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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: 3989)

COMPLETION OF VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF 51% OF THE ISSUED SHARE CAPITAL OF BCG NZ INVESTMENT HOLDING LIMITED

The Board is pleased to announce that all the conditions as set out in the Acquisition Agreement have been fulfilled, and the Company has issued 4,541,574,877 Consideration Shares (representing approximately 31.8% of the issued share capital of the Company as at the date of this announcement) at a price of HK\$0.40 per share to the Vendors in accordance with the Acquisition Agreement and the Consideration of US\$234,400,000. The Acquisition was completed on 2 September 2016.

COMPLETION OF VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

Reference is made to the announcement dated 26 November 2015 (the “**Announcement**”) and the circular dated 8 June 2016 (the “**Circular**”) of Capital Environment Holdings Limited (the “**Company**” or the “**Group**”) in relation to the very substantial acquisition and connected transaction regarding the acquisition of 51% of the issued share capital of BCG NZ Investment Holding Limited and specific mandate to issue the Consideration Shares. Unless the context otherwise required, capitalized terms used in this announcement shall have the same meanings as those defined in the Circular.

The Board is pleased to announce that all the conditions as set out in the Acquisition Agreement have been fulfilled, and the Company has issued 4,541,574,877 Consideration Shares (representing approximately 31.8% of the issued share capital of the Company as at the date of this announcement) at a price of HK\$0.40 per share to the Vendors in accordance with the Acquisition Agreement and the Consideration of US\$234,400,000. The Acquisition was completed on 2 September 2016.

SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is a table showing the shareholding structure of the Company upon completion of the issuance of the Consideration Shares:

	Shareholding immediately before Completion		Shareholding immediately after Completion	
	<i>No. of Shares</i>	<i>Approximate percentage of shareholding</i>	<i>No. of Shares</i>	<i>Approximate percentage of shareholding</i>
Beijing Capital (HK) (<i>Note 1</i>)	5,001,008,931	51.28	6,425,816,736	44.95
BC Water (<i>Note 1</i>)	23,210,000	0.23	23,210,000	0.16
BCG (<i>Note 2</i>)	–	–	3,116,767,072	21.80
Other Shareholders (<i>Note 3</i>)	4,728,939,359	48.49	4,728,939,359	33.09
Total	<u>9,753,158,290</u>	<u>100.00</u>	<u>14,294,733,167</u>	<u>100.00</u>

Notes:

- Both Beijing Capital (HK) and BC Water are wholly-owned subsidiaries of Beijing Capital. Beijing Capital is in turn controlled by Beijing Capital Group. For the purposes of the SFO, Beijing Capital and Beijing Capital Group are deemed to have interest in the Shares held by Beijing Capital (HK) and BC Water.
- BCG is a wholly-owned subsidiary of Beijing Capital Group. Therefore, Beijing Capital Group is also deemed to be interested in the Shares held by BCG for the purposes of the SFO.
- To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, all of the other Shareholders are public shareholders for the purpose of Rule 8.08 of the Listing Rules.

INFORMATION OF THE TARGET GROUP

The Target Group has over a century of continuing operation and according to the research report entitled “NZ Waste Market Intelligence” prepared by Pacific Strategy Partners Advisory (which is an Australian strategy consulting firm) in 2013 based on publicly available information, was the largest waste management service provider in New Zealand with over 30% market share in 2013 and has established a national network of vertically integrated local waste systems. It generates revenue from comprehensive waste management services, ranging from collection, operation of transfer stations, landfills, recycling, waste disposal to hazardous and industrial waste treatment and serves more than 200,000 customers in New Zealand. The services provided by the Target Group primarily include the following:

- **residential collections:** curbside collection and transportation of household waste to transfer stations or disposal facilities, with long-term contracts generally awarded by local councils;
- **commercial collections:** regular and ad-hoc waste collection and transportation from commercial, industrial and construction customers to transfer stations or direct to disposal facilities;
- **solid waste processing and disposal service:** developing, investing in and operating modernized landfills, transfer stations and recycling facilities across New Zealand; and
- **liquid & hazardous waste service:** collection, processing, treatment and recycling of hazardous and non-hazardous liquid waste, medical wastes, solids (including packaged goods requiring secure disposal) and solvents.

The Target Group mainly generates revenue in the following manners:

- **residential collections:** The Target Group enters into contracts which are generally awarded by local councils, with terms generally ranging from 5 to 15 years. Collection services vary by region as local councils may provide one (refuse), two (refuse and recycling) or three (refuse, recycling and organics). The Target Group also enters into contracts with private subscribers where local councils do not provide waste services or require additional waste services other than the local council’s funded service. Service fees are paid to the Target Group pursuant to these contracts. Residential waste collection is normally funded through council rates or user pays models.

- **commercial collections:** The Target Group enters into contracts with commercial, industrial and construction customers for the provision of regular and/or ad-hoc waste collection services, with terms ranging from 1 to 5 years which roll over. The standard term for this type of service in the New Zealand waste industry is a 3-year contract with roll over provisions. Waste operators typically provide bins at the customer premises. Service fees are paid to the Target Group pursuant to these contracts. The Target Group's client base comprises clients with different sizes, ranging from large enterprises which generate a high volume of wastes and small-medium enterprises which account for a substantial share of the demand for commercial collections in New Zealand.
- **solid waste processing and disposal service:** The Target Group transports waste to refuse transfer stations where certain recyclable materials are sorted when it is safe and economically viable to do so. Collected recyclable materials are usually processed at specialized material recycling facilities. The rest of the waste will then be consolidated for more economical and efficient haulage to landfills. Revenue for the solid waste processing and disposal service is primarily generated from (i) the service fees paid by the local councils and the commercial customers with which the Target Group enters into service contracts for waste collection and (ii) the sale of recyclable commodities such as paper, plastic and glass. Refuse stations and landfills are typically owned by local councils or private operators (e.g. the Target Group).
- **liquid & hazardous waste service:** The Target Group enters into customer contracts with various types of customers which generate liquid and hazardous wastes in medical, industrial and manufacturing sites. Special purpose vehicles are used for collection of such liquid and hazardous wastes which are transported to treatment plants for specialized treatment before reuse, release to landfill or disposal as wastewater. The terms and scope of service provided in this type of customer contracts vary depending on the customers' demands. Some contracts are entered into on an ad-hoc basis. Service fees are paid to the Target Group pursuant to these contracts.

To provide the above services, the Target Group owns and manages a fleet of approximately 800 trucks (with various types of functions depending on the types of services being provided) and a total of 29 refuse transfer stations. The Target Group also currently owns 2 landfills, shares 3 joint venture landfills and has the operating contracts for 3 other landfills. The Target Group also currently operates 8 liquid & hazardous waste treatment facilities and 3 composting facilities.

The Target Group offers its services across New Zealand and operates from more than 70 sites in New Zealand. The Target Group targets all customers that generate wastes, ranging from residential customers to governmental bodies and commercial institutions.

EFFECT OF THE ACQUISITION ON THE GROUP

Leveraging on the remarkable market influence, clear strategic positioning and diversified business structure, the Group effectively further elevated its market position and brand influence, with increasing recognition from the market, the government, the industry and the community.

Thanks to ongoing expansion of its environmental segment, the Group made great strides in new projects development. Adhering to the development strategy of Beijing Capital Group, the Group will further consolidate its leadership in the environmental industry and enhance the comprehensive standard of the domestic solid waste treatment industry, with its solid waste management business covering 18 counties and cities in 10 provinces across the country.

Through acquisition of 51% of the overseas asset of TPI NZ in New Zealand from Beijing Capital Group and Beijing Capital, the Group achieved significant increase in its total assets, total revenue and net profits while concentrating its efforts on the domestic solid waste treatment business. In addition, the Acquisition can improve its current balance sheet and optimize its cash flow.

Assuming that the Acquisition has been completed before 30 June 2016, the interim consolidated financial information of the Group for 2016 should be adjusted as follows:

	Interim consolidated financial information of 2016	
	Actual data of the Group	Assumed consolidation of the Target Group
	(Unaudited)	(Note 2)
	(HK\$'000)	(HK\$'000)
Current assets	1,890,820	2,396,670
Of which: Bank balances and cash	924,319	1,089,914
Trade receivables	400,659	699,471
Inventories	18,659	31,541
Non-current assets	2,367,690	8,217,315
Of which: Fixed assets	136,764	1,462,401
Intangible assets	477,934	2,129,980
Goodwill	21,035	2,132,523
Current liabilities	883,425	1,461,023
Of which: Trade payables	82,882	227,708
Receipts in advance	44,931	180,037
Dividend payable	–	164,055
Non-current liabilities	630,765	4,145,877
Of which: Long-term borrowings	560,052	3,706,133
Deferred income tax liabilities	26,602	242,506
Net assets	2,744,320	5,007,085

**Interim consolidated financial
information of 2016**

	Actual data of the Group (Unaudited) (HK\$'000)	Assumed consolidation of the Target Group (Note 2) (HK\$'000)
Revenue	361,499	1,538,801
Cost of sales	(282,461)	(1,071,869)
(Loss) profit before tax	(18,337)	128,512
Net (loss) profit (Note 1)	(25,109)	83,584

Notes:

- (1) Net loss included the professional fees in the amount of approximately HK\$17,500,000 resulted from the acquisition of the Target Group.
- (2) These pro-forma information are the aggregate of the actual interim consolidated financial data (unaudited) of the Group for 2016 and the actual interim financial data of the Target Group for 2016, which had not been consolidated and adjusted in accordance with the Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the Hong Kong Institute of Certified Public Accountants. These information are for illustrative purpose only and may not indicate the actual operating results of the Group if the Acquisition was completed on 30 June 2016.

The Acquisition will allow the Group to expand its geographic reach to New Zealand, and thus elevate its market position and promote its brand in overseas markets. The advantage of the New Zealand Project will bring positive effect to every aspect of the entire industrial chain of the Group, which will boost the formation of a unique industrial pattern for solid waste treatment business, generating synergetic effects and improving the core market competitive strength of the Group. Leveraging on the experiences gained from the New Zealand Project in respect of overall business model, market exploration, collection, storage and transportation system, technique process, treatment technology, operation management and customer services, the Group will apply such benefits to every aspect of its entire industrial chain to create complementary advantages and enhance the value of the Group, therefore expanding its footprint in the domestic market and consolidating its leadership in the environmental protection industry.

Looking forward, the Group will further reinforce its leading position and enhance its brand recognition in the environmental protection industry. Efforts will be made to improve the comprehensive standard of the solid waste treatment industry, laying a solid foundation to achieve the target of developing into a leading provider of comprehensive waste management solutions and environmental infrastructure services in the PRC.

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

Hong Kong, 2 September 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.