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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)

CONNECTED TRANSACTION CAPITAL INCREASE AGREEMENT

On 20 August 2024, Shenzhen Qianhai, a wholly-owned subsidiary of the Company, entered into the Capital Increase Agreement with Capital Eco Group and Capital Environmental Sanitation, pursuant to which Shenzhen Qianhai and Capital Eco Group agreed to increase the registered capital of Capital Environmental Sanitation to RMB100 million by contributing additional capital in proportion to their respective existing shareholding in Capital Environmental Sanitation.

As at the date of this announcement, Capital Environmental Sanitation is owned as to 51% by Shenzhen Qianhai and 49% by Capital Eco Group. Capital Eco Group is deemed to have interest in approximately 45.11% of the issued Shares and is a controlling shareholder and a connected person of the Company at the issuer level. Accordingly, Capital Environmental Sanitation is a connected subsidiary of the Company and the Capital Increase under the Capital Increase Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. On 16 July 2024, a wholly-owned subsidiary of the Company entered into a loan extension agreement with Capital Environmental Sanitation for a loan in the principal amount of RMB7,000,000. For details, please refer to the announcement of the Company dated 16 July 2024. Since the said loan extension agreement was entered into within a 12-month period from the Capital Increase, the relevant transaction amount was therefore aggregated pursuant to Rule 14A.81 of the Listing Rules. Since one or more of the applicable percentage ratios in respect of transaction contemplated under the Capital Increase Agreement and the said loan extension agreement, in aggregate, exceed 0.1% but all are below 5%, the transaction contemplated is subject to the reporting and announcement requirements but exempt from the circular and independent shareholders' approval requirements pursuant to Rule 14A.76(2)(a) of the Listing Rules. The Capital Increase does not constitute a discloseable transaction under Chapter 14 of the Listing Rules as one or more of applicable percentage ratios in respect of the Capital Increase exceed 0.1% but all are less than 5%.

The capital contribution by Capital Eco Group to Capital Environmental Sanitation is exempt from the reporting, announcement and independent shareholders' approval requirement under Rule 14A.92(1) of the Listing Rules on the basis that Capital Eco Group's capital contribution will be made in proportion to its equity interest in Capital Environmental Sanitation.

INTRODUCTION

On 20 August 2024, Shenzhen Qianhai, a wholly-owned subsidiary of the Company, entered into the Capital Increase Agreement with Capital Eco Group and Capital Environmental Sanitation, pursuant to which each of Shenzhen Qianhai and Capital Eco Group agrees to make an additional capital contribution in proportion to their respective existing shareholding in Capital Environmental Sanitation. Upon completion of the Capital Increase, Shenzhen Qianhai and Capital Eco Group will continue to hold 51% and 49% of the equity interest in Capital Environmental Sanitation, respectively, and Capital Environmental Sanitation will remain as a non-wholly owned subsidiary of the Company.

THE CAPITAL INCREASE AGREEMENT

Date: 20 August 2024

Parties: (i) Capital Eco Group;
(ii) Shenzhen Qianhai; and
(iii) Capital Environmental Sanitation

Capital Contribution: The registered capital of Capital Environmental Sanitation will be increased from RMB9.8039 million to RMB100 million, and Capital Eco Group and Shenzhen Qianhai shall make an additional capital contribution in proportion to their respective existing shareholding in the amounts of RMB44.1961 million and RMB46 million, respectively.

The amount of the Capital Increase is determined after arm's length negotiations between Shenzhen Qianhai and Capital Eco Group with reference to (i) the current capital status of Capital Environmental Sanitation; (ii) the capital requirements of Capital Environmental Sanitation for future development and (iii) the respective shareholdings of Capital Eco Group and Shenzhen Qianhai in Capital Environmental Sanitation.

Payment: Each of Capital Eco Group and Shenzhen Qianhai shall settle the payment of their corresponding capital contribution by 30 June 2026 by remitting the same to the bank account designated by Capital Environmental Sanitation.

The additional capital contribution to be made by Shenzhen Qianhai will be funded by the internal resources of the Group.

The table below sets out the shareholding structure of Capital Environmental Sanitation immediately before and after the completion of the Capital Increase Agreement:

Name of shareholders	Immediately before the completion of the Capital Increase		Immediately after the completion of the Capital Increase	
	Registered capital (RMB million)	Shareholding %	Registered capital (RMB million)	Shareholding %
Shenzhen Qianhai Capital Eco Group	5 4.8039	51 49	51 49	51 49
Total	9.8039	100	100	100

REASONS FOR AND BENEFITS OF THE CAPITAL INCREASE AGREEMENT

The Capital Increase will enable Capital Environmental Sanitation to enhance its financial position and capability for its operation and financing, as well as to satisfy the expected capital requirement for the continuous development of its provision of environmental sanitation services for rural areas in the PRC. It is believed that the Capital Increase will lay a solid foundation for the future exploration of subsequent development by Capital Environmental Sanitation, which in turn is beneficial to the Group in the long run.

The Directors (including the independent non-executive Directors) are of the view that the Capital Increase Agreement and the transaction contemplated thereunder are in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms of the Capital Increase Agreement are fair and reasonable and in the interests of the Company and its shareholders as a whole.

INFORMATION ON THE PARTIES

The Company is an exempted company with limited liability incorporated in the Cayman Islands and, together with its subsidiaries, principally engaged in investment, construction, operation and management of solid waste disposal projects, covering such areas of solid wastes as household waste, kitchen waste, various types of industrial hazardous waste, construction waste, electronic waste, and dismantling of end-of-life automobiles. The Group invests, builds, operates and manages waste treatment projects that cover the whole process from collection and transportation of waste to the very end of waste treatment, and is committed to becoming an integrated environmental operator that provides a package of environmental solutions for local governments.

Capital Eco Group is a company established in the PRC with limited liability, the shares of which are listed on the Shanghai Stock Exchange (Stock Code: 600008.SH). Capital Eco Group and its subsidiaries are principally engaged in the investment and management of environmental infrastructure in the PRC with a focus on water projects, solid waste disposal and environment management. Capital Eco Group is a controlling shareholder of the Company.

Shenzhen Qianhai is a direct wholly-owned subsidiary of the Group and is principally engaged in the provision of professional environmental protection services in the PRC.

Capital Environmental Sanitation is an indirect non-wholly owned subsidiary of the Group and is principally engaged in the provision of environmental sanitation services for China rural areas. As at the date of this announcement, Capital Environmental Sanitation is held as to 51% and 49% by Shenzhen Qianhai and Capital Eco Group, respectively. Set out below is certain audited financial information in relation to Capital Environmental Sanitation for the two years ended 31 December 2023:

	For the financial year ended 31 December 2022 (RMB'000)	For the financial year ended 31 December 2023 (RMB'000)
Profit before tax and extraordinary items	184	11,577
(Loss)/profit after tax and extraordinary items	(364)	8,682

As at 31 December 2023, the audited total assets and net assets of Capital Environmental Sanitation were approximately RMB108,155,824 and RMB40,092,949, respectively.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Capital Eco Group is deemed to have interest in approximately 45.11% of the issued Shares and is a controlling shareholder and a connected person of the Company at the issuer level. Accordingly, Capital Environmental Sanitation is a connected subsidiary of the Company and the Capital Increase under the Capital Increase Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. On 16 July 2024, a wholly-owned subsidiary of the Company entered into a loan extension agreement with Capital Environmental Sanitation for a loan in the principal amount of RMB7,000,000. For details, please refer to the announcement of the Company dated 16 July 2024. Since the said loan extension agreement was entered into within a 12-month period from the Capital Increase, the relevant transaction amount was therefore aggregated pursuant to Rule 14A.81 of the Listing Rules. Since one or more of the applicable percentage ratios in respect of transaction contemplated under the Capital Increase Agreement and the said loan extension agreement, in aggregate, exceed 0.1% but all are below 5%, the transaction contemplated is subject to the reporting and announcement requirements but exempt from the circular and independent shareholders' approval requirements pursuant to Rule 14A.76(2)(a) of the Listing Rules. The Capital Increase does not constitute a discloseable transaction under Chapter 14 of the Listing Rules as one or more of applicable percentage ratios in respect of the Capital Increase exceed 0.1% but all are less than 5%.

The capital contribution by Capital Eco Group to Capital Environmental Sanitation is exempt from the reporting, announcement and independent shareholders' approval requirement under Rule 14A.92(1) of the Listing Rules on the basis that Capital Eco Group's capital contribution will be made in proportion to its equity interest in Capital Environmental Sanitation.

As Mr. Li Fujing, the Chairman and an executive Director of the Company, is a director of Capital Eco Group, and Ms. Hao Chunmei, the non-executive Director of the Company, holds a senior position in Capital Eco Group, they are therefore deemed to have material interest in the Capital Increase Agreement and the transaction(s) contemplated thereunder. Thus, Mr. Li Fujing and Ms. Hao Chunmei have abstained from voting on the relevant resolutions at the Board meeting. Save as disclosed above, none of the other Directors of the Company have any material interest in the Capital Increase Agreement and the transaction(s) contemplated thereunder.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the meanings set opposite to them below:

“Articles”	the articles of association of the Company as may be amended from time to time;
“Board”	the board of Directors;
“Capital Eco Group”	Beijing Capital Eco-Environment Protection Group Co., Ltd.* (北京首創生態環保集團股份有限公司), a company established in the PRC with limited liability, the shares of which are listed on the Shanghai Stock Exchange (Stock Code: 600008.SH), and a controlling shareholder and a connected person of the Company as at the date of this announcement;
“Capital Environmental Sanitation”	Beijing Capital Environmental Sanitation Company Limited* (北京首創環衛有限公司), a company established in the PRC with limited liability, and an indirect non-wholly owned subsidiary of the Company;
“Capital Increase”	the capital increase pursuant to the Capital Increase Agreement;
“Capital Increase Agreement”	the capital increase agreement dated 20 August 2024 entered into between the Shenzhen Qianhai, Capital Eco Group and Capital Environmental Sanitation with regard to the pro rata capital increase by Capital Eco Group and Shenzhen Qianhai in Capital Environmental Sanitation;
“Company”	Capital Environment Holdings Limited (首創環境控股有限公司), a company incorporated with limited liability in the Cayman Islands, the shares of which are listed on the Stock Exchange (Stock Code: 03989);
“connected person(s)”	has the meaning ascribed to it in the Listing Rules;
“controlling shareholder”	has the meaning ascribed to it in the Listing Rules;

“Director(s)”	the director(s) of the Company;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“PRC”	the People’s Republic of China (for the purpose of this announcement, excluding Hong Kong, Macau Special Administrative Region and Taiwan);
“RMB”	Renminbi, the lawful currency of the PRC;
“Share(s)”	the share(s) of the Company;
“Shareholder(s)”	the holder(s) of the Shares;
“Shenzhen Qianhai”	Shenzhen Qianhai Capital Environmental Investment Company Limited* (深圳前海首創環境投資有限公司), a company established in the PRC with limited liability, and a direct wholly-owned subsidiary of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“%”	per cent.

* Denotes English translation of the Chinese name of a company or entity established in the PRC, or vice versa, and is provided for the sole purpose of identification.

By order of the Board of
Capital Environment Holdings Limited
Li Fujing
Chairman

Hong Kong, 21 August 2024

As of the date of this announcement, the Board comprises two executive Directors, namely Mr. Li Fujing and Mr. Li Qingsong; one non-executive Director, namely Ms. Hao Chunmei; and four independent non-executive Directors, namely Mr. Pao Ping Wing, Mr. Cheng Kai Tai, Allen, Dr. Chan Yee Wah and Dr. Cao Fuguo.