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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)

CONNECTED TRANSACTION

FINANCE LEASE AGREEMENT

FINANCE LEASE

The Board is pleased to announce that on 26 March 2020, the Board considered and passed the resolution on the Finance Lease Agreement contemplated to be entered into between the Lessee (a subsidiary of the Company) and the Lessor, pursuant to which, the Lessee agreed to sell the Leased Assets to the Lessor at a total consideration of not exceeding RMB20,000,000 (equivalent to approximately HK\$21,800,000) and the Lessor agreed to leaseback the Leased Assets to the Lessee during the Lease Period. Upon expiry of the Lease Period and subject to performance of all obligations by the Lessee under the Finance Lease Agreement, the Lessee shall have the right to require the Lessor to sell the ownership of the Leased Assets to the Lessee at the consideration of RMB100.

Tianjin Infrastructure Construction, the ultimate controlling shareholder of the Company, holds 80% equity interest in the Lessor. As the Lessor is deemed as the associate of Tianjin Infrastructure Construction under the Listing Rules and thus the connected person of the Company, the transaction contemplated under the Finance Lease Agreement constitutes a connected transaction of the Company.

As one or more applicable percentage ratios in relation to the Finance Lease set forth in the Listing Rules are more than 0.1% but less than 5%, the Finance Lease is only subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

GUARANTEE I

On 26 March 2020, the Board considered and passed the resolution on the provision by the Company of Guarantee I in respect of the entire liabilities under the Finance Lease Agreement in proportion to its 55% equity interest in the Lessee.

As at the date of this announcement, the total amount of the Company's external guarantee was RMB4,022,727,100, which was the financing guarantee provided to the wholly-owned and controlling subsidiaries within the scope of the Company's consolidated financial statements, accounting for approximately 65.16% of the latest audited net assets of the Company.

On March 26, 2020, the Board considered and approved the resolution on providing additional financing guarantees (the "**Relevant Guarantees**") amounting to a total amount of not exceeding RMB2,300,000,000 to the Lessee and subsidiaries of the Company within the scope of the consolidated financial statements existing within the period from the date of the 2019 annual general meeting to the date of the 2020 annual general meeting of the Company. Since the total amount of external guarantees of the Company exceeded 50% of the audited net assets of the most recent accounting year, in accordance with the Articles of Association, the Relevant Guarantees shall be subject to the approval of the Shareholders at the general meeting of the Company. Therefore, Guarantee I shall be subject to the approval of the Shareholders at the general meeting of the Company. For more details of the guarantees, please see the announcement on the guarantees for subsidiaries' financing and authorization to the board dated March 26, 2020.

A circular containing, among other things, (i) the details of the Relevant Guarantees (including Guarantee I) and (ii) the notice of the AGM of the Company will be dispatched to the Shareholders of the Company in due course.

GUARANTEE II

Meanwhile, DDIW would provide Guarantee II in respect of 45% of the entire liabilities of the Lessee under the Finance Lease Agreement.

As DDIW holds 40% equity interest in the Lessee, DDIW is deemed as the connected person of the Company at the subsidiary level of the Company under Chapter 14A of the Listing Rules. Under Chapter 14A of the Listing Rules, as DDIW provides Guarantee II in respect of the entire liabilities of the Lessee under the Finance Lease Agreement that constitutes the financial support provided by the connected person in favour of the Company, it will be deemed as a connected transaction of the Company. However, as one or more applicable percentage ratios in relation to Guarantee II are less than 1% and the Guarantee II is entered into on normal commercial terms, under Chapter 14A of the Listing Rules, Guarantee II is fully exempt from the reporting, announcement and shareholders' approval requirements.

INTRODUCTION

The Board is pleased to announce that on 26 March 2020, the Board considered and passed the resolution on the Finance Lease Agreement contemplated to be entered into between the Lessee (a subsidiary of the Company) and the Lessor, pursuant to which, the Lessee agreed to sell the Leased Assets to the Lessor at a total consideration of not exceeding RMB20,000,000 (equivalent to approximately HK\$21,800,000) and the Lessor agreed to leaseback the Leased Assets to the Lessee during the Lease Period. Upon expiry of the Lease Period and subject to performance of all obligations by the Lessee under the Finance Lease Agreement, the Lessee shall have the right to require the Lessor to sell the ownership of the Leased Assets to the Lessee at the consideration of RMB100.

Finance Lease Agreement

The principal terms of the Finance Lease Agreement are set out below:

Parties

- (a) Tianjin Municipal Investment Chuangzhan Lease Company Limited* (天津城投創展租賃有限公司) (as lessor); and
- (b) Shandong Capital Environmental Protection Technology Consultant Company Limited* (山東創業環保科技發展有限公司) (as lessee).

Subject Matters

Sale of the Leased Assets to the Lessor

Pursuant to the Finance Lease Agreement, the Lessee agreed to sell and the Lessor agreed to purchase the Leased Assets at a total consideration of no more than RMB20,000,000 (equivalent to approximately HK\$21,800,000), (the “**Consideration**”), which was determined after arm’s length negotiation between the parties thereto with reference to the original purchase cost of the Lessee of the Leased Asset at the time of procurement, that is RMB20,744,300 (equivalent to approximately HK\$22,611,287). The Consideration shall be paid by the Lessor to the Lessee in lump sum, subject to the fulfillment of the following conditions precedent:

- (1) the Lessor and the Lessee having executed the Finance Lease Agreement and other relevant agreements and legal documents;
- (2) the Lessor having received the letter of undertaking executed by the Lessee;

- (3) the Lessor having received a copy of the ownership certificate of the Leased Assets certified and stamped with official seal by the Lessee;
- (4) the Lessor having received the certificate of transfer of ownership executed by the Lessee and the value of the assets having not been impaired compared with that when the Finance Lease Agreement is signed (except for the natural loss occurred during that period);
- (5) the Lessor having received the application for payment issued by the Lessee;
- (6) the relevant Guarantor and the Lessor has signed the relevant guarantee contract; and
- (7) all other conditions of the transaction required by the Lessor having been satisfied.

Leaseback of the Leased Assets to the Lessee

Pursuant to the Finance Lease Agreement, the Leased Assets shall be leased back to the Lessee during the Lease Period at the total rent of approximately RMB22,992,500 (equivalent to approximately HK\$25,061,825) (the “**Total Rent**”), which comprises of (i) the amount of the lease principal in the sum of RMB20,000,000 (equivalent to approximately HK\$21,800,000) (the “**Lease Principal**”); (ii) the lease interest of approximately RMB2,280,000 (equivalent to approximately HK\$2,485,200) (the “**Lease Interest**”), to be calculated at the lease rate of 3.8% per annum; and (iii) one-off handling fee rate of 3.5625%, that is RMB712,500 (equivalent to approximately HK\$776,625). The aforesaid Lease Principal shall be paid by the Lessee to the Lessor during the Lease Period in 6 installments, and the Lease Interest shall be paid to the Lessor in 12 installments during the Lease Period.

Ownership of the Leased Assets during and after the Lease Period

The Leased Assets comprise of the assets (excluding the land) for the expansion of the phase I project (“**Phase I Project**”) owned by the Lessee in the PAC in Tancheng, Shandong. During the Lease Period, the ownership of the Leased Assets will vest in the Lessor and the Lessee will be entitled to occupy and use the Leased Assets. Subject to the fulfillment of all the obligations under the Finance Lease Agreement by the Lessee, upon the expiry of the lease, the Lessee shall have the right to require the Lessor to sell the ownership of the Leased Assets back to the Lessee at the consideration of RMB100.

Effectiveness

The Finance Lease Agreement shall take effect upon its signing by the legal representatives or authorized representatives of the parties thereto.

Guarantee

Under the Finance Lease Agreement, the obligations and liabilities of the Lessee under the Finance Lease Agreement shall be secured by the Guarantees and the Pledge.

Guarantee I

The Board hereby announces that on 26 March 2020, the Board considered and passed the resolution on the provision by the Company of Guarantee I in respect of the entire liabilities of the Lessee under the Finance Lease Agreement in proportion to its 55% equity interest in the Lessee under the Guarantee Agreement.

The scope of Guarantee I includes the Lease Principal, Lease Interest, penalty, compensation, handling fee, liquidated damages, damages, other receivables, cost for exercising creditor's rights and other payables of not exceeding RMB11,000,000 under the Finance Lease Agreement.

The Lessee will provide counter-guarantee to the Company with the sales income of Phase I Project (in proportion to the guarantee provided by the Company in respect of the liabilities under the Finance Lease Agreement).

Guarantee II

Meanwhile, pursuant to the Guarantee Agreement, DDIW will provide the Guarantee II in respect of 45% of the entire liabilities of the Lessee under the Finance Lease Agreement.

The scope of Guarantee II includes the Lease Principal, Lease Interest, penalty, compensation, handling fee, liquidated damages, damages, other receivables, cost for exercising creditor's rights and all the other payables of not exceeding RMB9,000,000 under the Finance Lease Agreement.

The Lessee will provide counter-guarantee to DDIW with the sales income of Phase I Project (in proportion to the guarantee provided by DDIW in respect of the liabilities under the Finance Lease Agreement).

The term of the guarantee shall expire after 3 years starting from the expiry date of the period in which the Lessee shall fulfill its obligations under the Finance Lease Agreement.

The Pledge

Under the Finance Lease Agreement, the Lessee agreed to pledge the Leased Assets in respect of its entire liabilities of the Lessee under the Finance Lease Agreement as the guarantee to the Lessor. The Lessee will enter into the Pledge Agreement with the Lessor in respect of the Pledge.

Under the Pledge Agreement, the subject assets of the Pledge are the assets and equipment (excluding the land) of Phase I Project. The scope of the Pledge includes all the Lease Principal, Lease Interest, penalty compensation, handling fee, liquidated damages, damages, cost for exercising creditor's rights and other payables under the Finance Lease Agreement.

The term of the Pledge Agreement shall be consistent with the Lease Period of the Finance Lease Agreement.

REASONS FOR AND BENEFIT OF ENTERING INTO THE FINANCE LEASE AGREEMENT AND PROVISION OF THE GUARANTEES

The entering into of the Finance Lease Agreement is for the purposes of increasing the financing channels of the Company, replenishing capital required for Phase I Project and optimising the Company's assets and liability structure. Under the Finance Lease Agreement, the obligations of the Lessee to pay rents and other payables under the Finance Lease Agreement shall be secured by the Guarantees and the Pledge.

The terms and conditions of the Finance Lease and the Guarantees are arrived at after arm's length negotiations between the parties thereto. The Directors (including the independent non-executive Directors) consider that the terms of the Finance Lease Agreement, the Guarantees and the transaction contemplated thereunder are entered into on normal commercial terms, and are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

INFORMATION OF THE COMPANY, THE LESSEE, THE LESSOR AND DDIW

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.

The Lessee is a non-wholly-owned subsidiary of the Company and is principally engaged in the treatment and disposal of solid wastes, industrial wastes, hazardous wastes, etc. and the comprehensive cycling and utilization of resources.

The Lessor is a limited liability company incorporated in the PRC and is principally engaged in finance leasing, lease business, consultancy on lease transaction and other related services.

DDIW is a limited liability company incorporated in the PRC and is principally engaged in the cycling, treatment and disposal wastes from industries of old materials, the development and production of recycled products and other related services.

LISTING RULES IMPLICATIONS

Finance Lease

Tianjin Infrastructure Construction, the ultimate controlling shareholder of the Company, holds 80% equity interest in the Lessor. As the Lessor is deemed as the associate of Tianjin Infrastructure Construction under the Listing Rules and thus the connected person of the Company, the transaction contemplated under the Finance Lease Agreement constitutes a connected transaction of the Company.

As one or more applicable percentage ratios in relation to the Finance Lease set forth in the Listing Rules are more than 0.1% but less than 5%, the Finance Leasing is only subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Mr. Liu Yujun, the executive Director of the Company, and Mr. Yu Zhongpeng, Mr. Han Wei and Mr. Si Xiaolong, the non-executive Directors of the Company, are connected with Tianjin Infrastructure Construction, and are deemed to be unable to provide recommendations and opinions to the Board in relation to the Finance Lease in an independent capacity, therefore they have abstained from voting at the board meeting on approving the Finance Lease.

Guarantee II

As DDIW holds 40% equity interest in the Lessee, DDIW is deemed as the connected person of the Company at the subsidiary level of the Company under Chapter 14A of the Listing Rules. Under Chapter 14A of the Listing Rules, as DDIW provides Guarantee II in respect of the entire liabilities of the Lessee under the Finance Lease Agreement that constitutes the financial support provided by the connected person in favour of the Company, it will be deemed as a connected transaction of the Company. However, as one or more applicable percentage ratios in relation to Guarantee II are less than 1% and the Guarantee II is entered into on normal commercial terms, therefore, Guarantee II is fully exempt from the reporting, announcement and shareholders' approval requirements under Chapter 14A of Listing Rules..

DECISION-MAKING PROCEDURES OF THE COMPANY FOR PERFORMANCE OF GUARANTEE I

As of the date of this announcement, the total amount of the Company's external guarantee was RMB4,022,727,100, which was the financing guarantee provided to the wholly-owned and majority-owned subsidiaries within the scope of the Company's consolidated financial statements, accounting for approximately 65.16% of the latest audited net assets of the Company.

On March 26, 2020, the Board considered and approved the resolution on providing additional financing guarantees (“**Relevant Guarantees**”) amounting to a total amount of not exceeding RMB2,300,000,000 to Lessee and subsidiaries of the Company within the scope of the consolidated financial statements existing within the period from the date of the 2019 annual general meeting to the date of the 2020 annual general meeting of the Company. Since the total amount of external guarantees of the Company exceeded 50% of the audited net assets of the most recent accounting year, in accordance with the articles of association of the Company, the Relevant Guarantees shall be subject to the approval of the Shareholders at the general meeting of the Company. Therefore, Guarantee I shall be subject to the approval of the Shareholders at the AGM. For more details of the Relevant Guarantees, please see the announcement of the provision of guarantees for subsidiaries financing and authorization to the board dated March 26, 2020.

A circular containing, among other things, (i) the details of the Relevant Guarantees (including Guarantee I) and (ii) the notice of the AGM of the Company will be dispatched to the Shareholders of the Company in due course.

DEFINITIONS

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

“AGM”	the 2019 annual general meeting of the Company contemplated to be held by the Company on May 13, 2020 for the purpose of, among other things, seeking independent Shareholders’ approval for the resolution on the Relevant Guarantees (including Guarantee I)
“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
“connected person(s)”	has the same meaning as ascribed to it under the Listing Rules
“Director(s)”	the directors of the Company, including independent non-executive directors
“Finance Lease”	the finance lease of the Leased Assets under the Finance Lease Agreement
“Finance Lease Agreement”	the sale and leaseback agreement in relation to the Leased Assets contemplated to be entered into between the Lessee and the Lessor, pursuant to which, the Lessee agreed to sell the Leased Assets to the Lessor at the Consideration and the Lessor agreed to leaseback the Leased Assets to the Lessee at the Total Rent during the Lease Period
“Group”	the Company and its subsidiaries
“Guarantee”	collectively, Guarantee I and Guarantee II
“Guarantee I”	the joint liability guarantees contemplated to be provided by the Company (as guarantor) in respect of the Total Rent and other liabilities and accrued expenses of not exceeding RMB11,000,000 under the Finance Lease Agreement in favour of the Lessee

“Guarantee II”	the joint liability guarantee contemplated to be provided by DDIW (as guarantor) in respect of the Total Rent and other liabilities and accrued expenses of not exceeding RMB9,000,000 under the Finance Lease Agreement in favour of the Lessee
“Guarantee Agreement”	the tri-party agreement contemplated to be entered into by the Company (as guarantor), DDIW (as guarantor) and Lessor in relation to their respective Guarantee I and Guarantee II
“Guarantor”	collectively, the Company and DDIW
“Pledge”	the pledge contemplated to be provided by Company (as pledgeor) in respect of the Total Rent and other liabilities and accrued expenses of not exceeding RMB20,000,000 under the Finance Lease Agreement in favour of the Lessee
“Pledge Agreement”	the agreement contemplated to be entered into between the Company (as pledgeor) and the Lessor in respect of the Pledge
“DDIW”	Dalian Dongtai Industrial Waste Treatment Co., Ltd.* (大連東泰產業廢棄物處理有限公司), a limited liability company incorporated in the PRC holding 40% equity interest in the Lessee
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Leased Assets”	the assets and equipment (excluding the land) of the Phase I project, all of which shall be transferred by the Lessee to the Lessor and shall be leased back by the Lessor to the Lessee according to the Finance Lease Agreement
“Lease Period”	the lease period shall be 3 years, starting from the date when the lessor has paid the Consideration to the lessee, and ending on the date before the corresponding date of the last month of the lease period, or one day prior if there is no such corresponding date
“Lessee”	Shandong Capital Environmental Protection Technology Co., Ltd* (山東創業環保科技發展有限公司), a limited liability company incorporated in the PRC and a non-wholly-owned subsidiary of the Company
“Lessor”	Tianjin Municipal Investment Chuangzhan Lease Company Limited (天津城投創展租賃有限公司), a limited liability company incorporated in the PRC and a non-wholly-owned subsidiary of Tianjin Infrastructure Construction
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“percentage ratio(s)”	has the same meaning as ascribed to it under the Listing Rules, as applicable to a transaction
“PRC”	the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	the ordinary shares in the existing share capital of the Company with nominal value of RMB1.00 each
“Shareholder(s)”	Holder(s) of shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tianjin Infrastructure Construction”	Tianjin Infrastructure Construction and Investment Group Company Limited* (天津城市基礎設施建設投資集團有限公司), the ultimate controlling shareholder of the Company and the sole shareholder of TMICL, holding 100% equity interest in TMICL
“TMICL”	Tianjin Municipal Investment Company Limited* (天津市政投資有限公司), the controlling shareholder of the Company, holding 50.14% equity interest in the Company

By Order of the Board
Liu Yujun
Chairman

Tianjin, the PRC
26 March 2020

As at the date of this announcement, the Board comprises three executive Directors: Mr. Liu Yujun, Ms. Wang Jing and Mr. Niu Bo; three non-executive Directors: Mr. Yu Zhongpeng, Mr. Han Wei and Mr. Si Xiaolong; and three independent non-executive Directors: Mr. Di Xiaofeng, Mr. Guo Yongqing and Mr. Wang Xiangfei.

The following exchange rate: RMB1.00 = HK\$1.09 is adopted for the purpose of this announcement.

** For identification purposes only*