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CAPITAL ENVIRONMENT HOLDINGS LIMITED

首創環境控股有限公司

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 03989)

DISCLOSEABLE TRANSACTION IN RELATION TO THE ACQUISITION OF THE TARGET COMPANY UNDER THE RESTRUCTURING INVESTMENT PROPOSAL

ACQUISITION OF THE TARGET COMPANY UNDER THE RESTRUCTURING INVESTMENT PROPOSAL

The Board is pleased to announce that, on 8 September 2023, Beijing Capital Investment was notified that the Restructuring Plan in respect of the acquisition of the entire equity interests in the Target Company at a consideration of RMB120 million pursuant to the Restructuring Investment Proposal was formally approved by the Court and the Acquisition will proceed accordingly.

Upon completion of the Acquisition, the Target Company will be wholly-owned by Beijing Capital Investment and will be accounted for and consolidated into the Group's consolidated financial statements.

Listing Rules Implications

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

BACKGROUND

The Target Company was established as a limited liability company in the PRC on 28 April 2014 and principally engages in incineration and treatment of solid waste and related power generation operations. On 1 June 2023, the Target Company applied to the Court for its liquidation restructuring due to its suspension of production, successive years of losses and apparent lack of liquidity. On 5 June 2023, the Court accepted the liquidation restructuring request and appointed the Administrator to act as the administrator of the Target Company responsible for, among others, the shortlisting and management of the recruitment of the restructuring investor(s).

Restructuring Recruitment Process

Participants may apply for and participate in the restructuring recruitment process of the Target Company under either the direct recruitment invitation by the Administrator (定向招募) or by open recruitment (公開招募). In July 2023, the Administrator sent a direct recruitment invitation to Beijing Capital Investment and Beijing Capital Investment, in response, submitted the required materials for recruitment together with the payment of RMB1 million made to the Administrator as earnest money (the “**Earnest Money**”).

On 28 August 2023, Beijing Capital Investment as a potential restructuring investor further entered into the Restructuring Investment Proposal with the Administrator and the Target Company the details of which are described in the section headed “Restructuring Investment Proposal” below.

Pursuant to the Restructuring Investment Proposal, in case a quotation made from a participant under the open recruitment sector is 10% higher than the bidding price offered by Beijing Capital Investment, Beijing Capital Investment may choose to continue with the bidding process and renew its bidding price, or, to withdraw from the bidding process. In case no quotation made from participants under the open recruitment sector is 10% higher than the bidding price offered by Beijing Capital Investment, the Restructuring Plan of Beijing Capital Investment shall be submitted to the creditors’ meeting and the Court for consideration, and upon approval, becomes effective.

On 8 September 2023, Beijing Capital Investment was notified that the Restructuring Plan in respect of the acquisition of the entire equity interests in the Target Company at a consideration of RMB120 million pursuant to the Restructuring Investment Proposal entered into between Beijing Capital Investment as restructuring investor, the Administrator and the Target Company was formally approved by the creditors’ meeting and the Court. As such, Beijing Capital Investment will proceed with the Acquisition in accordance to the terms of the Restructuring Investment Proposal and the Restructuring Plan.

RESTRUCTURING INVESTMENT PROPOSAL

- Parties:**
- (a) Beijing Capital Investment, as a potential restructuring investor;
 - (b) the Administrator; and
 - (c) the Target Company.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, as at the date of this announcement, the Administrator, the Target Company and their respective ultimate beneficial owners are Independent Third Parties.

Investment subject

The 100% equity interest in the Target Company.

Consideration and Payment Schedule

The consideration payable by Beijing Capital Investment to the Administrator in respect of the Acquisition shall be RMB120 million (the "**Consideration**"), among which:

- (a) RMB1 million, i.e. the Earnest Money to be paid at the time when Beijing Capital Investment submitted its application to the Administrator in response to the direct recruitment invitation;
- (b) RMB24 million, as investment deposit (the "**Investment Deposit**") to be paid by Beijing Capital Investment to the Administrator within seven (7) days after entering into the Restructuring Investment Proposal; and
- (c) RMB95 million, being the remaining portion of the Consideration (the "**Last Payment**") to be paid by Beijing Capital Investment to the Administrator within seven (7) days upon the Court granting the approval on the Restructuring Plan.

The Consideration would be funded by the internal resources of the Company. As at the date of this announcement, the Earnest Money of RMB1 million and the Investment Deposit of RMB24 million had been paid by Beijing Capital Investment to the Administrator and the Last Payment is expected to be paid by Beijing Capital Investment to the Administrator in accordance with the Restructuring Investment Proposal.

According to the Restructuring Investment Proposal, upon Beijing Capital Investment being formally approved to act as the restructuring investor of the Target Company, the Earnest Money and the Investment Deposit paid shall automatically be converted into part of the Consideration and can be utilised by the Administrator and the Target Company in accordance with the Restructuring Plan.

Basis of the Consideration

The Consideration as agreed under the Restructuring Investment Proposal was determined by Beijing Capital Investment and the Administrator after arm's length negotiations, and taken into account the following factors:

- (i) the minimum bidding price set by the Administrator of no less than RMB120 million; and
- (ii) the audited total assets, total liabilities and owners' equity of the Target Company as at 31 May 2023 amounting to RMB343,784,363.59, RMB218,983,352.25 and RMB124,801,011.34, respectively, as stated in the audited report on liquidation restructuring of the Target Company prepared by an independent certified public accountants firm in the PRC (the "**Audited Report**") as instructed by the Administrator.

Use and Application of the Consideration

The Consideration shall be applied in accordance with the Restructuring Plan as follows:

- (a) to pay for the liquidation expenses incurred in respect of the restructuring process;
- (b) to settle the creditors' claims that have been filed and approved by the Court pursuant to the Restructuring Plan; and
- (c) in case of any surplus after full settlement of all outstanding claims and related expenses, to pay the registered shareholder of the Target Company as at 5 June 2023, that is, Shihezi City Guoneng Energy Investment Co., Ltd.* (石河子市國能能源投資有限公司), as consideration for the transfer of equity interests in the Target Company.

Closing

Beijing Capital Investment shall, as transferee, acquire the entire equity interest in the Target Company in accordance with the Restructuring Plan. Within seven (7) days from the date of the Last Payment, the Administrator and the Target Company shall assist in the completion of registration of Beijing Capital Investment as the sole shareholder of the Target Company, and within seven (7) days after the completion of such registration, the Administrator and the Target Company shall complete the handover of the business affairs and assets of the Target Company to Beijing Capital Investment.

GENERAL INFORMATION OF THE PARTIES

The Group and Beijing Capital Investment

The Company is an exempted company with limited liability incorporated in the Cayman Islands and, together with its subsidiaries, principally engage 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.

Beijing Capital Investment is a limited company established in the PRC and principally engages in the investment, construction and operational management of solid waste treatment, including disposal and treatment of household waste, kitchen waste and industrial waste, and incineration and power generation. Beijing Capital Investment is a wholly-owned subsidiary of the Company.

The Administrator

To the best knowledge of the Directors, the Administrator is a limited company established in the PRC and principally engages in the provision of consultancy services in relation to corporate organisations, restructuring, mergers and acquisitions, and investment and financing consultation. The Administrator was designated to act as the administrator of the Target Company by the Court on 5 June 2023.

The Target Company

To the best knowledge of the Directors, the Target Company was established as a limited liability company in the PRC on 28 April 2014, with a registered capital of RMB450 million and is currently wholly-owned by Shihezi City Guoneng Energy Investment Co., Ltd.* (石河子市國能能源投資有限公司), which in turn is wholly-owned by the State-owned Assets Supervision and Administration Commission of the Eighth Division of Xinjiang Production and Construction Corps (新疆生產建設兵團第八師國有資產監督管理委員會). The Target Company principally engages in incineration and treatment of solid waste and related power generation operations.

On 1 June 2023, the Target Company applied to the Court for its liquidation restructuring due to its suspension of production, successive years of losses, apparent lack of liquidity and its value in restructuring. On 5 June 2023, the Court accepted the liquidation restructuring request and appointed the Administrator to act as the administrator of the Target Company.

The unaudited losses before and after tax of the Target Company for the two financial years ended 31 December 2021 and 2022 are as follows:

	For the financial year ended	
	31 December	31 December
	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Net loss before tax	21,778	10,495
Net loss after tax	21,778	10,495

According to the Audited Report, as at 31 May 2023, the audited total assets and audited total liability of the Target Company amounted to approximately RMB344 million and RMB219 million, respectively.

REASONS FOR AND BENEFITS OF ENTERING INTO THE ACQUISITION

As abovementioned, the Group principally engages 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 also 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. In 2022, the Group secured 65 environmental protection projects of various types in the PRC, covering more than 20 provinces and cities such as Beijing, Jiangxi and Henan, with a total investment of over RMB18,612 million. The Group continued to rank among the top ten influential enterprises in the solid waste industry of the PRC by virtue of its outstanding market influence and clear strategic positioning, demonstrating the Group's unshakeable faith in sustainable development and the market's recognition of the Group's mission, vision, values and influence.

The Target Company principally engages in incineration and treatment of solid waste and related power generation operations and is located in Shihezi City (石河子市), a county-level city directly under the jurisdiction of the Xinjiang Uygur Autonomous Region. In 2017, Shihezi City was named as the National Sanitary City (國家衛生城市) and the National Civilised City (全國文明城市); in 2019, Shihezi City was selected as the pilot city for the construction of national urban medical consortium (全國城市醫療聯合體建設試點城市); and in 2020, Shihezi City was rated as the National Double Support Model City (County) (全國雙擁模範城(縣)). Shihezi City achieved a gross domestic product of RMB83.2 billion in 2022, and is considered an important city under the management of Xinjiang Production and Construction Corps. In addition, the Target Company was granted with the franchise right of 30 years by the Shihezi City Housing and Urban-Rural Development Bureau* (石河子市住房和城鄉建設局), the department authorised by the local government to manage the franchise right of domestic waste, for handling the domestic waste incineration and power generation project in Shihezi City (the “**Project**”), the total domestic waste treatment scale of the Project was 1,000 tons per day, and the operation of the Project had commenced since 2015. However, the technology then adopted by the Target Company in operating the Project had gradually failed to meet the standards required for waste incineration, resulting in successive years of losses of the Target Company and the Project was eventually suspended in operation since May 2022.

As part of the Restructuring Plan, it is proposed that Beijing Capital Investment would further invest in the Project to implement necessary technical improvement, including but not limited to mechanical advancement, transformation and upgrading of existing equipment systems and better utilisation of existing land, workshops and supporting facilities, with the aim to enhance the overall efficiency and productivity of the operation of the Project. In such regard, the franchise right licensed shall be extended to a period of 30 years commencing from the date of completion of the abovementioned technical improvement implemented by Beijing Capital investment and thereby re-commencement of operation of the Project. Under the current estimation, the total investment amount is expected to be approximately RMB290,550,000, while the final investment amount of which shall be based on the finalised restructuring programme and taken into consideration the then prevailing market conditions.

The Group has been looking for opportunities to expand its business operations to cities with great potentials such as Shihezi City. Over the years of development in the solid waste industry, the Group has accumulated ample experience and resources and intends to leverage on its scale of operation, technological advancement, production capacity and market shares to expand further into new business locations so as to, on one hand enlarge its business operation and presence while at the same time contribute to the ecological environmental quality and economic development in the nation. Given the Target Company’s assets level and production capacity and considering the Group’s expansion plan, the Company is of the view that the acquisition of the Target Company through the bankruptcy and restructuring of the Target Company is conducive to the future business expansion of the Company and therefore intends to implement the Acquisition.

Accordingly, the Directors are of the view that the terms and conditions of the Restructuring Investment Proposal and the Acquisition are fair and reasonable and in the interest of the Company and its shareholders as a whole.

LISTING RULES IMPLICATIONS

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

DEFINITIONS

In this announcement, the expressions listed below shall have the following meanings, unless otherwise specified:

“Acquisition”	the acquisition of the entire equity interests of the Target Company pursuant to the Restructuring Investment Proposal and the Restructuring Plan
“Administrator”	the administrator of Xinjiang Tianfu Waste Incineration Power General Co., Ltd.* (新疆天富垃圾焚燒發電有限責任公司管理人), being the Xinjiang Branch of Zhonghong Shengtai Corporate Restructuring Consultant (Beijing) Co., Ltd.* (中泓晟泰企業重整顧問(北京)有限公司新疆分公司) who was appointed as the administrator of the liquidation restructuring of the Target Company appointed by the Court on 5 June 2023
“Beijing Capital Investment”	Beijing Capital Environment Investment Limited* (北京首創環境投資有限公司), a limited company established in the PRC on 13 July 2005 and a wholly-owned subsidiary of the Company
“Board”	the board of directors of the Company
“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 thereto under the Listing Rule
“Court”	the Intermediate People’s Court of the Eighth Division of Xinjiang Production and Construction Corps (新疆生產建設兵團第八師中級人民法院)
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Third Party(ies)”	any person(s) or company(ies) and their respective ultimate beneficial owner(s) whom, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, is/are third parties independent of and not connected with the Company and its connected persons in accordance with the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China which, for the purpose of this announcement only, excludes Hong Kong, the Macau Special Administrative Region, and Taiwan
“Restructuring Investment Proposal”	the restructuring investment proposal entered into on 28 August 2023 between Beijing Capital Investment, the Administrator and the Target Company
“Restructuring Plan”	the plan for implementation of the restructuring of the Target Company
“RMB”	Renminbi, the lawful currency of the PRC
“subsidiary(ies)”	has the meaning ascribed to such term in the Listing Rules
“Target Company”	Xinjiang Tianfu Waste Incineration Power General Co., Ltd.* (新疆天富垃圾焚燒發電有限責任公司), a limited liability company established in the PRC on 28 April 2014
“%”	per cent

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

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

Hong Kong, 8 September 2023

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 four independent non-executive directors, namely Mr. Pao Ping Wing, Mr. Cheng Kai Tai, Allen, Dr. Chan Yee Wah, Eva and Dr. Cao Fuguo.