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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)

**CONTINUING CONNECTED TRANSACTION
IN RELATION TO THE PAYMENT OF
SERVICE FEE FOR CORPORATE FINANCING GUARANTEE**

PAYMENT OF SERVICE FEE FOR CORPORATE FINANCING GUARANTEE

On 7 November 2017, Capital Investment entered into the Entrustment Guarantee Agreement with Beijing Capital Group, pursuant to which, Beijing Capital Group provides corporate financing guarantee service to Capital Investment. Beijing Capital Group, as the guarantor under the Entrustment Guarantee Agreement, agreed to provide guarantee to Ping An Asset in respect of the Financing Agreement for procuring Ping An Asset to provide loans in the aggregate amount of not exceeding RMB1,000,000,000 to the Group. Capital Investment shall pay guarantee fee to Beijing Capital Group for such service which is calculated based on 0.6% per annum of total principal amount of guarantee liability assumed by Beijing Capital Group as stipulated on the Letter of Guarantee. For the maximum amount of the guarantee liability assumed, the Annual Cap for the guarantee fee is RMB6,000,000.

LISTING RULES IMPLICATIONS

Beijing Capital Group is the controlling shareholder of the Company which indirectly holds 66.92% of the share capital of the Company. Beijing Capital Group is the connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, (i) the provision of guarantee to Capital Investment by Beijing Capital Group; and (ii) the payment of guarantee fee to Beijing Capital Group by Capital Investment under the Entrustment Guarantee Agreement constitute continuing connected transactions of the Company.

As (i) the continuing connected transaction with respect to the provision of guarantee to Capital Investment by Beijing Capital Group is on normal commercial terms and not secured by any assets of the Group, the transaction is fully exempt under Rule 14A.90 of the Listing Rules; and (ii) the applicable percentage ratios of the continuing connected transaction with respect to the payment of guarantee fee to Beijing Capital Group by Capital Investment exceed 0.1% but less than 5%, under Chapter 14A of the Listing Rules, the transaction is subject to the reporting, annual review and announcement requirements, but exempt from the independent shareholders' approval requirement.

BACKGROUND

On 7 November 2017, Capital Investment, the wholly-owned subsidiary of the Company, entered into the Financing Agreement with Ping An Asset, pursuant to which, Ping An Asset will grant a borrowing not exceeding RMB1,000,000,000 to Capital Investment for a term of 5 years with an interest rate of 5.45% per annum, payable on a quarterly basis. The Financing Agreement must be guaranteed by Beijing Capital Group by way of Letter of Guarantee.

PAYMENT OF SERVICE FEE FOR CORPORATE FINANCING GUARANTEE

On 7 November 2017, Capital Investment entered into the Entrustment Guarantee Agreement with Beijing Capital Group, pursuant to which, Beijing Capital Group provides corporate financing guarantee service to Capital Investment. Beijing Capital Group, as the guarantor under the Entrustment Guarantee Agreement, agreed to provide guarantee to Ping An Asset in

respect of the Financing Agreement for procuring Ping An Asset to provide loans to the Group. The summary of the Entrustment Guarantee Agreement is set out below:

Date:	7 November 2017
Parties:	Beijing Capital Group as the guarantor Capital Investment as the entrusted guarantor
Guarantee purpose:	Beijing Capital Group provides guarantee to Ping An Asset for procuring Ping An Asset to provide financing facility to Capital Investment
Amount of guarantee liability:	RMB1,000,000,000
Term:	For a term of 5 years starting from the first drawdown date of loan under the Financing Agreement
Guarantee fee:	The amount is calculated based on 0.6% per annum of total principal amount of guarantee liability assumed by Beijing Capital Group as stipulated on the Letter of Guarantee. For the maximum amount of the guarantee liability assumed, the Annual Cap for the guarantee fee is RMB6,000,000
Payment method:	Collect on an annual basis. The guarantee fee for the first year will be collected within 10 days from the effective of Financing Agreement or release of payment; afterwards, in each completed year, being the anniversary date of the effective of Financing Agreement or the date of releasing of payment, Capital Investment shall pay the guarantee fee for the past one year to Beijing Capital Group; for the last instalment of guarantee fee, Capital Investment shall settle the guarantee fee to Beijing Capital Group following the return of principal loan

ANNUAL CAP UNDER THE ENTRUSTMENT GUARANTEE AGREEMENT

The Group and Beijing Capital Group did not have any transactions in respect of provision of loan and financial assistance in the past 12 months.

The annual cap for the maximum guarantee fee payable by the Group under the Entrustment Guarantee Agreement should be:

Financial year ending 31 December					
2017	2018	2019	2020	2021	2022
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
904	6,000	6,000	6,000	6,000	5,096

The guarantee fee is calculated based on 0.6% per annum of total principal amount of guarantee liability assumed by Beijing Capital Group as stipulated on the Letter of Guarantee.

REASONS FOR AND BENEFITS OF ACQUISITION OF CORPORATE FINANCING GUARANTEE SERVICE

Given that the Group is currently in a stage of rapid development and demand for large amount of capital, the financing plan would alleviate the project financing demand. The terms of the Entrustment Guarantee Agreement are determined based on arm's length negotiations between the Group and Beijing Capital Group. Having considered the prevailing market condition, the Board (including independent executive directors, but excluding Mr. Wu Lishun, Mr. Liu Yongzheng and Ms. Zhang Meng) is of the view that the terms of the Entrustment Guarantee Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole.

As each of Mr. Wu Lishun, Mr. Liu Yongzheng and Ms. Zhang Meng holds directorship or senior position in Beijing Capital Group, they are deemed to have interests in the Entrustment Guarantee Agreement. Therefore, Mr. Wu Lishun, Mr. Liu Yongzheng and Ms. Zhang Meng have abstained from voting at the Board meeting to approve the Entrustment Guarantee Agreement.

INFORMATION OF THE GROUP AND BEIJING CAPITAL GROUP

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.

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.

LISTING RULES IMPLICATIONS

Beijing Capital Group is the controlling shareholder of the Company which indirectly holds 66.92% of the share capital of the Company. Beijing Capital Group is the connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, (i) the provision of guarantee to Capital Investment by Beijing Capital Group; and (ii) the payment of guarantee fee to Beijing Capital Group by Capital Investment under the Entrustment Guarantee Agreement constitute continuing connected transactions of the Company.

As (i) the continuing connected transaction with respect to the provision of guarantee to Capital Investment by Beijing Capital Group is on normal commercial terms and not secured by any assets of Group, the transaction is fully exempt under Rule 14A.90 of the Listing Rules; and (ii) the applicable percentage ratios of the continuing connected transaction with respect to the payment of guarantee fee to Beijing Capital Group by Capital Investment exceed 0.1% but less than 5%, under Chapter 14A of the Listing Rules, the transaction is subject to the reporting, annual review and announcement requirements, but exempt from the independent shareholders' approval requirements.

Rule 14A.52 of the Listing Rules requires that the term of an agreement governing continuing connected transactions of an issuer must not exceed three years except in special circumstances. As the duration of the Entrustment Guarantee Agreement exceeds three years, the Company must appoint an independent financial adviser to explain why the duration of the Entrustment Guarantee Agreement requires a longer period and to confirm it is normal business practice for agreements of this type to be of such duration. For this purpose, the Company has engaged Lego Corporate Finance Limited ("**Lego**") as the independent financial adviser.

VIEW OF INDEPENDENT FINANCIAL ADVISER

In assessing the duration of the Entrustment Guarantee Agreement which is longer than three years, Lego has considered the following principal factors:

- (i) the reasons for the Financing Agreement having a term of 5 years after taking into consideration (a) the designated use of proceeds from the borrowing under the Financing Agreement for certain of the Group's waste-to-energy projects on hand and the Group's estimated funding requirements of such projects; and (b) the Group's funding requirements and repayment ability based on the expected project timetables, the Group's recent financial position and the scale of borrowing;

- (ii) the Financing Agreement must be guaranteed by Beijing Capital Group by way of Letter of Guarantee; and
- (iii) the reasons for and benefits of entering into of the Entrustment Guarantee Agreement, including (a) securing the amount of borrowing over the entire term of the Financing Agreement; (b) protecting the Group from potential risk of full repayment before maturity of the borrowing as a result of termination of the Financing Agreement due to the absence of a valid guarantee; and (c) enabling the Group to carry on the waste-to-energy projects as planned and to meet the relevant funding requirements over the term of the Financing Agreement.

In considering whether it is normal business practice for agreements of similar nature with the Entrustment Guarantee Agreement to have such duration which is in line with that of the corresponding loan facility, Lego has, on a best effort basis, identified six transactions involving the provision of corporate guarantee for loan facility with duration of over three years (the “**Guarantee Transactions**”) announced by companies listed on the Stock Exchange since 1 May 2017. Lego noted that the duration of the Guarantee Transactions ranges from 5 to 15 years and is in line with that of the corresponding loan facility.

Taking into account the above, Lego is of the view that the duration of the Entrustment Guarantee Agreement, which is longer than three years is required and it is normal business practice for agreements of this type to be of such duration.

DEFINITIONS

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

“Annual Cap”	the maximum amount of the annual corporate financing guarantee fee payable by the Group to Beijing Capital Group under the Entrustment Guarantee Agreement
“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

“Board”	the board of Directors of the Company
“Capital Investment”	Beijing Capital Environment Investment Limited (北京首創環境投資有限公司), a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Company”	Capital Environment Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of Stock Exchange
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“continuing connected transaction”	has the meaning ascribed thereto in the Listing Rules
“Director(s)”	the director(s) of the Company
“Entrustment Guarantee Agreement”	Entrustment Guarantee Agreement entered into between Capital Investment and Beijing Capital Group on 7 November 2017, pursuant to which, Beijing Capital Group provides guarantee to Ping An Asset in respect of the Financing Agreement for procuring Ping An Asset to provide financing facility in the amount of RMB1,000,000,000 to Capital Investment
“Financing Agreement”	“Ping An-Capital Environment Debt Investment Scheme Investment Contract” (《平安—首創環境債權投資計劃投資合同》) entered into between Capital Investment and Ping An Asset on 7 November 2017, pursuant to which, Ping An Asset provides financing facility in the amount of RMB1,000,000,000 to Capital Investment
“Group”	the Company and its subsidiaries
“Letter of Guarantee”	letter of guarantee issued on 7 November 2017 by Beijing Capital Group in favour of Ping An asset in respect of the obligation of Beijing Capital Group under the Entrustment Guarantee Agreement

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Ping An Asset”	Ping An Asset Management Co. Ltd. (平安資產管理有限責任公司)
“PRC”	the People’s Republic of China, which, for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.

By order of the Board of
Capital Environment Holdings Limited
Wu Lishun
Chairman

Hong Kong, 7 November 2017

As at the date of this announcement, the Board comprises five executive directors, namely Mr. Wu Lishun, Mr. Cao Guoxian, Mr. Liu Yongzheng, Ms. Zhang Meng and Mr. Cheng Jialin; and three independent non-executive directors, namely, Mr. Pao Ping Wing, Mr. Cheng Kai Tai, Allen and Dr. Chan Yee Wah, Eva.