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CAPITAL ENVIRONMENT HOLDINGS LIMITED

首創環境控股有限公司

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 03989)

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

Reference is made to the announcement (the “**Announcement**”) of Capital Environment Holdings Limited (the “**Company**”) dated 8 September 2021. Unless otherwise stated, capitalised terms used herein shall have the same meanings as defined in the Announcement.

This announcement is made to provide (a) supplementary information on and clarify the identities of the ultimate beneficial owners of Zhejiang ECO-WASTE Technology Co., Ltd.* (浙江泰來環保科技有限公司), being the Vendor and Zhumadian Industry Investment Group Co., Ltd.* (駐馬店市產業投資集團有限公司), being a shareholder of the Target Company holding approximately 14.36% of the equity interests of the Target Company as at the date of the Announcement; (b) further information on the background of Zhumadian Industry Investment; and (c) the required information under Rule 14.60A of the Listing Rules in relation to the profit forecast contained in the Announcement.

To the best of the Directors’ knowledge, information and belief and having made all reasonable enquiries, as at the date of this announcement, Zhejiang ECO-WASTE Technology Co., Ltd.* (浙江泰來環保科技有限公司), the Vendor, is owned (i) ultimately as to approximately 27.8% of the equity interests by Bao Haiming (鮑海明); (ii) ultimately as to approximately 19.3% of the equity interests by Liu Yushan (劉玉山); (iii) ultimately as to approximately 27.5% of the equity interests by 16 other independent individuals, each of whom holding no more than 5% of the equity interests in the Target Company; (iv) as to approximately 13.1% of the equity interests by three limited companies; and (v) as to approximately 12.3% of the equity interests by two limited partnerships.

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

Save as disclosed above, all other information as set out in the Announcement remain unchanged.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, as at the date of this announcement, Zhumadian Industry Investment was ultimately owned as to approximately 67.9% of the equity interests by Zhumadian City Finance Bureau* (駐馬店市財政局) and was owned as to approximately 32.1% of the equity interests by CDB Development Fund Co., Ltd.* (國開發基金有限公司), which was in turn wholly-owned by China Development Bank (國家開發銀行).

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, both Zhumadian Industry Investment and its shareholders and their respective ultimate beneficial owners are Independent Third Parties.

Zhumadian Industry Investment is a company incorporated in the PRC with limited liability and is principally engaged in investment in infrastructure projects involving real estate development, municipal services, power generation facilities and hydraulic facilities.

COMPLIANCE WITH THE LISTING RULES

As disclosed in the Announcement, the Consideration was determined between the Vendor and the Purchaser after arm's length negotiations with reference to, among other things, the estimated value of 100% equity interest in the Target Company as at 31 December 2020 of approximately RMB281 million, based on the Valuation Report prepared based on the discounted cash flow method under the income approach by the independent PRC Valuer.

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

The principal assumptions upon which the Valuation Report was based are set out below:

(I) General Assumptions

1. Transaction assumption: Assuming all assets to be valued are in the course of transaction and the valuation assessed by the PRC Valuer is based on comparable market including terms of transaction of the target assets;
2. Open market assumption: Assuming that the parties to the asset transaction or the proposed asset transaction in the market are dealing with each other at arm's length and have opportunities and time to obtain sufficient market information in order to make rational judgment on the functions, uses and transaction prices of the assets; and
3. Continuing operation of the enterprise assumption: Assuming the assessed unit is in full compliance with all relevant laws and regulations and shall operate continually in the limited period.

(II) Special Assumptions

1. This valuation takes the specific valuation purposes set out in the Valuation Report as its basic assumption premises;
2. There is no material change in the relevant existing laws and regulations of the PRC, or in the macroeconomic conditions of the PRC, and there is no unforeseeable and material change in external economic environment such as interest rate, exchange rate, tax basis and tax rate, as well as policy-related levies;
3. This valuation assumes the appraised entity's operation and management team in the future will be accountable and will maintain the existing operation and management mode and the scope and mode of operation will be consistent with the current direction;
4. This valuation assumes the appraised assets are in continuous use according to the current purposes and way of use, size, frequency and environment, without taking into account the respective optimal use of each asset;
5. It is assumed that there will be no material adverse impact on the enterprise arising from other force majeure and unforeseeable factors based on the current management method and standard of the enterprise;
6. The relevant basic information and financial information provided by the appraised entity and the principal are true, accurate and complete;
7. The financial report and transaction data of the comparable company relied by the valuer are true and reliable;
8. The scope of valuation is only based on the declaration form for valuation provided by the principal and the appraised entity, without taking into account the possible contingent assets and contingent liabilities out of the list provided by the principal and the appraised entity;
9. It is assumed that the estimated waste treatment volume and power generation as contained in the Technical Due Diligence Report on the Project of Hazard-free Treatment, Comprehensive Treatment and Recycling of Domestic Waste of Zhumadian City* (駐馬店市生活垃圾無害化綜合處理再生利用項目技術盡調報告) provided by the principal will be realized as scheduled; and
10. This valuation assumes the enterprise has balanced net cash flows in the year.

Confirmations

Ernst & Young, the reporting accountant of the Company, has reviewed the arithmetical accuracy of the calculations of the discounted cash flow forecast on which the valuation is based, which do not involve the adoption of accounting policies and the appropriateness and validity of the assumptions. The Board has confirmed that the profit forecasts for the Target Company as set out in the Valuation Report have been made after due and careful enquiry by the Board. The text of the report from Ernst & Young dated 28 September 2021 and the letter issued by the Board are set out in Appendix I and Appendix II to this announcement, respectively. The qualifications of the experts who have given their conclusion or advices included in this announcement are set out as below:

Name	Qualification
Ernst & Young	Certified Public Accountants
China Alliance Appraisal Co., Ltd.	Valuer

To the best of the Directors' knowledge, information and belief and after having made all reasonable enquiries, each of the PRC Valuer and Ernst & Young is a third party independent of the Group and its connected person(s).

To the best of the Directors' knowledge, information and belief, as at the date of this announcement, none of the PRC Valuer or Ernst & Young has any shareholding, directly or indirectly, in any member of the Group, or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group.

Each of the PRC Valuer and Ernst & Young had given and has not withdrawn its respective written consent to the publication of this announcement with the inclusion of its respective name, letter, statements and all references to its name (including its qualification) in the form and context in which it respectively appears.

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

Hong Kong, 28 September 2021

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

* *For identification purpose only*

APPENDIX I — REPORT FROM ERNST & YOUNG

The following is the text of a report from the Company's reporting accountants, Ernst & Young, Certified Public Accountants, for inclusion in this announcement.

To the Directors of Capital Environment Holdings Limited

REPORT FROM REPORTING ACCOUNTANTS ON THE DISCOUNTED CASH FLOW FORECAST IN CONNECTION WITH THE VALUATION OF EQUITY INTEREST IN ZHUMADIAN ECO-WASTE TECHNOLOGY CO., LTD.

We have been engaged to report on the arithmetical accuracy of the calculations of the discounted cash flow forecast (the “**Forecast**”) on which the valuation dated 30 August 2021 prepared by China Alliance Appraisal Co., Ltd. in respect of the equity interests of Zhumadian ECO-WASTE Technology Co., Ltd. (駐馬店泰來環保能源有限公司, the “**Target Company**”) as at 31 December 2020 is based. The valuation is set out in the announcements of Capital Environment Holdings Limited (the “**Company**”) dated 8 September 2021 and 28 September 2021, respectively in connection with the proposed acquisition of equity interests in the Target Company. The valuation based on the Forecast is regarded by The Stock Exchange of Hong Kong Limited as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

Directors' responsibilities

The directors of the Company (the “**Directors**”) are solely responsible for the Forecast. The Forecast has been prepared using a set of bases and assumptions (the “**Assumptions**”), the completeness, reasonableness and validity of which are the sole responsibility of the Directors. The Assumptions are set out in the section headed “Compliance with the listing rules” of the announcement dated 28 September 2021.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' responsibilities

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the Forecast based on our work. The Forecast does not involve the adoption of accounting policies.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the arithmetical accuracy of the calculations are concerned, the Directors have properly compiled the Forecast in accordance with the Assumptions adopted by the Directors. Our work consisted primarily of checking the arithmetical accuracy of the calculations of the Forecast prepared based on the Assumptions made by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

We are not reporting on the appropriateness and validity of the Assumptions on which the Forecast are based and thus express no opinion whatsoever thereon. Our work does not constitute any valuation of the Target Company. The Assumptions used in the preparation of the Forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Forecast and the variation may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

Opinion

Based on the foregoing, in our opinion, so far as the arithmetical accuracy of the calculations of the Forecast is concerned, the Forecast has been properly compiled in all material respects in accordance with the Assumptions adopted by the Directors.

Ernst & Young

Certified Public Accountants

Hong Kong

28 September 2021

APPENDIX II — LETTER FROM THE BOARD

The following is the text of a letter from the Board of the Company prepared for the purpose of incorporation in this announcement.

28 September 2021

The Listing Division
The Stock Exchange of Hong Kong Limited
12/F, Two Exchange Square
8 Connaught Place, Central, Hong Kong

Dear Sirs,

Discloseable Transaction in relation to the acquisition of the Sale Interests in the Target Company

We refer to the announcement of the Company dated 8 September 2021 and the supplemental announcement of the Company dated 28 September 2021 (collectively, the “**Announcements**”), of which this letter forms part. Unless the context otherwise requires, terms defined in the Announcements shall have the same meanings when used herein.

Reference is made to the valuation report (the “**Valuation Report**”) dated 30 August 2021 prepared by China Alliance Appraisal Co., Ltd., an independent valuer (the “**PRC Valuer**”), in relation to the valuation (the “**Valuation**”) of 100% equity interest in Zhumadian ECO-WASTE Technology Co., Ltd. (駐馬店泰來環保能源有限公司). The Valuation, which was prepared based on the discounted cash flow method, is deemed to be a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

We have discussed with the PRC Valuer and reviewed the assumptions based upon which the Valuation Report was prepared. We have also engaged Ernst & Young to report on the calculations of the discounted cash flow method used in the Valuation Report and considered the report from Ernst & Young.

Based on the aforesaid, we confirm that the profit forecast as contained in the Valuation Report have been made after due and careful inquiry.

Yours faithfully,
For and on behalf of the board of directors of
Capital Environment Holdings Limited
Li Fujing
Executive Director and Chief Executive Officer