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CAPITAL ENVIRONMENT HOLDINGS LIMITED

首創環境控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 03989)

DISCLOSEABLE TRANSACTION CONCESSION AGREEMENT

CONCESSION AGREEMENT

On 29 January 2016, the Grantor and the Grantee entered into the Concession Agreement, pursuant to which the Grantor agreed to grant the concession of the Project to the Grantee, at a consideration of RMB207,875,100 (equivalent to approximately HK\$245,292,600). The consideration of the concession will be satisfied in cash.

LISTING RULES IMPLICATIONS

As one or more of the applicable ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Concession Agreement and the transactions thereunder exceed 5% but are less than 25%, the Concession Agreement and the transactions thereunder constitute a discloseable transaction of the Company and are subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As the Concession Agreement and the transactions thereunder contain a profit forecast, the Company will publish further announcement(s) as soon as possible as required by Rules 14.60A and 14.62 of the Listing Rules.

CONCESSION AGREEMENT

Date

29 January 2016

Parties

- (i) Nanyang Municipal Housing and Urban-Rural Construction Commission* (南陽市住房和城鄉建設委員會), as the Grantor;
- (ii) Beijing Capital Environment Investment Limited* (北京首創環境投資有限公司); and
- (iii) Nanyang Capital Environment Technology Limited* (南陽首創環境科技有限公司), together with Beijing Capital Environment Investment Limited* (北京首創環境投資有限公司) as the Grantee.

The Concession Agreement shall become effective upon signing of the same.

The Grantor is a governmental authority under Nanyang Municipal Government of Henan Province. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Grantor is a third party independent of the Company and its connected persons.

The Grantor agreed to grant the concession of the Project to the Grantee.

Consideration of the Concession

The consideration of the concession is RMB207,875,100 (equivalent to approximately HK\$245,292,600), which shall be payable in two equal installments in cash and shall be financed by the internal resources of the Grantee and bank loans. The first installment (i.e. 50% of the total consideration) shall be paid before 2 February 2016, and the second installment (i.e. the remaining 50% of the total consideration) shall be paid on or before 30 June 2016. Besides, the Grantee shall pay royalty of RMB1 million for the concession to the Grantor before 30 June of each year of concession. Within 40 days upon the signing of the Concession Agreement, the Grantee shall provide a guarantee of RMB2 million to the Grantor to ensure performance of the obligations of the Grantee under the Concession Agreement and its annexes. The amount of the guarantee shall be sufficient to cover the need until 10 working days after the expiry of 12 month upon the end of the concession period of the Project.

The consideration of the concession was determined after arm's length negotiation between both parties to the Concession Agreement by reference to the appraised value of the Project as at 1 January 2016 of RMB208,470,000 (equivalent to approximately HK\$245,994,600) and the future prospect of the Project.

Information about the Concession

The Project represents an integrated project of township solid waste collection, transfer and treatment for South-to-North Water Transfer Catchment Area of Xichuan, Xixia and Neixiang in Henan, the PRC. Specifically, it involves the “Twelfth-Five Year Plan of Prevention and Control of Water Pollution and Soil Maintenance in Reservoir Area and Upper Stream of Danjiangkou”, which relates to the township solid waste treatment facilities project in the catchment area of Xichuan, Xixia and Neixiang and the township and rural household solid waste collection and transfer system within the township administrative division where the solid waste treatment facilities project is located. The Project has completed the preliminary construction work, including the completion of feasibility report, environmental impact assessment report, preliminary design and modification, and construction drawings documents of the Project; the completion of planning and site selection, surveying and mapping, surveying and demarcation, preliminary investigation and detailed investigation, and land use planning permit of the Project; and civil engineering work, and equipment procurement and installation of the Project were basically completed and are subject to acceptance.

The concession represents that the Grantor adopts the way of “area + solid waste treatment site” to grant the concession of the Project to the Grantee. The principal particulars of the concession are as follows: (i) the Grantor grants the Grantee the right to, as the exclusive unit of household solid waste treatment, provide household solid waste collection, transfer and treatment and charge the solid waste treatment service fee within the concession period and area; (ii) the Grantor grants the exclusive right to Grantee to invest in, construct, operate and maintain the solid waste treatment facilities within the concession period and area; and (iii) transferring all the assets in the Project to Grantor or its designated institution at nil consideration after the expiry of the concession period.

The concession period of the Project shall be 30 years. The designed total capacity shall be 724 tons per day. The basic amount of solid waste shall be 60% of the designed total capacity of the solid waste treatment facilities for the first year commencing from the date of commercial operation; 70% for the second year; 80% for the third year; 90% for the fourth year; and 100% for the fifth year to the expiry of the concession period. The initial solid waste collection, transfer and treatment service fee shall be RMB278.74 per ton.

REASONS FOR ENTERING INTO THE CONCESSION AGREEMENT

As at the date of this announcement, the Group is principally engaged in 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 Project is located at the site of the headwork of Middle Route Project for South-to-North Water Transfer and Danjiangkou Reservoir water area, and therefore the construction of the Project has a higher strategic value. By effectively integrating the solid waste landfill facilities, the Company will definitely bring in demonstration effect and synergies. Unlike the park-based management of general projects, the Project has 24 township solid waste landfill facilities and 5 township transfer facilities, which are under island-based management. The successful operation of the Project can help the Company to accumulate valuable experience and is strategically important for the Company to enter into the projects with similar complexity, which would be beneficial to the Company's development as a whole.

In view of the above, the Directors consider that the terms of the Concession Agreement are fair and reasonable and the transactions thereunder are in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATION

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As the Concession Agreement and the transactions thereunder contain a profit forecast, the Company will publish further announcement(s) as soon as possible as required by Rules 14.60A and 14.62 of the Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“Beijing Capital”	Beijing Capital Environment Investment Limited, a company established under the laws of the PRC, and an indirect wholly-owned subsidiary of the Company
“Company”	Capital Environment Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Main Board of the Stock Exchange
“Concession Agreement”	the Concession Agreement dated 29 January 2016 entered into between the Grantor and the Grantee in relation to the grant of the concession
“connected persons”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Grantee”	Beijing Capital and Nanyang Capital
“Grantor”	Nanyang Municipal Housing and Urban-Rural Construction Commission* (南陽市住房和城鄉建設委員會)
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Nanyang Capital”	Nanyang Capital Environment Technology Limited* (南陽首創環境科技有限公司), a company established under the laws of the PRC, and an indirect wholly-owned subsidiary of the Company

“PRC”	the People’s Republic of China excluding Hong Kong, Macau Special Administrative Region and Taiwan for the purpose of this announcement
“Project”	the integrated project of township solid waste collection, transfer and treatment for South-to-North Water Transfer Catchment Area of Xichuan, Xixia and Neixiang in Henan Province, the PRC
“RMB”	Renminbi, the lawful currency of the PRC and the exchange rate between RMB and HK\$ for the purpose of this announcement is RMB1: HK\$1.18
“Share(s)”	ordinary share(s) of HK\$0.1 each in the share capital of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

By order of the Board
Capital Environment Holdings Limited
Wang Hao
Chairman

Hong Kong, 29 January 2016

As at the date of this announcement, the Board comprises four executive directors, namely Mr. Wang Hao, Mr. Cao Guoxian, Mr. Shen Jianping and Mr. Liu Yongzheng; 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*