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Tianjin Capital Environmental Protection Group Company Limited  
天津創業環保集團股份有限公司

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock code: 1065)**

## **DISCLOSEABLE TRANSACTION**

On 9 June 2018, the Company initiated the Concession Agreement with Second Municipal Highway and Honghu Municipal Bureau of Construction, pursuant to which, *inter alia*, the parties agreed to implement the PPP Project, which covers the transfer of concession rights of completed assets under the Existing Project to the Project Company by means of “Transfer-Operate-Transfer (TOT)” and the adoption of “Build-Operate-Transfer (BOT)” model for the New Project and the upgrading of the Existing Project which are to be conducted by the Project Company. The consideration for the transfer of concession rights of the Existing Project is approximately RMB32,483,700 (equivalent to approximately HK\$39,630,114), while the investment for the upgrading of the Existing Project and the construction of New Project is approximately RMB405,285,800 (equivalent to approximately HK\$494,448,676). The total investment for the PPP Project is approximately RMB437,769,500 (equivalent to approximately HK\$534,078,790).

On the same day, the Company entered into the Shareholder Agreement with Second Municipal Highway and Government Representative, pursuant to which, *inter alia*, the parties agreed to establish the Project Company for the implementation of the PPP Project. The registered capital of the Project Company will be RMB131,330,800 (equivalent to approximately HK\$160,223,576), among which, the Company agreed to contribute in cash of RMB111,631,200 (equivalent to approximately HK\$136,190,064), representing 85% of the registered capital of the Project Company; Second Municipal Highway agreed to contribute in cash of RMB6,566,500 (equivalent to approximately HK\$8,011,130), representing 5% of the registered capital of the Project Company; the Government Representative agreed to contribute in the consideration for the transfer of the concession rights of the completed assets under some of the Existing Project of RMB13,133,100 (equivalent to approximately HK\$16,022,382), representing 10% of the registered capital of the Project Company.

As one or more of the applicable percentage ratios are more than 5% but less than 25%, the transaction contemplated under the Concession Agreement and the Shareholder Agreement constitutes a discloseable transaction of the Company under the Listing Rules. Accordingly, such transaction is subject to the reporting and announcement requirements only but exempt from the shareholders' approval requirement under Chapter 14 of the Listing Rules.

## **INTRODUCTION**

Reference is made to the announcement of the Company dated 17 May 2018 in relation to success in the bid for the PPP Project.

The Board is pleased to announce that on 9 June 2018, the Company initiated the Concession Agreement with Second Municipal Highway and Honghu Municipal Bureau of Construction, pursuant to which, *inter alia*, the parties involved agreed to implement the PPP Project. On the same day, the Company entered into the Shareholder Agreement with Second Municipal Highway and Government Representative, pursuant to which, *inter alia*, the parties involved agreed to establish the Project Company. Set out below is a brief summary of the principal terms of the Concession Agreement and the Shareholder Agreement.

## **CONCESSION AGREEMENT**

### **(1) Date of Initial Signing**

9 June 2018

### **(2) Parties**

- (a) The Company;
- (b) Second Municipal Highway;
- (c) Project Company; and
- (d) Honghu Municipal Bureau of Construction.

Upon the establishment of the Project Company, the Project Company will officially enter into the Concession Agreement.

To the best of the Director's knowledge, information and belief having made all reasonable enquiry, Second Municipal Highway, Honghu Municipal Bureau of Construction and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

### (3) PPP Project

As agreed under the Concession Agreement, PPP Project refers to the construction, upgrading and ancillary pipe networking project of the rural sewage treatment plants in Honghu City jointly conducted by the Company and Second Municipal Highway (as the joint social capital contributor) together with Honghu Municipal Bureau of Construction. Such project covers the transfer of concession rights of completed assets under the Existing Project to the Project Company by means of “Transfer-Operate-Transfer (TOT)” and the adoption of “Build-Operate-Transfer (BOT)” model for New Project and the upgrading of the Existing Project which are to be conducted by the Project Company.

The Existing Project involves the upgrading of nine existing rural sewage treatment plants and ancillary pipe network. The proposed total sewage processing capacity for upgrading is 13,500 m<sup>3</sup> per day, with ancillary sewage collecting pipe network of 225.346 km in aggregate. The New Project involves nine rural sewage treatment plants, one industrial sewage treatment plant, and the construction and upgrading of pump stations and ancillary pipe networking. The proposed total sewage processing capacity is 9,600 m<sup>3</sup> per day, with ancillary sewage collecting pipe network of 268.254 km in aggregate. The quality of water discharged from domestic sewage treatment stations under the Existing Project and the New Project will meet Class IA standard as set out in the Discharge Standards on Pollutants from Urban Sewage Treatment Plants (《城鎮污水處理廠污染物排放標準》) (GB18918-2002), while the quality of water discharged from industrial sewage treatment stations will meet Class B standard as set out in the Water Quality Standards on Sewage Discharged to Urban Sewers (《污水排入城鎮下水道水質標準》) (CJ343-2010).

According to the asset valuation report on the completed assets under the Existing Project issued by Hubei Zhongdecheng Asset Appraisal Co., Ltd.\* (湖北中德誠資產評估有限公司), an independent valuation firm in the PRC, the valuation of such assets is RMB32,483,700 (equivalent to approximately HK\$39,630,114).

According to Rule 14.58(7) under the Listing Rules, it is required to disclose the net profit before and after tax of the Existing Project for the last two financial years in this announcement (the “**Required Financial Information**”). However, as the Existing Project is classified as public institution, its income and expense were included in the annual fiscal budget of Honghu Municipal Government. Hence, the Required Financial Information for the last two financial years had not been prepared.

The total investment for PPP Project is approximately RMB437,769,500 (equivalent to approximately HK\$534,078,790), which includes (1) the consideration for the transfer of concession rights of the Existing Project of approximately RMB32,483,700 (equivalent to approximately HK\$39,630,114); and (2) the investment for the upgrading of the Existing Project and the construction of New Project of approximately RMB405,285,800 (equivalent to approximately HK\$494,448,676). The aforementioned total investment is determined taking into the consideration of (i) the valuation of completed assets under the Existing Project; (ii) the scale and standards of upgrading of the Existing Project; and (iii) the requirements on proposed sewage treatment scale and quality of water discharged under the New Project.

The Company (or the Project Company upon its establishment) shall deposit at least 30% of the consideration for the transfer of concession rights of the Existing Project (i.e. RMB9,745,110, equivalent to approximately HK\$11,889,034) to designated account of Honghu Municipal Bureau of Construction not later than 3 working days from the Concession Agreement Effective Date. The remaining consideration for the transfer of concession rights, after deducting the capital contribution to be made by Government Representative for the establishment of the Project Company, shall be paid to Honghu Municipal Bureau of Construction within 30 working days from the Concession Agreement Effective Date. The investment for the upgrading of the Existing Project and the construction of the New Project shall be invested by the Project Company based on the construction progress.

The shortfall between the total investment for the PPP Project and the initial registered capital of the Project Company shall be funded by the Project Company through financing and other means. In the event that the Project Company is unable to obtain financing for the project, the Company and Second Municipal Highway shall be responsible for obtaining relevant financing.

#### **(4) Concession Rights**

As agreed under the Concession Agreement, Honghu Municipal Bureau of Construction agreed to grant the concession rights of the PPP Project to the Project Company, which include: the investment, reconstruction, operation and maintenance of the Existing Project; the investment, reconstruction, operation and maintenance of the New Project; the provision of sewage treatment service for the Existing Project and the New Project; and obtain service fees for sewage treatment and fees for using the pipe network. The concession rights to be granted to the Project Company are sole and exclusive.

The concession period of the PPP Project will last for 30 years from the Concession Agreement Effective Date (including the construction phase of the PPP Project, while the term for utilization of pipe network is 15 years). Upon the expiry of the concession period, as agreed under the Concession Agreement, the Project Company shall transfer the properly operated facilities under the PPP Project to Honghu Municipal Bureau of Construction or its designated institution or department without compensation.

**(5) Letters of Guarantee**

**(a) Letter of Guarantee in relation to Construction Period**

As the guarantee for the obligation performance by the Project Company during the construction period of the PPP Project, the Company and Second Municipal Highway shall provide a demand letter of guarantee in relation to construction period, which amounted to RMB30,000,000 (equivalent to approximately HK\$36,600,000), to Honghu Municipal Bureau of Construction within 15 working days upon the receipt of the notice of successful transaction issued by the procurement agents. The letter of guarantee in relation to construction period will be discharged on the tenth working day upon the completion of acceptance of the construction works for PPP Project.

**(b) Letter of Guarantee in relation to Transfer**

As the guarantee for the obligation performance of the Project Company in relation the maintenance and transfer of various sewage treatment facilities and equipments, quality assurance upon the transfer and other relevant obligations under the PPP Project, the Project Company shall provide a letter of guarantee in relation to transfer, which amounted to RMB3,000,000 (equivalent to approximately HK\$3,660,000), to Honghu Municipal Bureau of Construction on the first day of the 12-month prior to the expiry of the concession period. Honghu Municipal Bureau of Construction shall discharge the letter of guarantee in relation to transfer within 7 working days upon the expiry of the guarantee period for the PPP Project (i.e. 12 months upon the transfer of PPP Project).

## **SHAREHOLDER AGREEMENT**

### **(1) Signing Date**

9 June 2018

### **(2) Parties**

- (a) The Company;
- (b) Second Municipal Highway; and
- (c) Government Representative.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Second Municipal Highway, the Government Representative and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

### **(3) Scope of Business**

Subject to the approval of Honghu Municipal Administration for Industry and Commerce, the scope of business of the Project Company will include the construction, operation and maintenance of sewage water treatment facilities; manufacturing and repair of sewage water treatment equipment; sewage water purification; technical consultation and training of sewage water treatment and other businesses.

### **(4) Registered Capital**

The Company shall establish the Project Company jointly with Second Municipal Highway and the Government Representative. The initial registered capital will be RMB131,330,800 (equivalent to approximately HK\$160,223,576), among which, the Company agreed to contribute in cash of RMB111,631,200 (equivalent to approximately HK\$136,190,064), representing 85% of the registered capital of the Project Company; Second Municipal Highway agreed to contribute in cash of RMB6,566,500 (equivalent to approximately HK\$8,011,130), representing 5% of the registered capital of the Project Company; the Government Representative agreed to contribute in the consideration for the transfer of the concession rights of the completed assets under some of the Existing Project of RMB13,133,100 (equivalent to approximately HK\$16,022,382), representing 10% of the registered capital of the Project Company.

The parties shall make capital contribution in the Project Company within 20 days upon the establishment of the Project Company, and the first injection of the capital shall be no less than RMB10,000,000 (equivalent to approximately HK\$12,200,000). The registered capital of the Project Company may be injected in tranches, and the time of injection of the registered capital shall meet the payment deadline of the consideration for the transfer of the concession rights of the Existing Project, the payment of other construction costs and other capital needs.

**(5) Profit Distribution**

After making up for its losses and drawing for the provident fund, the Project Company shall distribute the profit after taxation to its shareholders based on their respective shareholdings.

**(6) Organizational Structure**

The board of directors of the Project Company will comprise of five directors, among which, three directors will be appointed by the Company, one director will be appointed by the Government Representative, and one director will be elected at the staff representative meeting of the Project Company. Each of the chairman and vice-chairman of the board of directors will be served by the directors appointed by the Company and the Government Representative, respectively. The chairman of the board of directors will be the legal representative of the Project Company.

**(7) Equity Transfer**

The Company and Second Municipal Highway shall not transfer all or part of their equity interests in the Project Company within the construction period as stipulated in the Concession Agreement.

After the expiry of five years of the operational period as stipulated in the Concession Agreement, upon obtaining the written consent of the Government Representative and the approval of Honghu Municipal Government, the Company and Second Municipal Highway may transfer their respective equity interest in the Project Company, in whole or in part, provided that the transferee shall satisfy the basic conditions as stipulated in the Concession Agreement.

## **INFORMATION OF THE COMPANY, SECOND MUNICIPAL HIGHWAY, HONGHU MUNICIPAL BUREAU OF CONSTRUCTION AND THE GOVERNMENT REPRESENTATIVE**

The Company is principally engaged in the investment, construction, design, management, operation, technical consultation and auxiliary services of treatment facilities of sewage water, tap water and other types of water; design, construction, management, building and operation management of municipal infrastructures; license operation, technical consultation and auxiliary services of Southeastern Half Ring Urban Road of the Middle Ring of Tianjin City; development and operation of environmental protection technology and products; leasing of self-owned properties, etc.

Second Municipal Highway is principally engaged in (including but not limited to) highway engineering construction projects, municipal engineering construction projects (roads, bridges and culverts, water supply and drainage, gas, flood control, central heating, sewage water treatment, pumping stations, pipelines, telecommunications, municipal ancillary facilities, equipment installation works, and landscaping works); highway safety facilities and toll system construction business; leasing of its own equipment; construction project management; water-proof works; environmental engineering construction; river training works; subcontracting of construction services, etc.

Honghu Municipal Bureau of Construction is a department of Honghu Municipal People's Government, which is mainly responsible for (including but not limited to) urban and rural planning in Honghu as well as urban development strategic plan, urban housing for low-income families, construction industry in the whole city, and investigation, design and consultancy industry management. It also undertakes the administration permission, administration approval and industry inspection responsibilities while being in charge of the completion acceptance and filing of construction projects and the real estate development in the whole city, etc.

The Government Representative is the investor representative of the Honghu Municipal People's Government, i.e. Honghu Water Pollution Control Center (洪湖水污染治理中心), which is mainly responsible for the sewage water treatment business in the region.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiry, Second Municipal Highway, Honghu Municipal Bureau of Construction, the Government Representative and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.



## **REASONS FOR ENTERING INTO THE CONCESSION AGREEMENT AND THE SHAREHOLDER AGREEMENT**

The PPP Project is a new concession project acquired by the Company within its scope of principal business of sewage water treatment, which will be beneficial to the Company in expanding its market share in the sewage water treatment sector while increasing its revenue and profit. The acquisition of the PPP Project will be of great significance to the Company in increasing the influence in the region and expanding the overall scale, which is in line with the development strategy of the Company. The smooth operation of the PPP Project will enable the Company to take full advantage of its management and technical personnel resources.

The terms of the Concession Agreement and the Shareholder Agreement were determined after arm's length negotiations among the parties thereto. The Directors (including the independent non-executive Directors) consider that the terms of the Concession Agreement and the Shareholder Agreement are on normal commercial terms, fair and reasonable and in the interest of the Group and the Shareholders as a whole.

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## **LISTING RULES IMPLICATIONS**

As one or more of the applicable percentage ratios are more than 5% but less than 25%, the transaction contemplated under the Concession Agreement and the Shareholder Agreement constitutes a discloseable transaction of the Company under the Listing Rules. Accordingly, such transaction is subject to the reporting and announcement requirements only but exempt from the shareholders' approval requirement under Chapter 14 of the Listing Rules.

## DEFINITIONS

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

“Board”	the board of Directors
“Company”	Tianjin Capital Environmental Protection Group Company Limited, a joint stock limited company established in the PRC whose A Shares and H Shares are listed on the Shanghai Stock Exchange and the Stock Exchange respectively
“Concession Agreement”	the concession agreement initiated by the Company, Second Municipal Highway and Honghu Municipal Bureau of Construction on 9 June 2018 in relation to the PPP Project, pursuant to which, the parties agreed to implement the PPP Project, and Honghu Municipal Bureau of Construction agreed to grant the concession rights of the PPP Project to the Project Company
“Concession Agreement Effective Date”	the effective date of the Concession Agreement shall be when all of the following conditions precedent are satisfied: (i) Honghu Municipal Bureau of Construction is authorized by the Honghu Municipal People’s Government; (ii) the Project Company completed its incorporation within 30 days upon the receipt of the successful bidding notice by the Company and Second Municipal Highway; (iii) the Company and Second Municipal Highway deposited RMB90,000,000 (equivalent to approximately HK\$109,800,000) to the account of the Project Company within 5 working days upon the establishment of the Project Company, which will be used as the registered capital of the Project Company and the construction funds of the PPP Project; and (iv) the Concession Agreement is signed and sealed by the parties thereto
“connected person(s)”	has the same meaning as ascribed to it under the Listing Rules
“Directors”	the directors of the Company, including the independent non-executive directors

“Existing Project”	the part of upgrading sewage water treatment plants and ancillary pipe network in the PPP Project, which includes nine sewage water treatment plants and their ancillary pipe network in nine villages and towns in Honghu City, namely Xintan Town, Chahe Town, Wanquan Town, Fengkou Town, Qujiawan Town, Caoshi Town, Shakou Town, Daijiachang Town and Xiaogang Administration Area
“Government Representative”	the investor representative of the Honghu Municipal People’s Government, i.e. Honghu Municipal Water Pollution Control Center* (洪湖市水污染治理中心)
“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 PRC
“Honghu Municipal Bureau of Construction”	the Honghu Municipal Bureau of Housing and Urban-Rural Development of Hubei, the PRC
“New Project”	the part of constructing sewage water treatment plants and ancillary pipe network and lifting pump stations in the PPP Project, which includes nine sewage water treatment plants and their ancillary pipe network in nine villages and towns in Honghu City, namely Luoshan Town, Laowan Hui Minority Township, Datonghu Farm, Yanwo Town, Huangjiakou Town, Longkou Town, Fuchang Town, Dashahu Farm, Wulin Town and Fuchang Industrial Park, the industrial sewage water plant in Fuchang Industrial Park, as well as the construction of lifting pump stations and its ancillary pipe network in Binhu Subdistrict Office
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“percentage ratios”	has the same meaning as ascribed to it under the Listing Rules, as applicable to a transaction

“PPP Project”	the PPP project for the construction, upgrading and ancillary pipe networking of the rural sewage treatment plants in Honghu City to be conducted by the Company, Second Municipal Highway and the Government Representative by using social capital and government cooperation model (PPP model), including the transfer of concession rights of the Existing Project by adopting the “Transfer-Operate-Transfer (TOT)” model and the upgrading of the New Project and the Existing Project by adopting the “Build-Operate-Transfer (BOT)” model
“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Project Company”	subject to the approval of Honghu Municipal Administration for Industry and Commerce, a project company for the PPP Project intended to be named as Honghu Tianchuang Water Company Limited* (洪湖市天創水務有限公司), which will be a limited liability company to be incorporated in the PRC by the Company, Second Municipal Highway and the Government Representative in accordance with the Shareholder Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Second Municipal Highway”	Tianjin Second Municipal Highway Engineering Co., Ltd.* (天津第二市政公路工程有限公司), a company established in the PRC with limited liability, and another member of the consortium with the Company
“Shareholder(s)”	holder(s) of the Shares

“Shareholder Agreement”	the shareholder agreement entered into between the Company, Second Municipal Highway and the Government Representative on 9 June 2018 in relation to the establishment of the Project Company
“Share(s)”	share(s) of the Company with nominal value of RMB1.00 each
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.

*For the purpose of this announcement, the following exchange rate is used:  
RMB1.00 = HK\$1.22*

By Order of the Board  
**Liu Yujun**  
Chairman

Tianjin, the PRC

9 June 2018

*As at the date of this announcement, the Board comprises four executive Directors: Mr. Liu Yujun, Mr. Tang Fusheng, Ms. Fu Yana and Ms. Peng Yilin; two non-executive Directors: Mr. Yu Zhongpeng and Mr. Han Wei; and three independent non-executive Directors: Mr. Gao Zongze, Mr. Guo Yongqing and Mr. Wang Xiangfei.*

\* *For identification purpose only*