
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all of your shares in **Capital Environment Holdings Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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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
IN RELATION TO PROPOSED ISSUANCE OF
CUMULATIVE PERPETUAL NON-VOTING AND
NON-CONVERTIBLE OFFSHORE PREFERENCE SHARES
PURSUANT TO SPECIFIC MANDATE
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

Financial Adviser to the Company



**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders**



A letter from the Board is set out on pages 6 to 19 of this circular, a letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 20 to 21 of this circular, and a letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 22 to 45 of this circular.

A notice convening the EGM to be held at Unit 1613-1618, 16/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong on Wednesday, 4 November 2020 at 2:30 p.m. is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish.

19 October 2020

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	6
1 INTRODUCTION	6
2 THE SUBSCRIPTION AGREEMENT	7
3 REASONS FOR THE ISSUANCE AND USE OF PROCEEDS	14
4 EQUITY FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS	15
5 EFFECT ON SHAREHOLDING STRUCTURE	15
6 INFORMATION ON THE COMPANY, BEIJING CAPITAL (HK) AND BCG	16
7 LISTING RULES IMPLICATIONS	17
8 INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER	17
9 EGM	18
10 RECOMMENDATION	19
11 ADDITIONAL INFORMATION	19
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	20
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER	22
APPENDIX — GENERAL INFORMATION	46
NOTICE OF THE EGM	EGM-1

DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

“Additional Dividend Amount”	the amount of Arrears of Dividend that accrues Dividends as if it constituted the face value of the Offshore Preference Shares at the prevailing Dividend Rate and the amount of such distribution
“Arrears of Dividends”	any Dividend deferred pursuant to the Conditions
“Articles of Association”	the memorandum and articles of association of the Company, as amended from time to time
“BCG”	BCG Chinastar International Investment Limited, a company incorporated under the laws of Hong Kong with limited liability, which directly holds 21.80% of the issued share capital of the Company as at the Latest Practicable Date. BCG is a wholly-owned subsidiary of Beijing Capital Group
“Beijing Capital”	Beijing Capital Co., Ltd. (北京首創股份有限公司), a company established under the laws of the PRC and the shares of which are listed on the Shanghai Stock Exchange (Stock Code: 600008)
“Beijing Capital Group”	Beijing Capital Group Co., Ltd. (北京首都創業集團有限公司), a state-owned enterprise owned by the People’s Government of Beijing Municipality and under the supervision of the State-Owned Assets Supervision and Administration Commission of the Beijing Municipality, which indirectly holds approximately 66.92% of the share capital of the Company as at the Latest Practicable Date
“Beijing Capital (HK)”	Beijing Capital (Hong Kong) Limited, a company incorporated with limited liability under the laws of Hong Kong, which directly holds 45.11% of the issued share capital of the Company as at the Latest Practicable Date. Beijing Capital (HK) is a wholly-owned subsidiary of Beijing Capital
“Board”	the board of Directors
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“Company”	Capital Environment Holdings Limited (首創環境控股有限公司), a company incorporated in the Cayman Islands with limited liability under the Companies Law, the ordinary shares of which are listed on the Stock Exchange (Stock Code: 03989)

DEFINITIONS

“Conditions”	terms and conditions of the Offshore Preference Shares set out in the Subscription Agreement
“Director(s)”	the director(s) of the Company
“Dividend(s)”	dividends that each Offshore Preference Shareholder subject to the Conditions shall be entitled to receive which have not otherwise been cancelled, payable annually in arrear
“Dividend Payment Date”	22 December in each year
“Dividend Period”	the period beginning on and including the Issue Date and ending on but excluding the next succeeding Dividend Payment Date and each successive period beginning on and including a Dividend Payment Date and ending on but excluding the next succeeding Dividend Payment Date
“Dividend Rate”	the dividend rate applicable to the Offshore Preference Shares as provided in the Conditions
“EGM”	an extraordinary general meeting of the Company to be convened and held at Unit 1613–1618, 16/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong on Wednesday, 4 November 2020 at 2:30 p.m. to consider and, if thought fit, approve the Subscription Agreement and the transactions contemplated thereunder, including the Issuance, and the Specific Mandate
“First Call Date”	22 December 2023 or any other later date as agreed in writing by the Company, Beijing Capital (HK) and BCG
“Fiscal Agent”	the Company or any other fiscal agent appointed by the Offshore Preference Shareholders from time to time
“Group”	the Company and its subsidiaries
“HKFRS”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, as amended from time to time
“HK\$” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Independent Board Committee”	the independent board committee of the Company comprising all the independent non-executive Directors, namely Mr. Pao Ping Wing, Mr. Cheng Kai Tai, Allen and Dr. Chan Yee Wah, Eva, which has been established to advise the Independent Shareholders in connection with the Subscription Agreement and the transactions contemplated thereunder, including the Issuance, and the Specific Mandate
“Independent Financial Adviser”	Somerley Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders
“Independent Shareholders”	the shareholder(s) of the Company who are not involved in or interested in the Subscription Agreement and the transactions contemplated thereunder, including the Issuance and the Specific Mandate
“Issuance”	the proposed issuance of Offshore Preference Shares of par value of HK\$100 each at the subscription price of HK\$1,631,620,000 in aggregate by the Company, among which Beijing Capital (HK) has conditionally agreed to subscribe for a total par value of HK\$1,100,000,000 while BCG has conditionally agreed to subscribe for a total par value of HK\$531,620,000
“Issue Date”	22 December 2020 or any other later date as agreed in writing by the Company, Beijing Capital (HK) and BCG
“Junior Obligations”	the Ordinary Shares of the Company or any other securities ranking <i>pari passu</i> therewith, and any other obligations issued, entered into or guaranteed by the Company that ranks, or is expressed to rank, junior to the Offshore Preference Shares
“Latest Practicable Date”	15 October 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Offshore Preference Shareholder(s)” or “Holder(s)”	holder(s) of the Offshore Preference Shares

DEFINITIONS

“Offshore Preference Share(s)”	the cumulative perpetual non-voting and non-convertible offshore preference share(s) of par value of HK\$100 each at the subscription price of HK\$1,631,620,000 in aggregate to be issued by the Company outside the PRC to investors on or about the Issue Date
“Ordinary Share(s)”	the ordinary share(s) of the Company of par value of HK\$0.10 each in the share capital of the Company, which are listed on the Stock Exchange under the stock code 3989 and traded in Hong Kong dollars and any other ordinary shares or the Company in issue from time to time
“Ordinary Shareholder(s)”	the holder(s) of Ordinary Shares of the Company
“Par Value”	the par value of the Offshore Preference Shares of HK\$100 each which will be issued as fully paid-up capital in Hong Kong dollars
“Parity Obligations”	any other class of preference shares in the capital of the Company from time to time and any other obligations issued, entered into or governed by the Company that rank, or are expressed to rank equally, with the Offshore Preference Shares
“PRC”	the People’s Republic of China, excluding, for purposes of this circular, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Renminbi” or “RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the Ordinary Share(s) and the Offshore Preference Share(s)
“Shareholder(s)”	holder(s) of any Shares from time to time
“Specific Mandate”	a specific mandate to allot and issue the Offshore Preference Shares to be sought from the Independent Shareholders at the EGM
“Step-up Margin”	3% per annum
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreement”	the subscription agreement in respect of the Offshore Preference Shares entered into by the Company, Beijing Capital (HK) and BCG on 29 September 2020

DEFINITIONS

“Winding-Up” proceedings in respect of the Company for liquidation, dissolution, insolvency or other similar proceeding in respect of the Company (except for the purposes of a reconstruction, consolidation, amalgamation, merger or reorganisation the terms of which have previously been approved by a Variation Resolution (as defined below) of the Offshore Preference Shareholders)

“%” per cent.

In this circular, unless the context otherwise requires, the terms “associate(s)”, “connected person(s)”, “connected transaction(s)”, “subsidiary(ies)”, “substantial shareholder(s)” and “controlling shareholder(s)” shall have the meanings given to such terms in the Listing Rules, as modified by the Stock Exchange from time to time.

For the purpose of this circular, unless the context otherwise requires, the exchange rate of RMB1.00 to HK\$1.13685 between RMB and HK\$ is for illustrative purpose only and does not constitute a representation that any amounts in Hong Kong dollars or Renminbi have been, could have been or may be converted at such or any other rate or at all.

Certain amounts and percentage figures set out in this circular have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables and the currency conversion or percentage equivalents may not be an arithmetic sum of such figures.



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)

Executive Directors:

Mr. Cao Guoxian (*Chairman*)
Mr. Li Fujing (*Chief Executive Officer*)
Ms. Hao Chunmei
Mr. Xiao Yukun

Independent Non-Executive Directors:

Mr. Pao Ping Wing
Mr. Cheung Kai Tai, Allen
Dr. Chan Yee Wah, Eva

Registered Office:

Cricket Square,
Hutchins Drive,
P.O. Box 2681,
Grand Cayman KY1-1111,
Cayman Islands

*Head Office and Principal Place of
Business:*

Unit 1613–1618, 16/F
Bank of America Tower,
12 Harcourt Road,
Central,
Hong Kong

19 October 2020

To the Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTION
IN RELATION TO PROPOSED ISSUANCE OF
CUMULATIVE PERPETUAL NON-VOTING AND
NON-CONVERTIBLE OFFSHORE PREFERENCE SHARES
PURSUANT TO SPECIFIC MANDATE
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

1 INTRODUCTION

Reference is made to the announcement of the Company dated 29 September 2020 relating to the connected transaction in respect of the Subscription Agreement and proposed issuance of the Offshore Preference Shares.

LETTER FROM THE BOARD

The Company, Beijing Capital (HK) and BCG have entered into the Subscription Agreement, pursuant to which the Company has conditionally agreed to issue, and Beijing Capital (HK) and BCG have conditionally agreed to subscribe for the cumulative perpetual non-voting and non-convertible Offshore Preference Shares of par value of HK\$100 each at the subscription price of HK\$1,631,620,000 in aggregate on the Issue Date. The Offshore Preference Shares will be issued as fully paid-up capital in Hong Kong dollars and considered as equity instruments under the prevailing accounting principles.

Beijing Capital (HK) and BCG are the substantial shareholders of the Company, which directly holds 45.11% and 21.80% of the issued share capital of the Company respectively, as at the Latest Practicable Date. Accordingly, Beijing Capital (HK) and BCG are connected persons of the Company under the Listing Rules and the Issuance constitutes a connected transaction of the Company under Rule 14A.25 of the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Offshore Preference Shares will be issued pursuant to the Specific Mandate to be sought from the Independent Shareholders at the EGM.

The purpose of this circular is to provide you with, among other things, (i) further information regarding the Subscription Agreement and the transactions contemplated thereunder, including the Issuance, and the Specific Mandate; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder, including the Issuance, and the Specific Mandate; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder, including the Issuance, and the Specific Mandate; and (iv) a notice of the EGM.

2 THE SUBSCRIPTION AGREEMENT

Date

29 September 2020

Parties

- (i) the Company (as issuer);
- (ii) Beijing Capital (HK) (as subscriber); and
- (iii) BCG (as subscriber).

Please see the section headed "*Information on the Company, Beijing Capital (HK) and BCG*" below for further information on the parties to the Subscription Agreement.

LETTER FROM THE BOARD

Share subscription

The Company has conditionally agreed to issue and Beijing Capital (HK) and BCG have conditionally agreed to subscribe for the Offshore Preference Shares of par value of HK\$100 each at the subscription price of HK\$1,631,620,000 in aggregate on the Issue Date, on the terms of the Subscription Agreement, with Beijing Capital (HK) agreeing to subscribe for a total par value of HK\$1,100,000,000 of Offshore Preference Shares and BCG agreeing to subscribe for a total par value of HK\$531,620,000 Offshore Preference Shares.

The subscription price of HK\$1,631,620,000 in aggregate shall be paid by Beijing Capital (HK) and BCG respectively by way of cash on the Issue Date.

Basis for determining the subscription price and terms and conditions

The terms of the Offshore Preference Shares have been determined by the Board after negotiations on arm's length basis between the Company, Beijing Capital (HK) and BCG with reference to a number of factors, such as: (i) the ability of the Company to account for the perpetual securities as equity rather than debt in its accounting treatment and therefore reducing the Company's gearing ratio; and (ii) the recent issuances of capital instruments, whether in the form of perpetual capital securities, perpetual securities or perpetual capital notes, by companies listed on the Main Board of the Stock Exchange, which are considered by the Board to be of a similar nature and comparable to the Offshore Preference Shares even though the names of the instruments may differ. In particular, the Board has considered the issue of perpetual capital securities by Overseas Chinese Town (Asia) Holdings Limited (stock code: 3366), the issue of perpetual securities by China Communications Construction Company Limited (stock code: 1800), as well as the recent issue of preference shares by Cathay Pacific Airways Limited (stock code: 293), which the Directors believe are comparable transactions issued under similar market conditions and sentiments.

Moreover the distribution rate of the Offshore Preference Shares has been determined by the Board after negotiations on arm's length basis between the Company, Beijing Capital (HK) and BCG and having considered, among other factors: (i) the distribution rate of other similar capital instruments as discussed above; and (ii) the overall costs to be borne by the Company if it were to raise funds by issuances of new equity or raising new external borrowings.

LETTER FROM THE BOARD

Conditions precedent to the subscription

The obligations of Beijing Capital (HK) and BCG to subscribe and pay for the Offshore Preference Shares are subject to the fulfilment of the following conditions on or prior to the Issue Date:

- (a) the Company having obtained all required approval(s) from the National Development and Reform Commission of the PRC for the purposes of the Subscription Agreement and the transactions contemplated thereunder, including the Issuance;
- (b) the publication and despatch of this circular in relation to the EGM to Shareholders; and
- (c) the Independent Shareholders having passed the relevant resolutions at the EGM approving the Subscription Agreement and the transactions contemplated thereunder, including the Issuance, and the Specific Mandate.

The conditions (a) to (c) above are not waivable by the parties to the Subscription Agreement and no conditions have been fulfilled or waived as at the Latest Practicable Date.

Completion

Subject to the fulfilment of the conditions precedent under the Subscription Agreement on or prior to the Issue Date, the Company shall issue 11,000,000 Offshore Preference Shares to Beijing Capital (HK) and 5,316,200 Offshore Preference Shares to BCG, respectively, pursuant to the Specific Mandate on the Issue Date, and Beijing Capital (HK) and BCG respectively shall pay the subscription price of HK\$1,100,000,000 and HK\$531,620,000, respectively, by way of cash on the Issue Date.

The Offshore Preference Shares will be issued pursuant to the Articles of Association. Except as otherwise required by law, the Holder will be treated as its absolute owner for all purposes, and no person will be liable for so treating the Holder.

Principal terms of the Offshore Preference Shares

Offering	The cumulative perpetual non-voting and non-convertible Offshore Preference Shares of par value of HK\$100 each at the subscription price of HK\$1,631,620,000 in aggregate, among which Beijing Capital (HK) has conditionally agreed to subscribe for HK\$1,100,000,000 while BCG has conditionally agreed to subscribe for HK\$531,620,000.
Issue Date	22 December 2020 or any other later date as agreed in writing by the Company, Beijing Capital (HK) and BCG.

LETTER FROM THE BOARD

Maturity Date	The Offshore Preference Shares are perpetual and have no maturity date. The Offshore Preference Shares are not redeemable at the option of the Offshore Preference Shareholders, and the Offshore Preference Shareholders do not have the right to put back the Offshore Preference Shares to the Company.
No Conversion	The Offshore Preference Shares are not convertible into Ordinary Shares.
Issue Price	The Offshore Preference Shares will have a par value of HK\$100 each and will be issued in its Par Value.
Form and Issuance	The Offshore Preference Shares will be issued as fully paid-up capital in Hong Kong dollars and considered as equity instruments under the prevailing accounting principles. The Offshore Preference Shares will be issued in registered form and issued and transferable only in minimum amounts of HK\$2,000,000 (or 20,000 Offshore Preference Shares) and integral multiples of HK\$10,000 (or 100 Offshore Preference Shares) in excess thereof.
Status and Rights upon Liquidation	<p>Upon the Winding-Up of the Company, the rights and claims of the Offshore Preference Shareholders shall rank:</p> <ul style="list-style-type: none">(a) junior to holders of (i) all general unsubordinated liabilities of the Company and (ii) all subordinated debt or other obligations issued, entered into or guaranteed by the Company that rank, or are expressed to rank, senior to the Offshore Preference Shares;(b) equally in all respects with each other and without preference among themselves and with the holders of Parity Obligations; and(c) in priority to the Ordinary Shareholders.
Dividend Rate	<p>Subject as provided in the Conditions, each Offshore Preference Share shall entitle the Holder to receive Dividends which have not been otherwise cancelled. Each Dividend will be payable, subject as provided in the Conditions, annually in arrear on 22 December in each year.</p> <p>In respect of the period from and including the Issue Date to but excluding the First Call Date, the Dividend Rate shall be 4% per annum (the “Initial Dividend Rate”).</p>

LETTER FROM THE BOARD

From and including the First Call Date, the Dividend Rate shall be the aggregate of: (i) the Initial Dividend Rate; and (ii) the Step-up Margin.

Conditions to
Distribution of
Dividends

Notwithstanding any other provision in the Conditions, the payment of any Dividend (including any Arrears of Dividend and any Additional Dividend Amount) on any Dividend Payment Date is subject to:

- 1 the Board having passed a resolution to declare such Dividend (including any Arrears of Dividend and any Additional Dividend Amount) in accordance with the Articles of Association and the Conditions; and
- 2 the Company having distributable after-tax profits (as determined in accordance with HKFRS and any applicable law) to pay such Dividend (including any Arrears of Dividend and any Additional Dividend Amount).

Optional Deferral

The Company may, at its sole discretion, elect to defer (in whole or in part) any Dividend which is otherwise scheduled to be paid on a Dividend Payment Date to the next Dividend Payment Date. The Company is not subject to any limit as to the number of times Dividends and Arrears of Dividends can or shall be deferred, subject to the Conditions.

Restrictions in the case
of Deferral of
Payment of Dividend

If, on any Dividend Payment Date, payment of all Dividend scheduled to be made on such date is not made in full, the Company shall not, and shall procure that none of its subsidiaries will declare, pay or make any discretionary dividends, distributions or make any other discretionary payment on, and will procure that no discretionary dividend, distribution or other discretionary payment is declared, paid or made on, any Junior Obligations or Parity Obligations (including by way of redemption, cancellation or repurchase of any Junior Obligations or Parity Obligations), unless and until the Company has satisfied in full all outstanding Arrears of Dividends and Additional Distribution Amount, provided that such restrictions shall not apply (i) in relation to Parity Obligations of the Company on a *pro rata* basis or (ii) in connection with any employee benefit plan or similar arrangements with or for the benefit of employees, officers, directors or consultants of the Company.

LETTER FROM THE BOARD

Optional Redemption

The Company may, in each case as permitted by and in accordance with applicable law, at any time upon giving not less than 30 nor more than 60 days' notice to the Offshore Preference Shareholders and the Fiscal Agent, redeem in whole or in part the Offshore Preference Shares, until all the Offshore Preference Shares have been redeemed. The redemption price for each Offshore Preference Share so redeemed shall be the aggregate of an amount equal to its Par Value plus any accrued but unpaid Dividends in respect of the period from (and including) the immediately preceding Dividend Payment Date to (but excluding) the date scheduled for redemption (including any Arrears of Dividend and any Additional Dividend Amount).

In the case of a partial redemption of the Offshore Preference Shares, the Offshore Preference Shares shall be redeemed by the Company (i) on a *pro rata* basis or (ii) by such other method and in such place as the Company deems fit acting in good faith and after consultation with the Fiscal Agent.

Redemption for Taxation Reasons

The Company may, in each case as permitted by and in accordance with applicable law, upon giving not less than 30 nor more than 60 days' notice (a "**Tax Redemption Notice**") to the Offshore Preference Shareholders and the Fiscal Agent, redeem in whole, but not in part the Offshore Preference Shares on the date specified in the Tax Redemption Notice for redemption (the "**Tax Redemption Date**"), with the redemption price for each Offshore Preference Share being the aggregate of an amount equal to its Par Value plus any accrued but unpaid Dividends in respect of the period from (and including) the immediately preceding Dividend Payment Date to (but excluding) the Tax Redemption Date (including any Arrears of Dividend and any Additional Dividend Amount), if (i) the Company has or will become obliged to pay Additional Tax Amounts (as defined below) as provided or referred to in the Conditions, and (ii) such obligation cannot be avoided by the Company taking reasonable measures available to it, provided that no Tax Redemption Notice shall be given earlier than 90 days prior to the earliest date on which the Company would be obliged to pay such Additional Tax Amounts were a payment in respect of the Offshore Preference Shares then due.

LETTER FROM THE BOARD

Taxation and Withholding

All payments of Dividends will be made free and clear of, and without withholding or deduction for or on account of, any present or future tax, duty, assessments or governmental charges of whatsoever nature imposed or levied by or on behalf of the Cayman Islands, Hong Kong or the PRC or any political subdivision or any authority thereof or therein having power to levy tax in the Cayman Islands, Hong Kong or the PRC, unless such withholding or deduction is required by the law of the Cayman Islands, Hong Kong or the PRC. In that event, the Company shall pay such additional amounts (“**Additional Tax Amounts**”) as will result in the receipt by the Offshore Preference Shareholders of such amounts as would have been received by them if no such withholding or deduction had been required, provided, however, that no such Additional Tax Amounts shall be payable in respect of any Offshore Preference Shares in the circumstances specified in the Conditions.

Limited Voting Rights

Pursuant to the Articles of Association, Offshore Preference Shareholders shall not be entitled to convene, attend or vote at any Shareholders’ general meeting, other than when the business of the Shareholders’ general meeting is to consider any resolution to (i) amend the Articles of Association to modify the rights and privileges attached to the Offshore Preference Shares, or (ii) adversely modify any of the special rights and privileges attached to the Offshore Preference Shares, or (iii) convene proceedings in respect of the Company for reconstruction, consolidation, amalgamation, merger, reorganisation or Winding-up of the Company (each, a “**Variation Resolution**”), in which case the Offshore Preference Shareholders will be entitled to attend the Shareholders’ general meeting and vote only upon such Variation Resolution, and the Offshore Preference Shareholders will be entitled to one vote in respect of each outstanding Offshore Preference Share and vote together with other preference shareholders as a separate class from the Ordinary Shareholders. The Offshore Preference Shares held by, or on behalf of, the Company shall have no voting rights.

Use of Proceeds

The proceeds of the Issuance will be used for investments on potential projects, general working capital and repaying debts.

LETTER FROM THE BOARD

Listing	The Offshore Preference Shares will not be listed on the Stock Exchange or any other securities exchange. So long as any Offshore Preference Share remains outstanding, it shall not be capable of being listed on the Stock Exchange or any other securities exchange or cleared through any clearing system.
Governing Law	The Offshore Preference Shares and the rights and obligations attached to them are governed by, and shall be construed in accordance with, the laws of the Cayman Islands.

3 REASONS FOR THE ISSUANCE AND USE OF PROCEEDS

The net proceeds from the Issuance after deducting related costs and expenses to be borne by the Company is approximately HK\$1,625.6 million, and of which approximately 50% (approximately HK\$816 million, equivalent to approximately RMB718 million) will be used for investment on potential solid waste projects, approximately 18% (approximately HK\$282 million, equivalent to approximately RMB248 million) for general working capital and approximately 32% (approximately HK\$528 million, equivalent to approximately RMB464 million) for repaying debts.

For illustration purpose, the Offshore Preference Shares will have a net price of approximately HK\$99.63 each based on the net proceeds from the Issuance.

The Directors are of the view that the Issuance will support the Company's rapid-growing operations by reducing its asset-liability ratio. The Company has shown improvements in both its financial performance and position over the recent years. A large number of domestic solid waste disposal infrastructure have been constructed in the PRC and have been gradually put into operation. While the Group may benefit from the increased solid waste disposal capacity, substantial capital is required for the Company to develop its waste-to-energy projects. As of 31 December 2019, the Group had total assets of RMB18.635 billion, total liabilities of RMB13.395 billion and a gearing ratio of approximately 71.88%. The net proceeds raised from the Issuance will help ease the Group's high gearing ratio by way of repayment of certain liabilities, and at the same time strengthen the Group's financial resources and facilitate it to carry out additional projects and improve its profitability.

Having considered other fund raising alternatives for the Company, such as raising funds by way of issuing or placement of Ordinary Shares, rights issue or open offer, the Board is of the view that the Issuance provides a more flexible and readily available method for the Company to raise funds, given that: (i) it would not dilute the interests of Shareholders as in a placement of Ordinary Shares; (ii) it would not require all Shareholders to subscribe for new Ordinary Shares provided the thin trading liquidity of the Ordinary Shares as in an issuance of Ordinary Shares; and (iii) it is less costly and time-consuming than raising funds by way of a rights issue or an open offer.

LETTER FROM THE BOARD

In addition, the Board is of the view that the Issuance would be in the better interests of the Company in the longer run than additional bank financing or issuance of debt instruments having considered the existing debt level and gearing ratio of the Company and the associated ongoing financing costs.

4 EQUITY FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company has not conducted any equity fund-raising activity in the past 12 months immediately preceding the Latest Practicable Date. To the best knowledge and belief of the Directors after making due inquiry as at the Latest Practicable Date, there is no plan or intention for equity fund raising by the Company in the next 12 months.

5 EFFECT ON SHAREHOLDING STRUCTURE

The Offshore Preference Shares do not bear any voting rights and are not convertible into Ordinary Shares, hence the Issuance will not affect the holdings of the Ordinary Shareholders. For illustrative purpose only and assuming no further issuance or repurchase of any Ordinary Shares by the Company from the Latest Practicable Date up to the date of the Issuance, the shareholding structure of the Company is set out as follows:

Ordinary Shares

	Approximate shareholding as at the Latest Practicable Date and immediately after issuance of the Offshore Preference Shares	
	<i>Number of Ordinary Shares</i>	<i>Percentage of the Ordinary Shares</i>
Beijing Capital (HK) ⁽¹⁾	6,449,026,736	45.11%
Beijing Capital ⁽¹⁾	6,449,026,736	45.11%
BCG ⁽²⁾	3,116,767,072	21.80%
Beijing Capital Group ⁽¹⁾⁽²⁾	9,565,793,808	66.92%
Public Shareholders	<u>4,728,939,359</u>	<u>33.08%</u>
Total	<u>14,294,733,167</u>	<u>100.00%</u>

Notes:

- 1 Beijing Capital (HK) is a wholly-owned subsidiary of Beijing Capital. Beijing Capital is in turn controlled by Beijing Capital Group. As such, Beijing Capital Group and Beijing Capital are deemed to have interest in the Shares held by Beijing Capital (HK) for the purposes of the SFO.
- 2 BCG is the wholly-owned subsidiary of Beijing Capital Group. Therefore, Beijing Capital Group is deemed to be interested in the Shares held by BCG in accordance with the SFO.

LETTER FROM THE BOARD

Offshore Preference Shares⁽¹⁾

	Shareholding immediately after issuance of the Offshore Preference Shares	
	<i>Number of Offshore Preference Shares</i>	<i>Percentage of the Offshore Preference Shares</i>
Beijing Capital (HK)	11,000,000	67.42%
BCG	<u>5,316,200</u>	<u>32.58%</u>
Total	<u>16,316,200</u>	<u>100.00%</u>

Note:

1 As at the Latest Practicable Date, there is no Offshore Preference Share in issue.

6 INFORMATION ON THE COMPANY, BEIJING CAPITAL (HK) AND BCG

Information on the Company and the Group

The Company is an investment holding company and 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.

Information on Beijing Capital (HK) and BCG

Beijing Capital (HK) is a company incorporated with limited liability under the laws of Hong Kong which principally engages in investment activities and is a controlling shareholder of the Company, directly holding 6,449,026,736 Ordinary Shares representing approximately 45.11% of the total issued share capital of the Company as at the Latest Practicable Date. Beijing Capital (HK) is wholly-owned by Beijing Capital, a company established under the laws of the PRC and the shares of which are listed on the Shanghai Stock Exchange (Stock Code: 600008). Beijing Capital and its subsidiaries are principally engaged in the investment and management of environmental infrastructure in China with a focus on water projects, solid waste disposal and environment management. Beijing Capital is owned as to approximately 46.06% by Beijing Capital Group as at the Latest Practicable Date.

BCG is a company incorporated under the laws of Hong Kong with limited liability and a wholly-owned subsidiary of Beijing Capital Group, directly holding 3,116,767,072 Ordinary Shares representing approximately 21.80% of the total issued share capital of the Company as at the Latest Practicable Date. BCG is principally engaged in investment activities for Beijing Capital Group.

LETTER FROM THE BOARD

Beijing Capital Group is a state-owned enterprise owned by the People's Government of Beijing Municipality and is under the direct supervision of the State-owned Assets Supervision and Administration Commission of the Beijing Municipality. Beijing Capital Group has four core businesses, namely environmental protection, infrastructure, real estate, and financial services.

7 LISTING RULES IMPLICATIONS

Beijing Capital (HK) and BCG are the substantial shareholders of the Company, holding directly 45.11% and 21.80% of the total issued share capital of the Company, respectively, as at the Latest Practicable Date. Accordingly, Beijing Capital (HK) and BCG are connected persons of the Company under the Listing Rules and the Issuance constitutes a connected transaction of the Company under Rule 14A.25 of the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Offshore Preference Shares will be issued pursuant to the Specific Mandate to be sought from the Independent Shareholders at the EGM.

Ms. Hao Chunmei, who also holds executive positions at Beijing Capital and Beijing Capital (HK), abstained from voting in the Board meeting in respect of the resolutions to approve the Subscription Agreement and the transactions contemplated thereunder including the Issuance. All remaining six Directors who do not have material interest in the Subscription Agreement and the transactions contemplated thereunder including the Issuance unanimously approved the above resolutions. The Directors (excluding Ms. Hao Chunmei but including the independent non-executive Directors) consider that the Subscription Agreement and the transactions contemplated thereunder, including the Issuance, are in the interests of the Company and the Shareholders as a whole.

8 INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all independent non-executive Directors has been established by the Company to advise the Independent Shareholders as to whether the terms and conditions of the Subscription Agreement and the transactions contemplated thereunder, including the Issuance, and the Specific Mandate are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole, and to make a recommendation to the Independent Shareholders on how to vote, taking into account the advice from the Independent Financial Adviser. Somerley Capital Limited has been appointed as the Independent Financial Adviser by the Company to advise the Independent Board Committee and the Independent Shareholders in the same regard.

None of the members of the Independent Board Committee is directly or indirectly interested or involved in the Subscription Agreement and the transactions contemplated thereunder including the Issuance and the Specific Mandate.

LETTER FROM THE BOARD

9 EGM

The EGM will be convened at Unit 1613–1618, 16/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong on Wednesday, 4 November 2020 at 2:30p.m. for the purpose of considering and, if thought fit, approving the Subscription Agreement and the transactions contemplated thereunder, including the Issuance, and the Specific Mandate. A notice convening the EGM is set out on pages EGM-1 to EGM-3 of this circular.

A form of proxy for use at the EGM is enclosed. Whether or not you intend to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish.

The register of members of the Company will be closed from Friday, 30 October 2020, to Wednesday, 4 November 2020, both days inclusive, during which period no transfer of shares of the Company will be effected. As such, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 29 October 2020 for the purpose of determining shareholders' eligibility to attend and vote at the EGM.

As Beijing Capital (HK) and BCG have material interest in the Subscription Agreement and the transactions contemplated thereunder, including the Issuance, and accordingly, Beijing Capital (HK) and BCG shall abstain from voting at the EGM in respect of the resolutions on the Subscription Agreement and the transactions contemplated thereunder, including the Issuance, and the Specific Mandate. Save as disclosed above, to the best knowledge, information and belief of the Directors and having made reasonable enquiries, as at the Latest Practicable Date no other Shareholder has a material interest in the Subscription Agreement and the transactions contemplated thereunder, including the Issuance, and the Specific Mandate, and therefore no other Shareholder is required to abstain from voting on the relevant resolutions at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder, including the Issuance, and the Specific Mandate.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting of the Company must be taken by poll. Accordingly, the chairman of the EGM will demand a poll for every resolution put to the vote at the EGM pursuant to article 66 of the Articles of Association. Additionally, the Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

LETTER FROM THE BOARD

10 RECOMMENDATION

Your attention is drawn to the letter of recommendation from the Independent Board Committee set out on pages 20 to 21 of this circular and the letter from the Independent Financial Adviser set out on pages 22 to 45 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder, including the Issuance, and the Specific Mandate.

The Directors (including the independent non-executive Directors after taking into account of the advice from the Independent Financial Adviser) consider that the terms and conditions of the Subscription Agreement and the transactions contemplated thereunder, including the Issuance, and the Specific Mandate are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder, including the Issuance, and the Specific Mandate.

11 ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendix to this circular required to be disclosed under the Listing Rules.

Completion of the Subscription Agreement and the Issuance is subject to the satisfaction or waiver of the conditions precedent therein. In addition, the Subscription Agreement and the Issuance may be terminated in certain circumstances. Accordingly, Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

Yours faithfully,
For and on behalf of the Board of
Capital Environment Holdings Limited
Cao Guoxian
Chairman



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)

19 October 2020

To the Independent Shareholders

Dear Sir/Madam,

**CONNECTED TRANSACTION
IN RELATION TO PROPOSED ISSUANCE OF
CUMULATIVE PERPETUAL NON-VOTING AND
NON-CONVERTIBLE OFFSHORE PREFERENCE SHARES
PURSUANT TO SPECIFIC MANDATE**

We refer to the circular to the Shareholders issued by the Company (the “**Circular**”) of which this letter forms part. Capitalised terms used herein shall have the same meanings as defined in the Circular unless the context otherwise requires.

As independent non-executive Directors who are independent of the parties to the Subscription Agreement and not having any interest in the transactions contemplated under the Subscription Agreement, including the Issuance, and the Specific Mandate, we have been appointed by the Board as the Independent Board Committee to advise you as to whether, in our opinion, the terms and conditions of the Subscription Agreement and the transactions contemplated thereunder, including the Issuance, and the Specific Mandate are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Somerley Capital Limited has been appointed by the Company as the Independent Financial Adviser to advise you and us in this regard. Details of its advice, together with the principal factors and reasons taken into consideration in arriving at such advice, are set out on pages 22 to 45 of the Circular. Your attention is also drawn to the “Letter from the Board” set out on pages 6 to 19 of the Circular and the additional information set out in the appendix to the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the terms and conditions of the Subscription Agreement and the transactions contemplated thereunder, including the Issuance, and the Specific Mandate, and having taken into account the opinion of and the principal factors and reasons considered by the Independent Financial Adviser as stated in its letter of advice, we consider that the terms and conditions of the Subscription Agreement and the transactions contemplated thereunder, including the Issuance, and the Specific Mandate are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

We therefore recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder, including the Issuance, and the Specific Mandate.

Yours faithfully,
For and on behalf of
the Independent Board Committee

Mr. Pao Ping Wing
*Independent non-executive
Director*

Mr. Cheng Kai Tai, Allen
*Independent non-executive
Director*

Dr. Chan Yee Wah, Eva
*Independent non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter of advice from Somerley Capital Limited prepared for the purpose of inclusion in this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder.



SOMERLEY CAPITAL LIMITED
20th Floor
China Building
29 Queen's Road Central
Hong Kong

19 October 2020

To: The Independent Shareholders and the Independent Board Committee

Dear Sirs,

CONNECTED TRANSACTION IN RELATION TO PROPOSED ISSUANCE OF CUMULATIVE PERPETUAL NON-VOTING AND NON-CONVERTIBLE OFFSHORE PREFERENCE SHARES PURSUANT TO SPECIFIC MANDATE

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in connection with the Subscription Agreement and the transactions contemplated thereunder (the “**Transactions**”). Details of the aforesaid transactions are set out in the letter from the Board contained in the circular of the Company (the “**Circular**”) to its Shareholders dated 19 October 2020, of which this letter forms part. Unless otherwise defined, terms used in this letter shall have the same meanings as those defined in the Circular.

On 29 September 2020, the Company entered into the Subscription Agreement with Beijing Capital (HK) and BCG (together, the “**Subscribers**”), pursuant to which the Subscribers have agreed to subscribe for in aggregate HK\$1,631,620,000 cumulative perpetual non-voting Offshore Preference Shares to be issued by the Company.

As at the Latest Practicable Date, the Beijing Capital (HK) and BCG are the substantial shareholders of the Company, which directly holds approximately 45.11% and 21.80% of the issued share capital of the Company, respectively. Accordingly, Beijing Capital (HK) and BCG are connected persons for the Company under the Listing Rules and the Issuance constitutes a connected transaction of the Company under Rule 14A.25 of the Listing Rules and is subject to the reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules. Beijing Capital (HK) and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BCG are required to abstain from voting on the resolution(s) approving the Subscription Agreement and the transactions contemplated thereunder, including the Issuance and the Specific Mandate, at the EGM.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Pao Ping Wing, Mr. Cheng Kai Tai, Allen, and Dr. Chan Yee Wah, Eva, has been established to make a recommendation to the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder, including the Issuance and the Specific Mandate. Somerley Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

We are not associated or connected with the Company, the Subscribers or their respective core connected persons or associates. Save for this appointment as the Independent Financial Adviser to provide our independent advise on the Transactions, as at the Latest Practicable Date, we did not have any other relationship with or any interests in the Company, the Subscribers or their respective core connected persons, associates, close associates or any party acting or presumed to be acting in concert with any of them that could reasonably be regarded as relevant to our independence nor have had any other engagement with the Company in the last two years. Accordingly, we are considered eligible to give independent advice on the Transactions. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Subscribers or their respective core connected persons or associates.

In formulating our advice and recommendation, we have reviewed information on the Company, including but not limited to, the Subscription Agreement, annual reports of the Company for years ended 31 December 2018 (“**FY2018**”) (the “**2018 Annual Report**”) and 2019 (“**FY2019**”) (the “**2019 Annual Report**”) and the Company’s interim report for the six months ended 30 June 2020 (the “**2020 Interim Report**”) (together, as the “**Reports**”) and other information contained in the Circular.

In addition, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Company (collectively, the “**Management**”) and the respective professional advisers of the Company, which we have assumed to be true, accurate and complete in all material aspects at the time they were made and will remain true, accurate and complete in all material aspects up to the date of the EGM. We have also sought and received confirmation from the Group that no material facts have been omitted from the information supplied by them and that their opinions expressed to us are not misleading in any material respect. We consider that the information we have received is sufficient for us to formulate our opinion and recommendation as set out in this letter and have no reason to believe that any material information has been omitted or withheld, nor to doubt the truth or accuracy of the information provided to us. We have, however, not conducted any independent investigation into the businesses and affairs of the Group or the Subscribers nor, have we carried out any independent verification of the information supplied.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation regarding the Transactions, we have considered the following principal factors and reasons:

1. Information on the Group

1.1 Principal business of the Group

The Group is principally engaged in the provision of waste treatment technologies and services which specialises in technology development, design, system integration, project investment, consultancy, operation and maintenance of waste treatment facilities, especially waste-to-energy projects. The two reportable segments of the Group are (i) the waste treatment and waste-to-energy business in the PRC; and (ii) the waste treatment and waste-to-energy business in New Zealand.

1.2 Financial information of the Group

Set out below is the summary of the Group's audited financial performance for the three years ended 31 December 2017 ("FY2017"), 2018 and 2019 and the financial performance for the six months ended 30 June 2020 ("1H2020") as extracted from the respective Reports:

	For the six months ended				
	30 June		Year ended 31 December		
	2020	2019	2019	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	3,320,911	2,836,775	5,938,095	4,648,196	3,495,166
Cost of sales	<u>(2,512,260)</u>	<u>(2,058,058)</u>	<u>(4,370,633)</u>	<u>(3,446,261)</u>	<u>(2,487,959)</u>
Gross profit	808,651	778,717	1,567,462	1,201,935	1,007,207
Other income and gains	98,186	97,025	123,849	92,604	17,991
Administrative expenses	(317,410)	(321,945)	(638,698)	(581,739)	(537,274)
Other expenses	(12,611)	(19,445)	(29,185)	(12,774)	(6,405)
Finance costs	(252,440)	(213,448)	(435,805)	(310,192)	(195,942)
Share of profits of joint ventures	21,650	18,796	40,919	39,299	56,142
Share of (losses)/profits of associates	<u>(3,840)</u>	<u>5,071</u>	<u>5,484</u>	<u>13,135</u>	<u>6,255</u>
Profit before tax	342,186	344,771	634,026	442,268	347,974
Income tax expenses	<u>(119,147)</u>	<u>(111,946)</u>	<u>(208,131)</u>	<u>(131,623)</u>	<u>(74,255)</u>
Profit for the period/year	<u>223,039</u>	<u>232,825</u>	<u>425,895</u>	<u>310,645</u>	<u>273,719</u>
Profit for the period/ year attributable to:					
Owners of the parent	191,571	171,194	302,749	182,733	148,342
Non-controlling interests	<u>31,468</u>	<u>61,631</u>	<u>123,146</u>	<u>127,912</u>	<u>125,377</u>
	<u>223,039</u>	<u>232,825</u>	<u>425,895</u>	<u>310,645</u>	<u>273,719</u>

As shown above, the Group demonstrated a gradual growth in revenue during the past three financial years. In FY2018, the Group reported revenue of approximately RMB4,648.2 million, representing an increase of approximately 33.0% from approximately RMB3,495.2 million in FY2017. Such increase was mainly due to increases in revenue recognised from construction services under service concession arrangements of approximately 116.7% and was mainly related to projects in Huizhou, Gaoan, Ningbo in the PRC. Revenue of the Group in FY2019 grew by a further approximately 27.8% to approximately RMB5,938.1 million. Based on the 2019 Annual Report, such increase was also mainly attributable to increases in revenue derived from construction services under service concession arrangement of approximately 42.0%. We understand such increase was mainly related to projects located in Xinxiang, Suixian, Xihua, Qianjiang, Nanyang, Yongji and Zhengyang in the PRC.

For the 1H2020, the Group reported a similar growth in revenue of approximately 17.1% from approximately RMB2,836.8 million for the six months ended 30 June 2019 (“1H2019”) to approximately RMB3,320.9 million in 1H2020. Such increase in revenue was mainly attributable to construction services under service concession arrangements for projects predominately located in Xinxiang, Nanyang, Lushan, Zhengyang, Shenzhen, Fuzhou in the PRC as well as revenue generated from waste treatment and waste-to-energy business carried out by the Group in the PRC which has completed its construction process and phased into the operational stage.

The Group reported an increase in gross profit of approximately 19.3% to approximately RMB1,201.9 million in FY2018, and grew by a further approximately 30.4% to approximately RMB1,567.5 million in FY2019. Such increase was mainly in line with the growth in revenue during the periods although there was a slight fluctuation in the gross profit margin between FY2017 and FY2019 where it declined from approximately 28.8% in FY2017 to approximately 25.9% in FY2018 before recovering to approximately 26.4% in FY2019. As disclosed in the Reports, such changes in gross profit margin was mainly due to changes in cost of services rendered for service concession arrangements. We further understand that the gross profit margin fluctuation between FY2017 and FY2018 was generally because of the lower gross profit margin associated with revenue recognised from construction services under service concession arrangements as compared with gross profit margins associated with revenue derived from projects that has finished its construction stage and progressed into the operation stage. We note that the increase in gross profit margin between FY2018 and FY2019 was due to the fact that there were an increased number of projects phasing into the operational stage for the year.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group's gross profit reported an increase of approximately 3.9% in 1H2020 from approximately RMB778.7 million in 1H2019 to approximately RMB808.7 million in 1H2020, which was in line with the growth in revenue. Due to the continued increase in projects under construction stage which has a lower profit margin as compared to projects under operation, the Group's gross profit margin further decreased in 1H2020 from approximately 27.5% in 1H2019 to approximately 24.4% in 1H2020.

Profit attributable to owners of the parent increased by approximately 23.2% to approximately RMB182.7 million in FY2018 mainly because of increases in revenue as mentioned above. We note such increase was partially offset by the remarkable increases in finance cost by approximately 58.3% from approximately RMB195.9 million in FY2017 to approximately RMB310.2 million in FY2018. The increase in finance cost was mainly due to increase in interest payable on bank and other borrowing by approximately 38.1% as compared to those for FY2017 and as a result of issuance of overseas notes in an aggregate principal amount of US\$300 million during FY2018. Profit attributable to owners of the parent increased by a further approximately 65.7% in FY2019. Such increase was mainly in line with the growth in revenue partially offset by, among others, the further increase in finance cost of approximately 40.5% from approximately RMB310.2 million in FY2018 to approximately RMB435.8 million in FY2019. The increase in finance cost in FY2019 was mainly due to additional interest-bearing borrowings during FY2019. We have discussed and understand from the Company that the Company has been funding the development of its various new projects partly by internal resources and more substantially by bank borrowings and issuing debts during the recent years.

Profit attributable to owners of the parent increased by approximately 11.9% to approximately RMB191.6 million in 1H2020 mainly in line with the increase in revenue as discussed above. We note that such increase was partially offset by the significant increase in finance cost of approximately 18.3% from approximately RMB213.4 million in 1H2019 to approximately RMB252.4 million in 1H2020. According to the Management, the increase in finance cost was a result of, among others, increase in interest on bank and other borrowings by approximately 10.5% or RMB14.5 million during 1H2020.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is the summary of the Group's financial position as at 31 December 2018 and 2019 and 30 June 2020, as extracted from the respective Reports:

	As at 30 June 2020 RMB'000	As at 31 December 2019 2018 RMB'000 RMB'000	
Non-current assets			
Property, plant and equipment	2,333,627	2,272,692	2,007,895
Right-of-use assets	1,213,513	1,240,099	—
Goodwill	2,023,038	2,086,384	2,050,248
Other intangible assets	2,939,919	2,702,006	2,087,014
Concession financial assets	3,243,985	1,818,652	1,532,911
Contract assets	2,936,963	3,207,936	2,025,678
Other non-current assets	<u>1,068,993</u>	<u>789,058</u>	<u>842,066</u>
	<u>15,760,038</u>	<u>14,116,827</u>	<u>10,545,812</u>
Current assets			
Inventories	61,658	85,536	49,265
Concession financial assets	573,990	411,834	302,362
Contract assets	121,700	212,876	107,225
Trade receivables	1,036,656	1,301,954	854,136
Prepayments, other receivables and other assets	957,661	866,621	526,731
Cash and cash equivalents	2,540,555	1,540,029	2,403,522
Other current assets	<u>136,597</u>	<u>100,203</u>	<u>96,980</u>
	<u>5,428,817</u>	<u>4,519,053</u>	<u>4,340,221</u>
Current liabilities			
Trade payables	1,324,138	1,108,487	785,888
Other payables and accruals	467,263	455,409	526,692
Interest-bearing bank and other borrowings	1,564,655	1,221,633	1,332,754
Tax payable	140,107	104,219	70,358
Other current liabilities	<u>98,384</u>	<u>88,495</u>	<u>7,825</u>
	<u>3,594,547</u>	<u>2,978,243</u>	<u>2,723,517</u>
Net current assets	<u>1,834,270</u>	<u>1,540,810</u>	<u>1,616,704</u>
Total assets less current liabilities	<u>17,594,308</u>	<u>15,657,637</u>	<u>12,162,516</u>

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	As at 30 June 2020 RMB'000	As at 31 December 2019 RMB'000	2018 RMB'000
Non-current liabilities			
Interest-bearing bank and other borrowings	6,921,647	6,109,190	4,501,981
Lease liabilities	1,169,279	1,181,218	—
Notes payable	2,116,698	2,080,404	2,046,726
Corporate bonds	992,523	—	—
Deferred tax liabilities	686,873	629,782	502,891
Other non-current assets	<u>418,799</u>	<u>415,789</u>	<u>307,000</u>
	<u>12,305,819</u>	<u>10,416,383</u>	<u>7,358,598</u>
NET ASSETS	<u>5,288,489</u>	<u>5,241,254</u>	<u>4,803,918</u>
Equity			
Equity attributable to owners of the parent	3,718,955	3,622,593	3,362,362
Non-controlling interests	<u>1,569,534</u>	<u>1,618,661</u>	<u>1,441,556</u>
TOTAL EQUITY	<u>5,288,489</u>	<u>5,241,254</u>	<u>4,803,918</u>

Total non-current assets of the Group as at 31 December 2018, 31 December 2019 and 30 June 2020 mainly comprised property, plant and equipment, right-of-use assets, goodwill, intangibles, concession financial assets and contract assets. Balance of total non-current assets increased from approximately RMB10,545.8 million as at 31 December 2018 to approximately RMB14,116.8 million as at 31 December 2019. Such increase was mainly attributable to (i) the increase in contract assets which represented the amounts receivable under service concession arrangements with the government authorities or their designators in respect of waste management and waste-to-energy business in the PRC; and (ii) increase in right-of-use assets which mainly came from additions of leased buildings of approximately RMB962.9 million made during the year. The balance for total non-current assets further increased to approximately RMB15,760.0 million as at 30 June 2020 mainly as a result of increase in concession financial assets due to the increase in new projects secured and projects under construction.

Total current assets of the Group as at 31 December 2018, 31 December 2019 and 30 June 2020 mainly comprised, among other things, concession financial assets, trade receivables, prepayments, other receivables and other assets and cash and cash equivalents. Total current assets of the Group marginally increased by approximately 4.1% as at 31 December 2019. Such increase was mainly a result of increases in trade receivables by approximately RMB447.9 million from

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

approximately RMB854.1 million as at 31 December 2018 to approximately RMB1,302.0 million as at 31 December 2019. This increase in trade receivables was largely offset by the decrease in cash and cash equivalents of approximately 35.9% from approximately RMB2,403.5 million as at 31 December 2018 to approximately RMB1,540.0 million as at 31 December 2019. Total current assets of the Group increased by approximately 20.1% to approximately RMB5,428.8 million as at 30 June 2020. Such increase was mainly resulting from increase in the balance for cash and cash equivalents from approximately RMB1,540.0 million as at 31 December 2019 to approximately RMB2,540.6 million as at 30 June 2020 pursuant to drawdowns of loan facilities and proceeds from issuance of corporate bond during 1H2020.

Total current liabilities of the Group as at 31 December 2018, 31 December 2019 and 30 June 2020 mainly comprised trade payables and interest-bearing bank and other borrowings. Total current liabilities of the Group as at 31 December 2019 showed an increase by approximately 9.4% as compared to the balance as at 31 December 2018, due to mainly the approximate 41.0% increase in trade payables. We note that the current portion of the interest-bearing bank and other borrowings remained relatively steady at approximately RMB1,221.6 million as at 31 December 2019 as compared to approximately RMB1,332.8 million as at 31 December 2018. Total current liabilities of the Group as at 30 June 2020 increased by approximately 20.7% to approximately RMB3,594.5 million mainly as a result of increase in trade payables by approximately RMB215.7 million and increase in the current portion of the interest-bearing bank and other borrowings from approximately RMB1,221.6 million as at 31 December 2019 to approximately RMB1,564.7 million as at 30 June 2020.

Total non-current liabilities of the Group increased by approximately 41.6% from approximately RMB7,358.6 million as at 31 December 2018 to approximately RMB10,416.4 million as at 31 December 2019. We note the increase was mainly due to the increases in non-current portion of the interest-bearing bank and other borrowings by approximately RMB1,607.2 million or approximately 35.7%, pursuant to new bank loans incurred in FY2019. The total interest-bearing bank and other borrowings of the Group have been mainly used for the purpose of funding the Group's waste management and waste-to-energy projects in the PRC and New Zealand. We further noted that the increase in total non-current liabilities of the Group as at 31 December 2019 was also related to the increase in non-current lease liabilities which was a direct result of the recognition of leases as required under HKFRS16 of approximately RMB967.3 million. Total non-current liabilities of the Group further increased by approximately 18.1% to approximate RMB12,305.8 million mainly as a result the issuance of the Company's first tranche of corporate bonds due in 2025 in an aggregate principal amount of RMB1,000 million on 29 May 2020.

Partially as a result of the increase in the non-current portion of the interest-bearing bank and other borrowings, and based on the 2018 Annual Report and the 2019 Annual Report, the Group's gearing ratio, which is calculated based on total liabilities over total assets, increased from approximately 67.7% as at 31 December 2018 to approximately 71.9% as at 31 December 2019. The Group's net current assets decreased by around 4.7% from approximately RMB1,616.7 million as at 31 December 2018 to approximately RMB1,540.8 million as at 31 December 2019. The Group's current ratio marginally declined from approximately 1.6 times as at 31 December 2018 to approximately 1.52 times as 31 December 2019. As disclosed in the 2020 Interim Report, the Group's gearing ratio increased by a further 3% to approximately 75.0% as at 30 June 2020. Such increase was due to the additional new project loans and corporate bonds to meet funding requirements for new projects during the period. Current ratio of the Group marginally decreased from approximately 1.52 times as at 31 December 2019 to approximately 1.51 times as at 30 June 2020.

Total equity attributable to owners of the parent was approximately RMB3,622.6 million and approximately RMB3,719.0 million respectively as at 31 December 2019 and 30 June 2020. Based on the total number of issued Shares as at the Latest Practicable Date of 14,294,733,167, total equity attributable to owners of the parent per Share was approximately RMB0.25 as at 31 December 2019 and approximately RMB0.26 as at 30 June 2020.

2. Reasons for the Subscription Agreement

2.1 Reasons for the Subscription Agreement

As disclosed in the Company's annual reports, riding on sound development momentum of the green environmental protection industry, the Group has expanded continuously in the environmental protection section and its business area and geographical coverage. In each of FY2018 and FY2019, the Group successfully obtained 11 and 15 waste treatment projects in China with newly-designed annual solid waste treatment capacity of 2.24 million tons and 3.42 million tons respectively, which required total investments of approximately RMB2,120 million and RMB4,730 million respectively. As provided in the 2020 Interim Report, in terms of project reserves, the Group has secured a total of 78 projects including 28 waste-to-energy projects, 9 waste landfill projects, 7 anaerobic digestion technology treatment projects, 19 waste collection, storage and transportation projects, 8 hazardous waste treatment projects, 2 dismantling electronic appliances waste projects and 5 biomass resources electricity generation projects in the PRC with a total investment of approximately RMB20,300 million as at 30 June 2020. As at 30 June 2020, there were 59 domestic projects under construction and operation.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Company has been funding the development of its various projects partly by internal resources and more substantially by bank borrowings and issuing debts during the recent years, and in each of FY2017, FY2018 and FY2019, the Company raised new bank and other borrowings and/or issue of notes of approximately RMB1,985.8 million, RMB3,847.0 million and RMB2,817.2 million mainly for meeting the required investments for its projects. As substantial capital has been required and funded by debts for the Company to develop its waste-to-energy projects, it has already seen a substantial increase in its gearing ratio over the years from approximately 58.2% as at 31 December 2017 to approximately 67.7% as at 31 December 2018, and further to approximately 71.9% at 31 December 2019 and 75.0% as at 30 June 2020.

We note the Group has reported a cash and cash equivalent balance of approximately RMB2,540.6 million as at 30 June 2020. However, we have discussed and understand from the Group that a substantial portion of the increase was a result of the issuance of corporate bond during 1H2020 and such proceeds from the issuance is expected to be utilised predominately for the purpose of financing new projects. Based on the disclosures in the 2018 Annual Report and 2019 Annual Report, we further note that the Group's increases in cash balances during the recent years were mainly an effect of net cash inflow from financing activities. For example, during FY2019, the balance for cash and cash equivalent of approximately RMB1,540.0 million was the net effect from, among others, net cash inflow from financing activities of approximately RMB941.6 million and the net cash outflows of approximately RMB706.9 million and approximately RMB1,042.6 million relating to operating and investing activities respectively. Similarly, we noted that the Group reported a cash and cash equivalent of approximately RMB2,403.5 million as at 31 December 2018, such cash balance was again a net effect of, among others, net cash inflow from financing activities of approximately RMB2,891.4 million offsetting a net cash outflow of approximately RMB101.4 million and RMB1,275.0 million respectively for operating and investing activities. We have discussed and understand from the Management that the consistent cash outflow from operating activities was primarily due to increases in the number of projects secured by the Group that are still in the investment and construction stage.

The aggregate balance for outstanding interest-bearing liabilities and notes payable and corporate bonds as at 31 December 2018, 31 December 2019 and 30 June 2020 consistently represented over 70% of the Group's total liabilities with the gearing ratio continuously increased from around 67.7% as of 31 December 2018 to approximately 75.0% as of 30 June 2020. Such increase in liabilities and gearing ratio has started to inhibit the Group's ability to raise additional funding by way of additional loans and bearing additional liability which potentially would have negative implications on the Group's credit rating and financial performance. Based on our understanding from the Management, approximately 32% of net proceeds raised from the Issuance will be allocated towards easing the Group's high gearing ratio by way of repayment of certain liabilities due and at

the same time, approximately 50% of net proceeds raised will be utilised towards investment in potential solid waste projects whilst the remaining 18% of the net proceeds raised will be used for general working capital purposes.

Having considered the above, in particular, the Group has a genuine funding needs for its business operations and the Issuance can provide it with new funding for its operations and satisfying its debt repayment obligations without further jeopardising its gearing level, we consider the entering into of the Subscription Agreement fair and reasonable.

2.2 Financing alternatives

Based on our discussion with the Management, we understand that the Company has considered alternative fund-raising methods, including additional bank borrowings, placement of Ordinary Shares, rights issue or open offer, but resolved to proceed with the issuance of Offshore Preference Shares.

We have discussed and understand that the Company has considered the possibility of placement of Ordinary Shares to either connected parties of the Company or independent third-party investors, however, considering such issuance of Ordinary Shares may immediately dilute the interests of the existing Shareholders. As such, this option was not furthered.

Based on our understanding, the Company has also considered the possibility of a rights issue or an open offer exercise as it is offered to all Shareholders on a pro-rata basis. However, a rights issue or an open offer exercise will require a relatively lengthy process including but not limited to, the preparation of the requisite compliance and legal documentation such as announcements, circulars, prospectus etc.. The administrative costs involved would also be higher due to the need to issue prospectus and application forms and underwriting fee/placing commission to be incurred.

In addition, we understand from that Management that in ruling out the possibility of issuing Ordinary Shares, the Company has considered the thin trading liquidity of the Ordinary Shares, which would be difficult for it to convince all of its Shareholders, in particular the public Shareholders and/or new investors to subscribe for new Ordinary Shares of the Company. In this respect we have reviewed the trading liquidity pattern of the Ordinary Shares from 2 January 2020 to the Latest Practicable Date and noted that the average daily trading volume of the Ordinary Shares is negligible as compared to the total issued share capital of the Company and merely around 0.08% of total Ordinary Shares held by the public Shareholders. We note that both of these results would be considered as low compared to the percentage of the average daily turnover (between 2 January 2020 and 30 September 2020 (being the latest available data as disclosed in the website of the Stock Exchange as at the Latest Practicable Date)) to the total market capitalisation of listed securities on the Main Board of the Stock Exchange as at 30 September 2020 of around 0.30%.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We also understand that the Company has considered procurement of additional bank borrowings and/or issuance of debt instruments such as bonds or convertible bonds. Again, and as mentioned in the section headed “2.1 Reasons for the Subscription Agreement”, considering the existing debt level and gearing ratio of the Company and ongoing financing costs associated which would directly affect the profitability of the Group, the Directors are of the view and we concur that bearing additional liabilities would not be in the interests of the Company in the longer run. Based on the use of proceeds described above, subsequent to the intended repayment of interest-bearing bank loans and other borrowings of approximately RMB464 million (equivalent to approximately HK\$528 million), gearing ratio of the Company is expected to improve from approximately 75.0% as at 30 June 2020 to approximately 69.7%. We have also separately calculated the possible increase in gearing ratio if the Company opted to issuing debt instruments. Without accounting for the effect of interest accrual, if the Company issues debt instrument with the principal amount equal to the proceeds raised under the Offshore Preference Shares where approximately RMB464 million is intended to repay the interest-bearing bank loans and other borrowings, the Group’s gearing ratio would increase roughly by a further 1.1% to approximately 76.1%. As such, we would agree with the Management that issuing new debt would place additional pressure on the gearing ratio of the Company.

After considering all the alternatives as discussed above, the Company resolved to proceed with the Issuance.

We have also enquired the Management whether other potential investors were considered as subscribers for the Offshore Preference Shares offer. Based on our understanding, the Company has assessed possible issuances of preference shares to other potential investors and is of the view that due to the current financial position and performance of the Company, whether or not it would be able to attract interests from other potential investors would be highly uncertain and the process for it to seek interests from potential investors would also be lengthy. As such, the Management considers that a placing to the Subscribers on one hand provides an efficient mean of raising capital for the Group’s immediate needs, it also shows the Subscribers’ continued support for the Company’s development and future growth.

Given that (i) the Issuance is expected to improve the gearing position of the Group upon completion of the Issuance, in particular, the enhancement of cash position of the Group, as further elaborated under the section headed “5. Impact on shareholding structure and financial position/results of the Company” below; and (ii) the Issuance is considered the most appropriate for the Group to raise funds among other fund-raising alternatives for the moment, the Directors consider, and we concur, that the entering into of the Subscription Agreement is in the interests of the Company and its Shareholders as a whole.

3. Principal terms of the Subscription Agreement

3.1 Key terms of the Offshore Preference Shares

<i>Offering</i>	The cumulative perpetual non-voting and non-convertible Offshore Preference Shares of par value of HK\$100 each at the subscription price of HK\$1,631,620,000 in aggregate, among which Beijing Capital (HK) has conditionally agreed to subscribe for HK\$1,100,000,000 while BCG has conditionally agreed to subscribe for HK\$531,620,000.
<i>Issue Date</i>	22 December 2020 or any other later date as agreed in writing by the Company, Beijing Capital (HK) and BCG.
<i>Maturity Date</i>	The Offshore Preference Shares are perpetual and have no maturity date. The Offshore Preference Shares are not redeemable at the option of the Offshore Preference Shareholders, and the Offshore Preference Shareholders do not have the right to put back the Offshore Preference Shares to the Company.
<i>No Conversion</i>	The Offshore Preference Shares are not convertible into Ordinary Shares.
<i>Issue Price</i>	The Offshore Preference Shares will have a par value of HK\$100 each and will be issued in its Par Value.
<i>Form and Issuance</i>	The Offshore Preference Shares will be issued as fully paid-up capital in Hong Kong dollars and considered as equity instruments under the prevailing accounting principles. The Offshore Preference Shares will be issued in registered form and issued and transferable only in minimum amounts of HK\$2,000,000 (or 20,000 Offshore Preference Shares) and integral multiples of HK\$10,000 (or 100 Offshore Preference Shares) in excess thereof.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*Status and Rights upon
Liquidation*

Upon the Winding-Up of the Company, the rights and claims of the Offshore Preference Shares shall rank:

- (a) junior to holders of (i) all general unsubordinated liabilities of the Company; and (ii) all subordinated debt or other obligations issued, entered into or guaranteed by the Company that rank, or are expressed to rank, senior to the Offshore Preference Shares;
- (b) equally in all respects with each other and without preference among themselves and with the holders of Parity Obligations; and
- (c) in priority to the Ordinary Shareholders.

Dividend Rate

Subject as provided in the Conditions, each Offshore Preference Share shall entitle the Holder to receive Dividends which have not been otherwise cancelled. Each Dividend will be payable, subject as provided in the Conditions, annually in arrear on 22 December in each year.

In respect of the period from and including the Issue Date to but excluding the First Call Date, the Dividend Rate shall be 4% per annum (the “**Initial Dividend Rate**”). From and including the First Call Date, the Dividend Rate shall be the aggregate of: (i) the Initial Dividend Rate; and (ii) the Step-up Margin.

*Conditions to
Distribution of
Dividends*

Notwithstanding any other provision in the Conditions, the payment of any Dividend (including any Arrears of Dividend and any Additional Dividend Amount) on any Dividend Payment Date is subject to:

- (a) the Board having passed a resolution to declare such Dividend (including any Arrears of Dividend and any Additional Dividend Amount) in accordance with the Articles of Association and the Conditions; and

- (b) the Company having distributable after-tax profits (as determined in accordance with HKFRS and any applicable law) to pay such Dividend (including any Arrears of Dividend and any Additional Dividend Amount).

Optional Deferral

The Company may, at its sole discretion, elect to defer (in whole or in part) any Dividend which is otherwise scheduled to be paid on a Dividend Payment Date to the next Dividend Payment Date. The Company is not subject to any limit as to the number of times Dividends and Arrears of Dividends can or shall be deferred, subject to the Conditions.

*Restrictions in the case
of Deferral of
Payment of Dividend*

If, on any Dividend Payment Date, payment of Dividends scheduled to be made on such date is not made in full, the Company shall not, and shall procure that none of its subsidiaries will declare, pay or make any discretionary dividends, distributions or make any other discretionary payment on, and will procure that no discretionary dividend, distribution or other discretionary payment is declared, paid or made on, any Junior Obligations or Parity Obligations (including by way of redemption, cancellation or repurchase of any Junior Obligations or Parity Obligations), unless and until the Company has satisfied in full all outstanding Arrears of Dividends and Additional Distribution Amount, provided that such restrictions shall not apply (i) in relation to Parity Obligations of the Company on a pro rata basis or (ii) in connection with any employee benefit plan or similar arrangements with or for the benefit of employees, officers, directors or consultants of the Company.

Optional Redemption

The Company may, in each case as permitted by and in accordance with applicable law, at any time upon giving not less than 30 nor more than 60 days' notice to the Offshore Preference Shareholders and the Fiscal Agent, redeem in whole or in part the Offshore Preference Shares, until all the Offshore Preference Shares have been redeemed. The redemption price for each Offshore Preference Share so redeemed shall be the aggregate of an amount equal to its Par Value plus any accrued but unpaid Dividends in respect of the period from (and including) the immediately preceding Dividend Payment Date to (but excluding) the date scheduled for redemption (including any Arrears of Dividend and any Additional Dividend Amount).

In the case of a partial redemption of the Offshore Preference Shares, the Offshore Preference Shares shall be redeemed by the Company (i) on a pro rata basis; or (ii) by such other method and in such place as the Company deems fit acting in good faith and after consultation with the Fiscal Agent.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*Redemption for
Taxation Reasons*

The Company may, in each case as permitted by and in accordance with applicable law, upon giving not less than 30 nor more than 60 days' notice (a "**Tax Redemption Notice**") to the Offshore Preference Shareholders and the Fiscal Agent, redeem in whole, but not in part the Offshore Preference Shares on the date specified in the Tax Redemption Notice for redemption (the "**Tax Redemption Date**"), with the redemption price for each Preference Share being the aggregate of an amount equal to its Par Value plus any accrued but unpaid Dividends in respect of the period from (and including) the immediately preceding Dividend Payment Date to (but excluding) the Tax Redemption Date (including any Arrears of Dividend and any Additional Dividend Amount), if (i) the Company has or will become obliged to pay Additional Tax Amounts (as defined below) as provided or referred to in the Conditions; and (ii) such obligation cannot be avoided by the Company taking reasonable measures available to it, provided that no Tax Redemption Notice shall be given earlier than 90 days prior to the earliest date on which the Company would be obliged to pay such Additional Tax Amounts were a payment in respect of the Offshore Preference Shares then due.

*Taxation and
Withholding*

All payments of Dividends will be made free and clear of, and without withholding or deduction for or on account of, any present or future tax, duty, assessments or governmental charges of whatsoever nature imposed or levied by or on behalf of the Cayman Islands, Hong Kong or the PRC or any political subdivision or any authority thereof or therein having power to levy tax in the Cayman Islands, Hong Kong or the PRC, unless such withholding or deduction is required by the law of the Cayman Islands, Hong Kong or the PRC. In that event, the Company shall pay such additional amounts ("**Additional Tax Amounts**") as will result in the receipt by the Offshore Preference Shareholders of such amounts as would have been received by them if no such withholding or deduction had been required, provided, however, that no such Additional Tax Amounts shall be payable in respect of any Offshore Preference Shares in the circumstances specified in the Conditions.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Limited Voting Rights

Pursuant to the Articles of Association, Offshore Preference Shareholders shall not be entitled to convene, attend or vote at any Shareholders' general meeting, other than when the business of the Shareholders' general meeting is to consider any resolution to (i) amend the Articles of Association to modify the rights and privileges attached to the Offshore Preference Shares; or (ii) adversely modify any of the special rights and privileges attached to the Offshore Preference Shares; or (iii) convene proceedings in respect of the Company for reconstruction, consolidation, amalgamation, merger, reorganisation or Winding-up of the Company (each, a "**Variation Resolution**"), in which case the Offshore Preference Shareholders will be entitled to attend the Shareholders' general meeting and vote only upon such Variation Resolution, and the Offshore Preference Shareholders will be entitled to one vote in respect of each outstanding Offshore Preference Share and vote together with other preference Shareholders as a separate class from the Ordinary Shareholders. The Offshore Preference Shares held by, or on behalf of, the Company shall have no voting rights.

Use of Proceeds

The proceeds of the Issuance will be used for investments on potential projects, general working capital and repaying debts.

Listing

The Offshore Preference Shares will not be listed on the Stock Exchange or any other securities exchange. So long as any Offshore Preference Share remains outstanding, it shall not be capable of being listed on the Stock Exchange or any other securities exchange or cleared through any clearing system.

Governing Law

The Offshore Preference Shares and the rights and obligations attached to them are governed by, and shall be construed in accordance with, the laws of the Cayman Islands.

3.2 Conditions precedent to the subscription

The obligations of Beijing Capital (HK) and BCG to subscribe and pay for the Offshore Preference Shares are subject to the fulfilment of the following conditions on or prior to the Issue Date:

- (a) the Company having obtained all required approval(s) from the National Development and Reform Commission of the PRC for the purposes of the Subscription Agreement and the transactions contemplated thereunder, including the Issuance;
- (b) the publication and despatch of the circular in relation to the EGM to Shareholders; and
- (c) the Independent Shareholders having passed the relevant resolutions at the EGM approving the Subscription Agreement and the transactions contemplated thereunder, including the Issuance, and the Specific Mandate.

The conditions (a) to (c) above are not waivable by the parties to the Subscription Agreement and no conditions have been fulfilled or waived as at the Latest Practicable Date.

4. Evaluation of the Dividend Rate and the Step-up Margin

We have discussed and understand from the Management that in determining the terms and structure of the Offshore Preference Shares, including the Dividend Rate and the Step-up Margin, the Company has also considered, among other things, the recent issuances of perpetual capital securities (“PCS”), perpetual securities (“PS”) and perpetual capital notes/bonds (“PCN”) for cash by companies listed on the Main Board of the Stock Exchange, in particular, the recent issue of preference shares by Cathay Pacific Airways Limited (stock code: 293) (“**Cathay Pref Shares**”) as well as the issue of PCS by Overseas Chinese Town (Asia) Holdings Limited (stock code: 3366) and the issue of PS by China Communications Construction Company Limited (stock code: 1800).

We agree that although the names of the instruments may differ and certain instruments may be listed, fund-raising through the issue of non-convertible preference shares, PCS, PS, PCN and in the Company’s case, the Offshore Preference Shares, are considered to be comparable since they can allow the issuer to raise new funds by paying a return (i.e. interest) like issuing debts, but without increasing its gearing level and are perpetual in nature and non-convertible into ordinary shares.

As such, to assess the fairness and reasonableness of the key terms of the Offshore Preference Shares including the Dividend Rate and the Step-up Margin, we have conducted our independent research of based on comparable analysis through identifying issuances of perpetual non-convertible preference shares, PCS, PS and PCN for cash by companies listed on the Main Board of the Stock Exchange (excluding companies under prolonged suspension or debt restructuring) or by their subsidiaries, which have been announced with details on the terms of the instruments by way of announcement(s) published during the period from 1 January 2020 up to and including

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the Latest Practicable Date (the “**Review Period**”). We would consider the review period chosen to be fair and reasonable as it reflects the prevailing market environment. Based on the aforementioned criteria, on a best effort basis, we have noted and reviewed 1 issuance of perpetual non-convertible preference shares, being the Cathay Pref Shares and 8 comparable transactions involving the issuance of PCS, PS or PCN (together as the “**Comparable Issues**”).

Notwithstanding that the subject companies constituting the Comparable Issues may have different principal activities, market capitalisation, profitability and financial position as compared with those of the Company, and different reasons for their respective fund raising activities, we would still consider, in light of our selection criteria, capturing recent issues of perpetual non-convertible preference shares, PCS, PS or PCN by listed companies (or their subsidiaries) under similar market conditions and sentiments can provide Shareholders with a broad perspective of recent market trend of this type of transaction which is similar to that of the issuance of Offshore Preference Shares proposed by the Company in the Hong Kong equity capital market. Based on the aforementioned criteria, we consider the Comparable Issues identified to be exhaustive.

Date of Announcement	Company	Stock Code	Size of Issuance (HK\$)	Nature of issue	Initial distribution rate per annum (%) (Note 1)	Period for initial rate to apply (year)	First reset rate (Note 2)	Subsequent Reset frequency (year) (Note 7)	Possible Maximum reset rate (Note 2)	Redemption terms (Note 3)	Listed/unlisted
14-Feb-20	China Communications Construction Company Limited (Note 8)	1800	7,800,000,000 (series A securities) (Note 6)	PS	3.43%	5	N/A (Note 6)	5	N/A (Note 6)	Issuer Discretion	Listed
14-Feb-20	China Communications Construction Company Limited (Note 8)	1800	3,900,000,000 (series B securities) (Note 6)	PS	3.65%	7	N/A (Note 6)	5	N/A (Note 6)	Issuer Discretion	Listed
24-Feb-20	Far East Consortium International Limited (Note 8)	35	468,000,000	PCN	7.38%	5	5.924% + 3.00% + treasury rate	5	treasury rate + 5.924% + 3.00%	Issuer Discretion	Listed
9-Jun-20	Cathay Pacific Airways Limited (“CX”)	293	19,500,000,000	Preference shares	3.00%	3	5.00%	1 (Note 4)	9.00%	Issuer Discretion	Unlisted
30-Jun-20	Huarong International Financial Holdings Limited (“HRIF”) (Note 8)	993	1,560,000,000	PS	5.905%	5	5.905% + 5.00% (Note 5)	5	5.905% or prevailing distribution rate + 5.00%	Issuer Discretion	Unlisted
9-Jul-20	Overseas Chinese Town (Asia) Holdings Limited	3366	3,900,000,000	PCS	4.50%	3	4.312% + 4% + treasury rate	3	4.312% + 4% + treasury rate	Issuer Discretion	Listed
18-Aug-20	Suncity Group Holdings Limited (“Suncity”)	1383	6,000,000,000	PS	5.00%	N/A	5.00% (No reset)	N/A	5.00% (No reset)	Issuer Discretion	Unlisted
23-Sep-20	Kaisa Group Holdings Ltd.	1638	1,560,000,000	PCS	10.875%	3	10.718% + 5% + treasury rate	3	treasury rate + 10.718% + 5%	Issuer Discretion	Listed
24-Sep-20	China Huarong Asset Management Co., Ltd.	2799	1,950,000,000	PS	4.25%	5	3.979% + 3.00% + treasury rate	5	3.979% + treasury rate + 3.00%	Issuer Discretion	Listed
				Average	5.33%	4.50		4.00			
				Maximum	10.88%	7.00		5.00			
				Minimum	3.00%	3.00		1.00			
	The Company		1,631,620,000		4.00%	3.00	7.00%	N/A (Note 9)	7.00%		

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Note 1: As the case may be, based on dividend rate of preference shares or distribution rate for PCS, PS and PCN.

Note 2: The “first reset rate” refers to the reset rate applicable to the relevant security from the first reset date until the subsequent reset date (if any). The “possible maximum reset rate” is the possible maximum reset rate for the subject issue based on the information as disclosed in the respective Comparable Issue’s announcement. These rates, or formulas for arriving at the then reset rates, are extracted from the information available based on the relevant issuance announcements. For a majority of the Comparable Issues, a “treasury rate” as of each reset date is included as one of the variables in calculating the then reset rate and therefore, the first reset rate and the possible maximum reset rate under those Comparable Issues cannot be ascertained as at the Latest Practicable Date.

Note 3: Redemption terms — no issuers listed in the table has disclosed any subscriber related redemption (call) rights of subscriber in its respective announcements.

Note 4: No more reset on distribution rate beyond the date falling five years from the issue date of the Cathay Pref Shares.

Note 5: Based on the issue announcement, the distribution rate applicable to the following periods after the first reset date will be 5.905% (for the first reset period) or the prevailing distribution rate at the time applicable to the securities (for each of the following reset periods), plus the margin of 5.00% per annum.

Note 6: The issuances of series A and series B securities announced by China Communications Construction Company Limited were announced as part of one announcement dated 14 February 2020.

No additional detail was disclosed in the issue announcement regarding the applicable first reset rate or subsequent reset rate other than the reset frequency and the fact that the reset will be according to the terms and conditions of the respective issue. As such, the first reset rate and the possible maximum reset rate is assumed to be not applicable.

Note 7: Subsequent reset frequency (year) refers to frequency for which the distribution rate/ interest reset mechanism would take effect following the first reset period until the following reset date.

Note 8: We note from the Comparable Issues that (i) the issuance of PS by China Communications Construction Company Limited in February 2020 was issued by a 98.98% subsidiary and China Communications Construction Company Limited is the guarantor for the issue; and (ii) issuances of PCN and PS by Far East Consortium International Limited and HRIF were issues made by their respective wholly owned subsidiaries and guaranteed by the listed company. As the respective issuers for the aforementioned issuances are controlled by the listed issuer and their results would be consolidated as part of the listed issuer group, and furthermore, the performance obligations under the relevant issues were guaranteed by the listed issuer, we consider it fair to include these issuances as part of the Comparable Issues.

Note 9: No more reset on distribution rate beyond the date falling three years from the Issue Date.

As shown in the table above, the initial distribution rate to be paid by the issuers of the respective Comparable Issue ranges from approximately 3.00% to approximately 10.88% with an average of approximately 5.33%. The Initial Dividend Rate is close to the minimum distribution rate and below the average of the distribution rates of the Comparable Issues and is accordingly considered as favourable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We also noted that, save for issue of Suncity, all other Comparable Issues have distribution rate reset mechanism. We note that based on the terms of the Offshore Preference Shares, the First Call Date will be three years apart from the Issue Date, which, as shown in the table above, is in line with results derived from the Comparable Issues where the reset periods are ranged between 3 and 7 years with an average of 4.5 years.

We further note from the table above that a majority of the Comparable Issues had floating reset rate(s) being calculated mainly based on a formula stated in the instrument and the then treasury rate/prevaling rate, which would make the comparison between the step-up rate of the Offshore Preference Shares (being the Initial Dividend Rate plus the Step-up Margin) of 7.0% (the “**Step-up Rate**”) with the first reset rate and possible maximum reset rate of such Comparable Issues not applicable nor feasible. In such circumstances, we have compared the three Comparable Issues with the predetermined rate for their first reset period including issues of CX, HRIF and Suncity, with the Offshore Preference Shares. We note that the Step-Up Rate of 7% is within the range of the first reset rates of the aforesaid three Comparable Issues between 5.00% and 10.905%, and is roughly equal to the average reset rate of around 7.0%. In addition, when comparing the possible maximum reset rate between the two Comparable Issues with predetermined rate for subsequent reset periods following the first reset period, including issues of CX and Suncity, the possible maximum reset rate of the Offshore Preference Shares of 7.0% is equal to the average maximum rate of the issues of CX and Suncity. As such, we consider the reset mechanism of the Offshore Preference Shares, including the Initial Dividend Rate, the reset period and the Step-Up Rate, to be reasonable.

Shareholders should note that, as provided in the terms of the Offshore Preference Shares, unless and until the Company has satisfied in full all outstanding Arrears of Dividends and Additional Distribution Amount, the Company shall not, and shall procure that none of its subsidiaries will declare, pay or make any discretionary dividends, distributions or make any other discretionary payment on, and will procure that no discretionary dividend, distribution or other discretionary payment is declared, paid or made on, among other things, any Junior Obligations which include, among other things, declare or pay dividends to the Ordinary Shareholders). Based on our review of the relevant announcements relating to the Comparable Issues, such preference in distribution over ordinary shares is considered common amongst the Comparable Issues. In addition, other major terms of the Offshore Preference Shares such as issuer’s option to redeem and limited voting rights are also similar to those of the Comparable Issues and therefore, are considered in line with the market.

In light of the above, we are of the view that key terms of the Offshore Preference Shares, including the Dividend Rate and the Step-up Margin, are fair and reasonable and in line with the general market.

5. Impact on shareholding structure and financial position/results of the Company

The Offshore Preference Shares do not bear any voting rights and are not convertible into Ordinary Shares and hence, the Issuance will not affect the holdings of the Ordinary Shareholders.

As disclosed in the 2019 Annual Report, the Group had cash and cash equivalents of approximately RMB1,540.0 million as at 31 December 2019. As disclosed in the letter from the Board in the Circular, net proceeds (after deducting professional fees and other related expenses) to be received by the Company from the issue of the Offshore Preference Shares is approximately HK\$1,625.6 million (equivalent to approximately RMB1,430 million). Immediately upon completion of the subscription of the Offshore Preference Shares, it is expected that the cash position of the Group will be enhanced with the amount of net proceeds of the Issuance to be received by the Company.

Immediately upon completion of the subscription of the Offshore Preference Shares, it is expected that net assets of the Group will also be enhanced as the Issuance will be accounted for as equity in the consolidated accounts of the Group and, accordingly, the Group's gearing ratio (calculated based on total liabilities over total assets) of approximately 71.9% as at 31 December 2019 is expected to decrease immediately after completion of the subscription of the Offshore Preference Shares, on a proforma basis.

As provided under the terms of the Offshore Preference Share, each Offshore Preference Share shall entitle the holder to receive Dividends which is payable annually in arrear, and the Dividends should be payable out of the distributable after-tax profits of the Group. Shareholders should note that there may or may not be dilution to earnings per Ordinary Share which will be dependent on, among other things, the then profitability of the Group which may depend on, among other things, the Company's ability to implement the plan of development of its projects in a timely manner, and the redemption, if any, of the Offshore Preference Share by the Company.

On the above basis, the Directors consider, and we concur that the financial position of the Group is expected to be strengthened after completion of the Issuance.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position/results of the Group will be upon completion of the Issuance.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

6. Discussion

Having considered, in particular:

- (i) the reasons for the Subscription Agreement as outlined in the sub-section headed “2.1 Reasons for the Subscription Agreement”, including but not limited to, that the Issuance can provide new funding for the Group’s business operations and for satisfying its loan payment obligations without further jeopardising its gearing level;
- (ii) as discussed in sub-section headed “2.2 Financing alternatives” above, the Issuance is considered one of the most appropriate and efficient means for the Group to raise funds among other fund-raising alternatives for the moment;
- (iii) the fact that the key features of the Offshore Preference Shares, including but not limited to the Dividend Rate and the Step-up Rate, are fair and reasonable and is in line with the market as discussed in the section headed “4. Evaluation of the Dividend Rate and the Step-up Margin”; and
- (iv) as discussed in section headed “5. Impact on shareholding structure and financial position/results of the Company” above, the Issuance is expected to improve, in particular, the working capital and the gearing position of the Group upon completion of the Issuance,

we are of the view that the terms of the Transactions are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

RECOMMENDATION

Having considered of the above principal factors and reasons, we consider that, though the Subscription Agreement is not in the ordinary and usual course of the business of the Company, terms of the Subscription Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and is in the interest of the Company and its Shareholders as a whole. We therefore advise that the Independent Shareholders, and the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the EGM.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Lyan Tam
Director

Ms. Lyan Tam is a licensed person registered with the Securities and Futures Commission and as a responsible officer of Somerley to carry out Type 6 (advising on corporate finance) regulated activities under the SFO and has over 17 years of experience in corporate finance industry.

1 RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiry, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2 DISCLOSURE OF INTERESTS

(a) Interests and short positions of Directors

As at the Latest Practicable Date, none of the Directors, chief executives of the Company or their associates had any interests or short positions in any Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

(b) Interests and short positions of substantial shareholders

As at the Latest Practicable Date, so far as it is known to the Directors, the following Shareholders (not being a Director or chief executive of the Company) had interests or short position in the Shares or the underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholders	Capacity	Number of Shares/ underlying Shares held	Approximate percentage of shareholding
Beijing Capital (HK) ⁽¹⁾	Beneficial owner	6,449,026,736	45.11%
Beijing Capital ⁽¹⁾	Interest of a controlled corporation	6,449,026,736	45.11%
BCG ⁽²⁾	Beneficial owner	3,116,767,072	21.80%
Beijing Capital Group ⁽¹⁾⁽²⁾	Interest of controlled corporations	9,565,793,808	66.92%

Notes:

- 1 Beijing Capital (HK) is a wholly-owned subsidiary of Beijing Capital. Beijing Capital is in turn controlled by Beijing Capital Group. As such, Beijing Capital Group and Beijing Capital are deemed to have interest in the Shares held by Beijing Capital (HK) for the purposes of the SFO.
- 2 BCG is the wholly-owned subsidiary of Beijing Capital Group. Therefore, Beijing Capital Group is deemed to be interested in the Shares held by BCG in accordance with the SFO.

Save as disclosed above and so far as the Directors are aware of, as at the Latest Practicable Date, there was no other person who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

The Company has no share option schemes currently in force.

3 SERVICE CONTRACTS

As at the Latest Practicable Date, each of the executive Directors has entered into a service contract with the Company for a term of three years, and will continue thereafter until terminated by either party thereto giving to the other not less than three months' prior notice in writing.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for a term of three years.

Save as disclosed above, none of the Directors has any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the Company within one year without payment of compensation (other than statutory compensation)).

4 COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective close associates (as defined in the Listing Rules) was interested in any business, apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with that of the Group.

5 INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2019 (being the date to which the latest published audited accounts of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement which was significant in relation to the business of the Group.

6 MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirm that there was no material adverse change in the financial or trading position of the Group since 31 December 2019, being the date to which the latest published audited accounts of the Company have been made up.

7 QUALIFICATION AND CONSENT OF EXPERT

The following is the qualification of the expert who has given its opinion or advice for the inclusion in this circular:

Name	Qualification
Somerley Capital Limited	Licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

Somerley Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter, report, opinion (as the case may be) and the references to its name (including its qualification) in the form and context in which they respectively appear.

As at the Latest Practicable Date, Somerley Capital Limited did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did it have any direct or indirect interests in any assets which had been, since the date to which the latest published audited consolidated financial statements to which the Group were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

8 MISCELLANEOUS

- (1) The Company's registered office is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (2) The Company's principal place of business is at Unit 1613-1618, 16/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong.
- (3) The share registrar of the Company in the Cayman Islands is Suntera (Cayman) Limited, 3rd Floor, 24 Shedden Road, P.O.Box 1586, Grand Cayman KY1-1110, Cayman Islands.
- (4) The share registrar of the Company in Hong Kong is Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

- (5) Ms. Wong Bing Ni is the company secretary of the Company. Ms. Wong is a fellow member of The Hong Kong Institute of Chartered Secretaries and The Hong Kong Institute of Chartered Accountants.
- (6) The English text of this circular shall prevail over the Chinese text in the event of any inconsistency.

9 DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the Company's principal place of business in Hong Kong at Unit 1613–1618, 16/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong during normal business hours on any weekday (excluding public holidays) for a period of 14 days from the date of this circular:

- (1) the Subscription Agreement;
- (2) the letter from the Board, the text of which is set out on pages 6 to 19 of this circular;
- (3) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 20 to 21 of this circular;
- (4) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 22 to 45 of this circular;
- (5) the written consent referred to in the section headed “7. Qualification and Consent of Expert” of Appendix to this circular;
- (6) the service contracts and the letter of appointments referred to in the section headed “3. Service Contracts” of Appendix to this circular;
- (7) this circular; and
- (8) the Articles of Association.



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)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**EGM**”) of Capital Environment Holdings Limited (the “**Company**”) will be held at Unit 1613–1618, 16/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong on Wednesday, 4 November 2020 at 2:30 p.m. for the purpose of considering and, if thought fit, passing the following resolutions, with or without amendments, as ordinary resolution of the Company.

Capitalised terms used in this notice shall have the same meanings as those defined in the circular of the Company dated 19 October 2020 to the Shareholders (the “**Circular**”) unless otherwise specified.

ORDINARY RESOLUTIONS

1. “**THAT**

- (a) the Subscription Agreement and all transactions contemplated therein and in connection therewith and any other agreements or documents in connection therewith be and are hereby approved, confirmed, authorised and ratified; and
- (b) any one Director be and is hereby authorised for and on behalf of the Company to do all such acts and things and execute and deliver, and (where required) to affix the common seal of the Company to, all such documents which he may in his absolute discretion considers to be necessary, desirable or appropriate in connection with paragraph (a) of this resolution no. 1”

2. “**THAT** subject to and conditional upon the passing of the ordinary resolution no. 1 in this notice,

- (a) the grant of a specific mandate to the Directors with the power and authority to allot and issue the Offshore Preference Shares in accordance with the terms and conditions of the Subscription Agreement be and are hereby approved; and

NOTICE OF THE EGM

- (b) any one Director be and is hereby authorised to do all such acts and things and execute all such documents for and on behalf of the Company as they may consider necessary, desirable or appropriate in connection with paragraph (a) of this resolution no. 2”

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

Hong Kong, 19 October 2020

As at the date of this notice, the board of directors of the Company comprises four executive directors, namely Mr. Cao Guoxian, Mr. Li Fujing, Ms. Hao Chunmei and Mr. Xiao Yukun; and three independent non-executive directors, namely, Mr. Pao Ping Wing, Mr. Cheng Kai Tai, Allen and Dr. Chan Yee Wah, Eva.

Notes:

1. A form of proxy for use at the EGM is enclosed with the circular of the Company dated 19 October 2020 to the shareholders.
2. Where there are joint registered holders of any share, any one of such persons may vote at the EGM, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders are present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company shall, in respect of such share, be entitled alone to vote in respect thereof.
3. Any member of the Company entitled to attend and vote at the EGM is entitled to appoint a proxy to attend and vote instead of him/her. A proxy need not be a member of the Company. A member who is the holder of two or more shares of the Company may appoint more than one proxy to represent him/her to attend and vote on his/her behalf. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
4. The register of members of the Company will be closed from Friday, 30 October 2020, to Wednesday, 4 November 2020, both days inclusive, during which period no transfer of shares of the Company will be effected. As such, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 29 October 2020 for the purpose of determining shareholders' eligibility to attend and vote at the EGM.
5. In order to be valid, the instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited at the Company's share registrar in Hong Kong, Tricor Investor Services Limited Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time fixed for holding the EGM or any adjournment thereof.
6. Completion and return of a proxy form will not preclude a shareholder from attending and voting in person if he/she is subsequently able to be present and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

NOTICE OF THE EGM

7. In light of the outbreak of novel coronavirus (COVID-19), the Company will implement the following precautionary measures at the EGM in order to protect the health and safety of the attendees at the EGM, including:
- a. all attendees will subject to compulsory body temperature checks at the entrance of the EGM venue. Any person with a body temperature of 37 degrees Celsius or higher may be denied entry into the EGM venue or be required to leave the EGM venue;
 - b. all attendees will be required to wear surgical face masks throughout the EGM;
 - c. any person who does not comply with the above measures may be denied entry to the meeting venue; and
 - d. no beverage or refreshments will be served at the EGM.

Any person who does not comply with the precautionary measures may be denied entry into the EGM venue. Members of the Company are reminded that they may appoint the chairman of the EGM as their proxy to vote on the relevant resolution at the EGM as an alternative to attending the EGM in person.

8. The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English version shall prevail.