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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)**

## **FURTHER ANNOUNCEMENT DISCLOSEABLE TRANSACTION IN RELATION TO THE CONCESSION AGREEMENT**

Reference is made to the announcement of Capital Environment Holdings Limited (the “**Company**”) dated 29 January 2016 and titled as “Discloseable transaction – Concession Agreement” (the “**Announcement**”). Unless otherwise stated, capitalised terms used herein shall have the same meanings as defined in the Announcement.

### **COMPLIANCE WITH THE LISTING RULES**

As disclosed in the Announcement, the Concession Agreement and the transactions contemplated thereunder contain a profit forecast. The valuation of the Concession Agreement was assessed by Beijing Northern Yashi Assets Appraisal Company Limited (北京北方亞事資產評估有限責任公司) (“**Northern Yashi**”), an independent valuer who has issued a valuation report (the “**Valuation Report**”) on 22 January 2016 in relation to the valuation of the concession of the Project as at 1 January 2016 (the “**Valuation**”). According to the Valuation, the market value of the concession of the Project amounted to RMB208,470,000 as at 1 January 2016. Northern Yashi adopted the income approach using free cash flow modeling in the Valuation, which is based on discounted cash flow and constitutes a profit forecast for the purpose of Rule 14.61 of the Listing Rules (the “**Profit Forecast**”). This announcement is made in compliance with Rules 14.60A and 14.62 of the Listing Rules.

Pursuant to Rule 14.62(1) of the Listing Rules, the principal assumptions upon which the Valuation Report in relation to the concession of the Project (hereinafter collectively referred to as the “**Appraised Entities**”) 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 Northern Yashi is based on comparable market including terms of transaction of the target assets;
2. Continuous use assumption: Continuous use assumption is a hypothesis made on the conditions of the market where the assets are intended to be entered as well as the status of the assets in such market conditions. It is first assumed that the Appraised Entities are in use, and it is further assumed that the assets that are in use will be used continuously. Under continuous use assumption, no consideration is given to the conversion of the use of the assets or the use of the assets under the best condition. Thus, the valuation results are subject to a restricted scope of applicability.

**(II) UNIQUE ASSUMPTIONS**

1. It is assumed that the management of the project company is fully responsible for the project company’s full compliance with all the existing relevant laws and regulations during its operation;
2. There is no material change in the social and economic environment in the region where the project company is based and in China. Other than the policies that have already been launched, China’s macro-economic policies tend to be stable and items such as tax revenue, interest rates and the price level are basically stable in the foreseeable future. Relevant industries are successfully developed as planned. The overall domestic economy is maintained at a stable condition with the trend of healthy development remaining unchanged;
3. Circumstances, in which the corporate benefits of the company experience significant fluctuation or fall outside the scope of estimation due to significant decisions or management reasons in the future, are not within the scope of the Valuation;
4. It is assumed that the project company can successfully complete and operate the project as scheduled. Future business development of the company is successfully carried out according to the overall development plan of the company with expected goals being basically achieved;

5. It is assumed that there is no material change in the accounting policies and audit methods of the company;
6. It is assumed that the capital required for the Project is fully in place on time;
7. It is assumed that matters caused by reasons such as force majeure resulting in material losses of the company and its business will not occur to the project company in coming years and other uncertain profit and loss, except interest-bearing liabilities, will not be taken into consideration.

### **(III) SPECIFIC ASSUMPTIONS**

1. It is assumed that the concession period commences on 1 January 2016;
2. It is assumed that the total operating days per year is 365;
3. It is assumed that the construction period is zero year;
4. It is assumed that the daily guaranteed amount of supply is 434 tons for the first year, 507 tons for the second year, 579 tons for the third year, 652 tons for the fourth year, 724 tons for the fifth year and thereafter;
5. It is assumed that the daily actual amount of supply is 724 tons;
6. It is assumed that subsidy  $P_1$  under the Concession Agreement is RMB 188.00/ton and remains unchanged;
7. It is assumed that  $P_2$  under the Concession Agreement is RMB 90.74/ton and remains unchanged;
8. It is assumed that the receivables turnover days are 36 days;
9. It is assumed that the inventory turnover days are 36 days;
10. It is assumed that the payables turnover days are 45 days.

Deloitte Touche Tohmastu (“**Deloitte**”), the reporting accountants of the Company, has reported to the board (the “**Board**”) of Directors of the Company in respect of the compilation, in accordance with the assumptions described above, of the discounted future estimated cash flows in connection with the valuation of the concession of the Project

prepared by Northern Yashi as set out in the Valuation Report. The Directors shall be solely responsible for the assumptions set out in this announcement and the work performed by Deloitte did not include any assessment of the reasonableness or validity of these assumptions set out in this announcement. The Directors confirm that the Valuation, which constitutes a profit forecast under Rule 14.61 of the Listing Rules, has been made after due and careful enquiry. Pursuant to Rule 14.62 of the Listing Rules, the Company has submitted the report from Deloitte dated 19 February 2016 and a letter from the Board to the Stock Exchange, the texts of which are included in Appendix I and Appendix II to this announcement, respectively.

## **EXPERTS AND CONSENTS**

The followings are the qualifications of the experts who have given opinions and advice contained in this announcement:

<b>Name</b>	<b>Qualification</b>
Northern Yashi	Certified Public Valuer
Deloitte	Certified Public Accountants

To the best knowledge, information and belief of the Board, each of Northern Yashi and Deloitte is a third party who is independent of the Group and its connected persons. As at the date of this announcement, neither Northern Yashi nor Deloitte had 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.

Each of Northern Yashi and Deloitte has given and has not withdrawn its respective written consent to the issue of this announcement with the inclusion of its respective letter and references to its report and name in the form and context in which it respectively appears.

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

Hong Kong, 19 February 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.*

## **APPENDIX I – LETTER FROM THE REPORTING ACCOUNTANTS**

*The following is the text of a report received from Deloitte prepared for the purpose of incorporation in this announcement.*

### **ACCOUNTANTS’ REPORT ON CALCULATIONS OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATION OF THE CONCESSION OF THE INTEGRATED PROJECT OF TOWNSHIP SOLID WASTE COLLECTION, TRANSFER AND TREATMENT FOR SOUTH-TO-NORTH WATER TRANSFER CATCHMENT AREA OF XICHUAN, XIXIA AND NEIXIANG**

#### **TO THE DIRECTORS OF CAPITAL ENVIRONMENT HOLDINGS LIMITED**

We have examined the calculations of the discounted future estimated cash flows on which the valuation prepared by Beijing Northern Yashi Assets Appraisal Company Limited (北京北方亞事資產評估有限責任公司) dated 22 January 2016, of the concession of the integrated project of township solid waste collection, transfer and treatment for South-to-North Water Transfer Catchment Area of Xichuan, Xixia and Neixiang (the “**Project**”) as at 1 January 2016 (the “**Valuation**”) is based. The detail of the Project is set out in the announcement of Capital Environment Holdings Limited (the “**Company**”) dated 29 January 2016 in connection with a discloseable transaction – Concession Agreement. The concession period of the Project shall be 30 years. The Valuation based on the discounted future estimated cash flows is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and will be included in an announcement dated 19 February, 2016 issued by the Company in connection with the Project (the “**Announcement**”).

#### **Directors’ Responsibility for the Discounted Future Estimated Cash Flows**

The directors of the Company are responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions determined by the directors and set out in the Announcement (the “**Assumptions**”). This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

#### **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 (the “**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” issued by the HKICPA 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’ Responsibility**

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the discounted future estimated cash flows on which the Valuation is based and to report solely to you, as a body, as required by Rule 14.62(2) of the Listing Rules, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Our engagement was conducted 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 comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance on whether the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled in accordance with the Assumptions. Our work does not constitute any valuation of the Project.

Because the Valuation relates to discounted future estimated cash flows, no accounting policies of the Company have been adopted in its preparation. The Assumptions include hypothetical assumptions about future events and management actions which cannot be confirmed and verified in the same way as past results and these may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Valuation and the variation may be material. Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express any opinion whatsoever thereon.

### **Opinion**

Based on the foregoing, in our opinion, the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled, in all material respects, in accordance with the Assumptions.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong  
19 February 2016

## **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.*

19 February 2016

The Listing Division  
The Stock Exchange of Hong Kong Limited  
11th Floor, One International Finance Centre,  
1 Harbour View Street, Central, Hong Kong

Dear Sirs,

### **Discloseable Transaction in relation to the Concession Agreement**

We refer to the valuation report dated 22 January 2016 prepared by Beijing Northern Yashi Assets Appraisal Company Limited 北京北方亞事資產評估有限責任公司 (“**Northern Yashi**”) in relation to the valuation of the concession of the Project as at 1 January 2016 (the “**Valuation**”). The Valuation was prepared based on income approach method with free cash flow modeling, which is based on discounted cash flow and constitutes 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 Northern Yashi about different aspects including the bases and assumptions upon which the Valuation has been prepared, and reviewed the Valuation for which Northern Yashi is responsible. We have also considered the report from our reporting accountant, Deloitte Touche Tohmatsu, regarding whether the Valuation was compiled properly so far as the calculations are concerned.

On the basis of the foregoing, we are of the opinion that the Valuation prepared by Northern Yashi has been made after due and careful enquiry.

Yours faithfully,

For and on behalf of the board of directors of  
**Capital Environment Holdings Limited**

**Cao Guoxian**

*Executive Director and Chief Executive Officer*