMB281.0 million, based on the Valuation Report which was prepared based on the discounted cash flow method under the income approach by the independent PRC Valuer; and (ii) the reasons for and benefits of the Acquisition as detailed in the section headed "Reasons for and benefits of the Acquisition" of this announcement.

The Consideration will be funded by the internal resources of the Company.

Conditions precedent

The Completion is subject to the following conditions precedent being satisfied:

- (a) the Vendor having obtained written consent from Zhumadian City Administration, the PRC in respect of the Acquisition;
- (b) the Target Company having terminated the employment of certain employees of the Target Company as agreed pursuant to the Agreement and having settled relevant payment to such employees in accordance with the relevant laws and regulations by the Vendor and/or the Target Company; and

- (c) the Target Company having fully settled any unsettled tax obligations and completed relevant registrations in accordance with the relevant laws and regulations and as may be required by the relevant tax bureau.

In the event that any of the above conditions precedent remain unsatisfied, the Purchaser may elect to proceed with Completion and deduct the relevant amount in respect of any unsettled obligations by the Target Company and/or the Vendor from the Consideration.

COMPLETION

In accordance with the Agreement, the Vendor and the Purchaser shall assist the Target Company to obtain approval from the relevant regulatory authorities in respect of the registration of change in shareholders as contemplated under the Acquisition and the Completion shall take place within 10 days of the date of the Agreement.

Upon Completion, the Target Company will be owned as to approximately 85.64% by the Purchaser and will become a non-wholly-owned subsidiary of the Company and the financial results of the Target Company will be consolidated into the financial statements of the Group.

INFORMATION OF THE TARGET COMPANY

The Target Company is a company incorporated in the PRC with limited liability, which is owned as to approximately 85.64% and 14.36% by the Vendor and Zhumadian Industry Investment, respectively, as at the date of this announcement. The registered capital of the Target Company is RMB208,842,420. The Target Company is principally engaged in the treatment, sales and incineration of combustible domestic waste, food waste, industrial waste and construction waste for power generation. The Target Company is the project company of the PPP Project. For further details of the PPP Project, please refer to the section headed “Reasons for and benefits of the Acquisition” of this announcement.

Set out below is a summary of the audited financial information of the Target Company prepared in accordance with the Chinese Accounting Standards for Business Enterprises for the two years ended 31 December 2019 and 2020:

	For the year ended 31 December 2019 (audited) RMB'000	For the year ended 31 December 2020 (audited) RMB'000
Net (loss) before taxation	(3,228.6)	(4,704.9)
Net (loss) after taxation	(3,228.6)	(4,704.9)

The audited net assets value of the Target Company as at 31 December 2020 as shown in its audited financial statements amounted to approximately RMB193.8 million.

INFORMATION OF THE VENDOR

The Vendor is a company incorporated in the PRC with limited liability.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, both the Vendor and its ultimate beneficial owner are Independent Third Parties.

As at the date of this announcement, the Vendor is owned by 23 independent individuals.

The Vendor is principally engaged in the research and development of solid waste gasification core equipment and technologies.

INFORMATION OF THE COMPANY AND THE PURCHASER

The Company is principally engaged in the provision of waste treatment technologies and services, focusing on technology development, design, system integration, project investment, consultancy, operation and maintenance of waste treatment facilities, especially waste-to-energy projects.

The Purchaser is a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company. The Purchaser is principally engaged in the business of the provision of technical services in relation to waste treatment.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the provision of waste treatment technologies and services, focusing on technology development, design, system integration, project investment, consultancy, operation and maintenance of waste treatment facilities, especially waste-to-energy projects.

The Target Company is the project company of the PPP Project which involves the treatment, sales and incineration of combustible domestic waste, food waste, industrial waste and construction waste for power generation. The PPP Project is under the build-own-operate model, under which the Target Company was granted a concession of 30 years (approximately 29 years remaining as at the date of this announcement) for the incineration of combustible domestic waste in the Yicheng district, Suiping county and Queshan county of Zhumadian, the PRC.

The PPP Project is one of the few large-scale domestic waste incineration projects in Henan province, the PRC. Given the economic development in Zhumadian, the PRC, in recent years; and the support of the government authorities in projects of green economy, the Board is optimistic about the future prospects of the Target Company and the green economy and the environmental protection industry in Zhumadian, the PRC. The Board is of the view that the Acquisition is aligned with the overall corporate direction and business development strategy of the Group.

Based on the above, the Board considers that the terms and conditions of the Agreement and the transactions contemplated thereunder are on normal commercial terms and the Acquisition is fair and reasonable and in the interests of the Group and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Acquisition is greater than 5% but less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As the Valuation Report was prepared based on the discounted cash flow method, the valuation of the entire equity interest in the Target Company as set out in the Valuation Report constitutes a profit forecast under Rule 14.61 of the Listing Rules.

Pursuant to Rule 14.60A of the Listing Rules, the Company shall publish further announcement within 15 business days after publication of this announcement. Pursuant to Rule 14.62 of the Listing Rules, the Company is required to submit the required information to the Stock Exchange.

Further announcement(s) will be made by the Company in relation to the required information under Rule 14.60A of the Listing Rules as and when appropriate in accordance with the Listing Rules.

No Directors have any material interest in the Acquisition, and therefore no Directors are required to abstain from voting on the Board resolutions in respect of the Acquisition.

Completion is subject to the fulfillment of the terms and conditions precedent set out under the Agreement and the Acquisition may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

DEFINITIONS

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

“Acquisition”	the acquisition of the Sale Interests from the Vendor by the Purchaser pursuant to the Agreement
“Agreement”	the equity transfer agreement dated 8 September 2021 entered into among the Vendor, the Purchaser and the Target Company in relation to the Acquisition
“Board”	the board of Directors of the Company

“Company”	Capital Environment Holdings Limited, a company incorporated in Cayman Islands with limited liability, whose shares are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Acquisition in accordance with the Agreement
“Consideration”	the consideration payable by the Purchaser to the Vendor (or such other person(s) or entity(ies) as may be designated by the Vendor) for the Sale Interests, being approximately RMB238.1 million
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“Independent Third Party(ies)”	any person(s) or company(ies) and their respective ultimate beneficial owner(s), to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Group and its connected persons (has the meaning ascribed to it in the Listing Rules) in accordance with the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PPP Project”	the PPP Project of the Target Company
“PRC”	the People’s Republic of China, for the purpose of this announcement, excluding the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan
“PRC Valuer”	China Alliance Appraisal Co., Ltd, a Chinese qualified independent professional valuer, an Independent Third Party
“Purchaser”	Beijing Capital Environment Investment Limited* (北京首創環境投資有限公司), a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Interests”	approximately 85.64% of the equity interests in the Target Company

“Shareholders”	holders of the ordinary shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Zhumadian ECO-WASTE Technology Co., Ltd.* (駐馬店泰來環保能源有限公司), a company incorporated in the PRC with limited liability, which is as at the date of this announcement, owned as to approximately 85.64% by the Vendor and approximately 14.36% by Zhumadian Industry Investment
“Valuation Report”	the asset valuation report dated 30 August 2021 prepared by the PRC Valuer in respect of the value of the entire equity interest in the Target Company as at 31 December 2020
“Vendor”	Zhejiang ECO-WASTE Technology Co., Ltd.* (浙江泰來環保科技有限公司), a company incorporated in the PRC with limited liability and an Independent Third Party as at the date of this announcement
“Zhumadian City Administration”	Zhumadian City Administration Bureau* (駐馬店市城市管理局), an Independent Third Party as at the date of this announcement
“Zhumadian Industry Investment”	Zhumadian Industry Investment Group Co., Ltd.* (駐馬店市產業投資集團有限公司), a company incorporated in the PRC with limited liability and an Independent Third Party as at the date of this announcement
“%”	per cent

By order of the Board
Capital Environment Holdings Limited
Cao Guoxian
Chairman

Hong Kong, 8 September 2021

As at the date of this announcement, the Board comprises three executive directors, namely Mr. Cao Guoxian, Mr. Li Fujing and Mr. Li Qingsong; one non-executive director, namely Ms. Hao Chunmei; and three independent non-executive directors, namely, Mr. Pao Ping Wing, Mr. Cheng Kai Tai, Allen and Dr. Chan Yee Wah, Eva.

* For identification purpose only