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If you have sold or transferred all your shares in Capital Environment Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or other transferee, or to the bank, your licensed securities dealer, registered institution in securities, or other agent through whom the sale or the transfer was effected for transmission to the purchaser or the transferee.

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CAPITAL ENVIRONMENT HOLDINGS LIMITED

首創環境控股有限公司

(FORMERLY KNOWN AS NEW ENVIRONMENTAL ENERGY HOLDINGS LIMITED 新環保能源控股有限公司)

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 03989)

**PROPOSED AMENDMENTS
OF THE TERMS AND CONDITIONS
OF THE CONVERTIBLE BOND
AND
NOTICE OF EGM**

**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders**

 **金融有限公司**
OCTAL Capital Limited

A letter from the Board is set out on pages 4 to 12 of this circular and a letter from the Independent Board Committee is set out on pages 13 to 14 of this circular. A letter of advice from Octal Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders of the Company is set out on pages 15 to 25 of this circular.

A notice convening the EGM to be held at Unit 1613–1618, 16/F., Bank of America Tower, 12 Harcourt Road, Central, Hong Kong at 3:00 p.m. on Monday, 29 December 2014 is set out on pages 31 to 33 of this circular. Whether or not you are able to attend the EGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or at any adjournment thereof should you so wish.

8 December 2014

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DEFINITIONS

In this circular, the following terms and expressions shall have the following meanings, unless the context otherwise requires:

“Amendment of Denomination”	the proposed conversion of the denomination of the Convertible Bonds from Hong Kong Dollars to Renminbi pursuant to the Supplemental Deed
“Amendment of Terms”	the proposed amendment of certain terms and conditions of the Convertible Bonds pursuant to the Supplemental Deed, including the Maturity Date Extension and Amendment of Denomination
“Board”	the board of Directors
“Bondholder”	holder of the Convertible Bond
“Business Day”	any day (excluding a Saturday, a Sunday and any public holiday and any day on which a tropical cyclone warning no.8 or above or a “black” rainstorm warning signal is hoisted or remains hoisted in Hong Kong at any time between 9:00 a.m. and 12:00 noon and is not lowered or discontinued at or before 12:00 noon) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
“Company”	Capital Environment Holdings Limited (stock code: 03989), a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the main board of the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Conversion Period”	the period commencing from the date of the issue of the Convertible Bond and ending upon the Maturity Date
“Conversion Price”	the price at which each Conversion Share shall be issued upon conversion
“Conversion Shares”	new Share(s) falling to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Bond
“Convertible Bond”	the convertible bond in the aggregate principal amount of HK\$100 million issued by the Company in two installments, where the first installment of HK\$50 million was issued on 11 September 2012 and the second installment of HK\$50 million was issued on 31 December 2012
“Director(s)”	director(s) of the Company

DEFINITIONS

“EGM”	the extraordinary general meeting of the Company to be convened and held for the Independent Shareholders and/or the Shareholders (as the case may be) to consider and, if thought fit, approve the Supplemental Deed and Amendment of Terms and transactions contemplated thereunder
“HK\$” or “Hong Kong Dollar”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors, formed for the purpose of advising the Independent Shareholders as to the terms of the Supplemental Deed and the transactions contemplated thereunder
“Independent Financial Adviser” or “Octal Capital Limited”	Octal Capital Limited, a corporation licensed under SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporation finance) regulated activities and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders with regard to the Amendment of Terms
“Independent Shareholder(s)”	the Shareholder(s) who are not interested or involved in the Supplemental Deed, the Amendment of Terms and the transactions contemplated thereunder
“Latest Practicable Date”	5 December 2014, being the latest practicable date prior to the printing of this circular for ascertaining information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date Extension”	the proposed extension of the maturity date of the Convertible Bond for 12 months to 31 December 2015 pursuant to the Supplemental Deed
“Original Maturity Date”	31 December 2014
“PRC”	The People’s Republic of China excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan for the purpose of this announcement
“Shares”	ordinary shares of HK\$0.10 each in the share capital of the Company

DEFINITIONS

“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Beijing Capital (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability and a substantial Shareholder of the Company
“Subscription”	the subscription of the Convertible Bond pursuant to the terms and conditions set out in the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 6 December 2011 entered into between the Company and the Subscriber in relation to the Subscription and the supplemental agreements entered into from time to time, including the supplemental agreement dated 26 June 2012 and the supplemental deed dated 31 August 2012
“Supplemental Deed”	the supplemental deed dated 19 November 2014 entered into between the Company and the Subscriber in relation to the Amendment of Terms
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“%”	per cent.



CAPITAL ENVIRONMENT HOLDINGS LIMITED
首創環境控股有限公司

(FORMERLY KNOWN AS NEW ENVIRONMENTAL ENERGY HOLDINGS LIMITED 新環保能源控股有限公司)

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 03989)

Executive Directors:

Mr. Yu Changjian (*Chairman*)
Mr. Cao Guoxian (*Chief Executive Officer*)
Mr. Liu Xiaoguang
Mr. Shen Jianping

Independent Non-executive Directors:

Mr. Pao Ping Wing
Mr. Cheng Kai Tai, Allen
Ms. Chan Yee Wah, Eva

Registered office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

*Head office and principal place
of business:*

Unit 1613–1618, 16/F.,
Bank of America Tower,
12 Harcourt Road, Central,
Hong Kong

8 December 2014

To the Shareholders,

Dear Sir or Madam,

**PROPOSED AMENDMENTS
OF THE TERMS AND CONDITIONS
OF THE CONVERTIBLE BOND**

INTRODUCTION

References are made to the announcement dated 6 December 2011, the circular dated 31 December 2011, and the announcements dated 31 August 2012, 31 December 2012 and 19 November 2014 of the Company in relation to, amongst other things, the Subscription of the Convertible Bond and the Supplemental Deed to which the parties agreed to amend certain terms and conditions of the Convertible Bond.

LETTER FROM THE BOARD

The Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Company issued the Convertible Bond to the Subscriber in the principal amount of HK\$100 million. The Convertible Bond bears no interest and is convertible into Shares. All outstanding Convertible Bond will mature on 31 December 2014 pursuant to the original terms and conditions of the Convertible Bond.

On 4 November 2014, a portion of the Convertible Bond in the principal amount of HK\$22 million was converted into 75,862,068 Shares. As at the date of this circular, the Convertible Bond in the principal amount of HK\$78 million is still outstanding.

The purpose of this circular is to provide you with, amongst other things, (i) further details of the Supplemental Deed and the Amendment of Terms; (ii) a letter from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Supplemental Deed and the Amendment of Terms; and (iv) a notice of the EGM to consider and if thought fit, to approve the resolution in relation to the Amendment of Terms.

THE SUPPLEMENTAL DEED

On 19 November 2014 (after trading hours), the Company entered into the Supplemental Deed with the Subscriber pursuant to which the Company and the Subscriber agreed to amend certain terms and conditions of the Convertible Bond, where (i) the maturity date of the Convertible Bond will be extended for 12 months and the conversion period will accordingly be extended for 12 months to 31 December 2015; and (ii) the denomination of the Convertible Bond will be amended such that the denomination of the principal amount, the Conversion Price of the Convertible Bond, the integral multiple of the principal amount for conversion of the Convertible Bond, will be converted from Hong Kong Dollars to Renminbi, and the principal amount, the Conversion Price and the integral multiple of the principal amount for conversion of the Convertible Bond will be converted to the equivalent Renminbi amount calculated based on the official mid-exchange rate between Hong Kong Dollars and Renminbi as of the effective date of the Amendment of Terms, as quoted on the China Foreign Exchange Trading System; and (iii) subject to the other terms and conditions of the Convertible Bond, payment of the sums (whether principal, fees or otherwise) payable under the Convertible Bond shall be made in Renminbi, unless otherwise agreed by the Bondholder. The Amendment of Terms is arrived at after arm's length negotiation between the Company and the Subscriber.

Pursuant to the Supplemental Deed, the Amendment of Terms is subject to the satisfaction of the following conditions:

- (a) the passing by the Independent Shareholders at the EGM of the necessary resolutions to approve the Supplemental Deed and the Amendment of Terms;
- (b) the Stock Exchange having approved the Amendment of Terms pursuant to the Listing Rules and the Listing Committee granting approval for the listing of, and permission to deal in, the Conversion Shares on the Stock Exchange and the approval not having been subsequently revoked or cancelled; and

LETTER FROM THE BOARD

- (c) all necessary consents and approvals required to be obtained on the part of the Company and the Subscriber in respect of the Amendment of Terms having been obtained.

None of the above conditions could be waived by the parties to the Supplemental Deed. The effective date of the Supplemental Deed shall be on the date when all its conditions precedents are fulfilled.

As at the Latest Practicable Date, the Stock Exchange has approved the Amendment of Terms in accordance with Rule 28.05 of the Listing Rules subject to approval by the Independent Shareholders and condition (c) above has been satisfied. Save as disclosed, none of the above conditions have been fulfilled.

THE CONVERTIBLE BOND

Apart from the Amendment of Terms, all other terms of the Convertible Bond will remain unchanged.

The principal terms of the Convertible Bond as amended pursuant to the Supplemental Deed are summarized as follows:

Principal amount:	The equivalent RMB amount to HK\$100 million calculated based on the official mid-exchange rate between Hong Kong Dollars and Renminbi as of the effective date of the Amendment of Terms, as quoted on the China Foreign Exchange Trading System
Maturity date:	31 December 2015
Interest rate:	The Convertible Bond shall not bear any interest

LETTER FROM THE BOARD

- Conversion:** The Bondholder shall have the right to convert the whole or any part of the outstanding principal amount of the Convertible Bond (which shall be in the principal amount of the equivalent RMB amount of HK\$1,000,000 calculated based on the official mid-exchange rate between Hong Kong Dollars and Renminbi as of the effective date of the Amendment of Terms, as quoted on the China Foreign Exchange Trading System or its integral multiples) into Shares at any time and from time to time during the Conversion Period, subject to (i) the extent that immediately after such conversion, there will not be sufficient public float of the Shares as required under the Listing Rules; and (ii) that immediately after the conversion, the Bondholder together with parties acting in concert with it, taken together, directly or indirectly, control or be interested in 30% or more of the voting rights of the Company (or in such percentage as may from time to time be specified in the Takeovers Code being the level for triggering a mandatory general offer), a mandatory general offer shall be given by the Bondholder and the parties acting in concert with it in accordance with the requirement of the Takeovers Code or, where applicable, waiver from the Shareholders should be obtained by the Bondholder and the parties acting in concert with it in accordance with the Takeovers Code.
- Conversion Price:** The equivalent RMB amount to HK\$0.29 calculated based on the official mid-exchange rate between Hong Kong Dollars and Renminbi as of the effective date of the Amendment of Terms, as quoted on the China Foreign Exchange Trading System, being the conversion price per Conversion Share, subject to adjustment for, among other matters, subdivision, consolidation, capitalization of profits or reserves, capital distribution, rights issue or open offer of Shares or grant of any options or warrants to subscribe for new Shares at a price which is less than 90% of the then market price of the Shares at the time of the announcement of the relevant events, issue of securities other than Shares which are convertible into or exchangeable for or carry rights of subscription for new Shares and the total effective consideration per Share as less than 90% of the then market price of the Shares at the time of the announcement of the relevant events, issue of Shares wholly for cash or for the acquisition of asset at a price which is less than 90% of the then market price of the Shares at the time of the announcement of the relevant events.
- Conversion Period:** The period commencing from the date of issue of the Convertible Bond and ending upon the Maturity Date.

LETTER FROM THE BOARD

- Ranking: The Conversion Shares, when allotted and issued, will rank pari passu in all respects with the other Shares then in issue as at the date of issue of such Conversion Shares.
- Transferability: The Convertible Bond is issued in registered form and may be assigned or transferred in whole or in part to any independent third party. The Convertible Bond may not be assigned or transferred to party or parties connected with or acting in concert with any Directors, chief executives or substantial Shareholders of the Company, any of its subsidiaries or any of their respective associates.
- Early redemption: Subject to the events of default in the Subscription Agreement, the Bondholder shall have no right before the Maturity Date to request the Company to redeem the whole or part of the outstanding principal amount of the Convertible Bond. The Convertible Bond is not redeemable by the Company before the Maturity Date of the Convertible Bond.
- Voting rights: The Bondholder shall not be entitled to attend or vote at any general meetings of the Shareholders by reason only of it being the Bondholder.
- Listing application: No application will be made for the listing of, or permission to deal in, the Convertible Bond on the Stock Exchange or any other stock exchange. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

APPLICATION OF LISTING

An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares. No application will be made of the listing of, and permission to deal in, the Convertible Bond on the Stock Exchange or any other stock exchange.

REASONS FOR THE AMENDMENT OF TERMS

The Maturity Date Extension allows the Company to refinance the debts under the Convertible Bond under the same terms for a further 12 months. The Company is in a rapid development stage and several projects are still at initial stage. The management of the Company believes that once most of the existing projects commence operation, they will provide revenue contribution and improve the financial position of the Company. With rising growth momentum and strong competitive edge in the waste treatment industry, the Company requires capital for future project acquisitions and fund its expansion plans. As at 30 June 2014, the Company had ten waste treatment projects that commanded a total investment of approximately RMB2,887.8 million. As at 30 June 2014, the Company is

LETTER FROM THE BOARD

actively proposing and negotiating investments in four to five waste treatment projects by way of tender or acquisition. The Board is of the view that the Maturity Date Extension will enable the Company to retain its funds for potential project development. In addition, as the Convertible Bond does not carry interest, it will not incur any interest burden for the Group. Further, although the Convertible Bond is currently in-the-money, the Subscriber cannot convert the whole amount of the Convertible Bond on or before the Original Maturity Date without triggering the mandatory offer obligation under Rule 26 of the Takeovers Code.

In addition, the Board considers that as the functional currency of the Company is Renminbi while the denominated currency of the Convertible Bond is Hong Kong Dollar, under the current accounting standards in Hong Kong, the redemption of the Convertible Bond may give rise to a fair value adjustment in the Company's statement of profit and loss. According to HKFRS 39, financial liabilities, such as the Convertible Bond, are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognised in profit or loss. This applies at the redemption of the Convertible Bonds. However, if the Convertible Bond is extended based on the reasons outlined, there will be further fair value adjustment on the income statement due to fluctuation of share price of the Company. For example, if the share price of the Company increases and is higher than the price at the date of which the financial statements were issued previously, the fair value of equity option of the Convertible bond will increase and will be recorded on the income statement as a loss. If the denominated currency of the Convertible Bond remains as Hong Kong dollar and the Convertible Bond is extended for 12 months, the financial statements of the Company will be further affected accordingly. Accordingly, the Amendment of Denomination will remove the potential fair value adjustment caused by fluctuation of the Share price of the Company and is to the benefit of the Company as a whole.

The Amendment of Terms is arrived at after arm's length negotiation between the Company and the Bondholder. The Board (excluding the independent non-executive directors who will form their views after considering the advice of the Independent Financial Adviser) considers that the terms and conditions of the Supplemental Deed are fair and reasonable, and the Amendment of Terms is in the interests of the Company and the Shareholders as a whole. The Directors are of the view that the Amendment of Terms will not pose any significant impact on the operations of the Group.

LETTER FROM THE BOARD

EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

The shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately upon full conversion of the Convertible Bond at a conversion price of HK\$0.29 is as follows:

	As at the Latest Practicable Date		Immediately upon full conversion of the Convertible Bond (at the Conversion Price)	
	<i>No. of Shares</i>	<i>Approximate %</i>	<i>No. of Shares</i>	<i>Approximate %</i>
Beijing Capital (Hong Kong) Limited and associates (<i>Note 1</i>)	2,342,128,286	49.50%	2,611,093,803	52.22%
Simple Success Investments Limited	270,760,000	5.72%	270,760,000	5.41%
Other Public Shareholders	<u>2,118,616,378</u>	<u>44.78%</u>	<u>2,118,616,378</u>	<u>42.37%</u>
Total	<u>4,731,504,664</u>	<u>100.00%</u>	<u>5,000,470,181</u>	<u>100.00%</u>

Notes:

1. Beijing Capital (Hong Kong) Limited is interested in the Convertible Bond issued by the Company and the initial number of ordinary Shares issuable upon conversion of such Convertible Bond is 268,965,517 Shares at the Conversion Price. These Shares represent 2,318,918,286 Shares held by Beijing Capital (Hong Kong) Limited and 23,210,000 Shares held by BC Water Investments Co., Ltd.. Both Beijing Capital (Hong Kong) Limited and BC Water Investments Co., Ltd. are wholly-owned subsidiaries of Beijing Capital Co., Ltd..

FUND RAISING ACTIVITIES IN THE PRIOR 12 MONTHS PERIOD

Date of announcement	Description	Net proceeds (approximately)	Intended use of proceeds	Actual use of proceeds
31 March 2014	Placing of unlisted warrants under general mandate	Net proceeds from the placing was approximately HK\$3.94 million	as the general working capital of the Company	Have been used as intended

INFORMATION ON THE GROUP AND THE SUBSCRIBER

As at the Latest Practicable Date, the Group is principally engaged in provision of waste treatment technologies and services, specializing in technology development, design, system integration, project investment, consultancy and operation and maintenance of waste treatment facilities, particularly in waste-to-energy projects.

The Subscriber is principally engaged in overseas capital operations, investment and financing.

LETTER FROM THE BOARD

LISTING RULE IMPLICATION

Pursuant to Rule 28.05 of the Listing Rules, any alteration in the terms of convertible debt securities after issue must be approved by the Stock Exchange, except where the alteration takes effect automatically under the existing terms of such convertible debt securities. The Company has applied to the Stock Exchange for its approval of the Amendment of Terms contemplated by the Supplemental Deed pursuant to Rule 28.05 of the Listing Rules.

As at the Latest Practicable Date, the Subscriber and its associates are interested in 2,318,918,286 Shares and 23,210,000 Shares respectively, representing approximately 49.01% and 0.49% of the issued share capital of the Company respectively. As the Subscriber is a substantial Shareholder of the Company, the Subscriber is a connected person of the Company under Rule 14A.07(1) of the Listing Rules. Accordingly, the Amendment of Terms as contemplated by the Supplemental Deed constitutes a connected transaction of the Company under the Listing Rules.

As the Amendment of Terms does not fall into any exemption under Rule 14A.73 of the Listing Rules, the Amendment of Terms is subject to the reporting, announcement and the Independent Shareholders' approval requirements of Chapter 14A of the Listing Rules. The Subscriber and its associates have material interest in the Supplemental Deed, the Amendment of Terms and the transactions contemplated thereunder and will abstain from voting in the EGM for approval of the Supplemental Deed, the Amendment of Terms and the transactions contemplated thereunder. Other than the Subscriber and its associates, no other Shareholder has a material interest in the Supplemental Deed and are required to abstain from voting in the EGM.

EGM AND PROXY ARRANGEMENT

The EGM will be held for the Independent Shareholders at Unit 1613–1618, 16/F., Bank of America Tower, 12 Harcourt Road, Central, Hong Kong at 3:00 p.m. on Monday, 29 December 2014 for the Shareholders to consider and, if thought fit, approve the Supplemental Deed, the Amendment of Terms and the transactions contemplated thereunder. The notice of the EGM is set out on pages 31 to 33 of this circular. The voting on such resolution will be conducted by way of poll in accordance with Rule 13.39(4) of the Listing Rules.

Mr. Yu Changjian, Mr. Cao Guoxian, Mr. Liu Xiaoguang and Mr. Shen Jianping, executive Directors of the Company, are the directors of Beijing Capital (Hong Kong) Limited and/or its holding companies, Beijing Capital Co., Ltd. and Beijing Capital Group Co., Ltd.. Mr. Yu Changjian, Mr. Cao Guoxian, Mr. Liu Xiaoguang and Mr. Shen Jianping, have abstained from voting in the board resolutions for the approval of the Supplemental Deed, the Amendment of Terms and the transactions contemplated thereunder.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you propose to attend the EGM, you are requested to complete the proxy form in accordance with the instructions printed thereon and return it to the Company's branch share registrar

LETTER FROM THE BOARD

in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be), should you so wish.

RECOMMENDATION

Taking into account the reasons set out above, the Board (excluding all independent non-executive Directors, whose views are set out in the section headed "Letter from the Independent Board Committee" in this circular), consider that the Amendment of Terms is fair and reasonable and in the best interests of the Company and the Shareholders as a whole, and therefore, they recommend the Independent Shareholders to vote in favor of the proposed resolution as set out in the notice of EGM.

ADDITIONAL INFORMATION

Your attention is drawn to the (i) letter from the Independent Board Committee as set out on pages 13 to 14 of this circular which contains recommendations of the Independent Board Committee to the Independent Shareholders regarding the resolution to approve the Supplemental Deed, the Amendment of Terms and transactions contemplated thereunder; and (ii) the letter from Octal Capital Limited set out in pages 15 to 25 of this circular which contains its recommendations to the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Deed, the Amendment of Terms and transactions contemplated thereunder and the principal factors and reasons considered by Octal Capital Limited in arriving at its recommendations.

Yours faithfully,
By order of the Board
Capital Environment Holdings Limited
Yu Changjian
Chairman



CAPITAL ENVIRONMENT HOLDINGS LIMITED

首創環境控股有限公司

(FORMERLY KNOWN AS NEW ENVIRONMENTAL ENERGY HOLDINGS LIMITED 新環保能源控股有限公司)

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 03989)

8 December 2014

To the Independent Shareholders

Dear Sir or Madam,

**PROPOSED AMENDMENTS
OF THE TERMS AND CONDITIONS
OF THE CONVERTIBLE BOND**

INTRODUCTION

We refer to the circular of the Company of even date (the “**Circular**”), of which this letter forms part. Unless specified otherwise, capitalized terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed by the Board to advise you on the terms of the Supplemental Deed, the Amendment of Terms and the transaction contemplated thereunder. Octal Capital Limited has been appointed as independent financial adviser to advise you and us in this regard. Details of their advice, together with the principal factors and reasons they have taken into consideration in giving such advice, are set out on pages 15 to 25 of the Circular. Your attention is also drawn to the letter from the Board in the Circular and the additional information set out in the appendix thereto.

RECOMMENDATION

Having considered the terms of the Supplemental Deed, the Amendment of Terms, the transactions contemplated thereunder and taking into account the independent advice of Octal Capital Limited and the relevant information contained in the letter from the Board, we are of the opinion that the Supplemental Deed, the Amendment of Terms and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly we recommend that you vote in favour of the ordinary resolution to be proposed at the EGM to approve the Supplemental Deed, the Amendment of Terms and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Independent Board Committee

Mr. Pao Ping Wing

Mr. Cheng Kai Tai, Allen

Ms. Chan Yee Wah, Eva



Octal Capital Limited
801–805, 8th Floor, Nan Fung Tower
88 Connaught Road Central
Hong Kong

8 December 2014

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

**CONNECTED TRANSACTION
PROPOSED AMENDMENTS OF THE TERMS
AND CONDITIONS OF THE CONVERTIBLE BOND**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Amendment of Terms, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company (together with its subsidiaries, the “**Group**”) dated 8 December 2014 (the “**Circular**”), of which this letter forms a part. Capitalized terms used in this letter shall have the same meaning as those defined in the Circular unless the context otherwise requires.

As set out in the Letter from the Board, on 19 November 2014 (after trading hours), the Company entered into the Supplemental Deed with the Subscriber pursuant to which the Company and the Subscriber agreed to amend certain terms and conditions of the Convertible Bond, being the Maturity Date Extension and Amendment of Denomination. The Subscriber, being a substantial Shareholder of the Company, and its associates, holds approximately 49.01% and 0.49% of the total issued share capital of the Company at as the date of the Circular respectively and hence the Subscriber is a connected person of the Company under Rule 14A.07(1) of the Listing Rules. Accordingly, the Amendment of Terms as contemplated by the Supplemental Deed constitutes a connected transaction of the Company under the Listing Rules. As the Amendment of Terms does not fall into any exemption under Rule 14A.73 of the Listing Rules, the Amendment of Terms is subject to the reporting, announcement and the Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules. The Supplemental Deed and the transactions contemplated thereunder, including the issue and allotment of Conversion Shares, are subject to, *inter alia*, the approval of Independent Shareholders at the EGM. The Subscriber and its associates have material interest in the Supplemental Deed, the Amendment of Terms and the transactions contemplated thereunder and will abstain from voting in the EGM for approval of the Supplemental Deed, the Amendment of Terms and the transactions contemplated thereunder. Other than the Subscriber and its associates, no other Shareholder has a material interest in the Supplemental Deed and is required to abstain from voting in the EGM.

LETTER FROM OCTAL CAPITAL LIMITED

An independent board committee comprising all independent non-executive Directors of the Company has been established to consider and advise the Independent Shareholders on whether the Amendment of Terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Independent Shareholders should note that pursuant to Rule 28.05 of the Listing Rules, any alteration in the terms of convertible debt securities after issue must be approved by the Stock Exchange, except where alterations take effect automatically under the existing terms of such convertible debt securities. The Company has applied to the Stock Exchange for its approval of the Amendment of Terms contemplated by the Supplemental Deed pursuant to Rule 28.05 of the Listing Rules.

In this regard, Octal Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the Amendment of Terms in this respect. Octal Capital Limited is not connected with the directors, chief executive and substantial shareholders of the Company or the Subscriber or any of their respective subsidiaries or their respective associates and do not have any shareholding, directly or indirectly, 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 as at the Latest Practicable Date and therefore is considered suitable to give independent advice to the Independent Shareholders. During the last two years, there was no engagement between the Company and Octal Capital Limited. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby Octal Capital Limited will receive any fees or benefits from the Group or the directors, chief executive and substantial shareholders of the Company or the Subscriber or any of its subsidiaries or their respective associates.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular as provided by the management of the Company were true at the time they were made and continue to be true as at the date of the Circular. We have also relied on our discussion with the management of the Company regarding the Supplemental Deed and the Amendment of Terms including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the management of the Company respectively in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group and the Subscriber and their respective associates, nor have we carried out any independent verification of the information supplied to us.

THE PROPOSED AMENDMENTS OF THE TERMS AND CONDITIONS OF THE CONVERTIBLE BOND

Principal factors and reasons considered

In arriving at our opinion regarding the terms of the Amendment of Terms, we have considered the following principal factors and reasons:

1. Background information of the Convertible Bond

On 6 December 2011, the Company entered into the Subscription Agreement with the Subscriber pursuant to which the Company issued and the Subscriber subscribed for the Convertible Bond in the principal amount of HK\$100,000,000 and an initial conversion price of HK\$0.40 per Conversion Share. The Convertible Bond does not bear any interest and the maturity date of the Convertible Bond is 31 December 2014. On 31 August 2012, the Company and the Subscriber entered into a supplemental agreement pursuant to which the subscription money in the total sum of HK\$100 million would be payable by two installments of HK\$50 million each and the completion of the Subscription took place on 31 December 2012. On 5 July 2013, the Company announced the conversion price of the Convertible Bond would be adjusted from HK\$0.40 per Share to HK\$0.29 per Share as a result of the rights issue of the Company on the basis of three rights Shares for every two existing Shares. On 4 November 2014, a portion of the Convertible Bond in the principal amount of HK\$22 million was converted into 75,862,068 Shares. As at the Latest Practicable Date, the Convertible Bond in the principal amount of HK\$78 million is still outstanding, which if converted, a total of 268,965,517 Shares may be issued.

2. The Amendment of Terms

As set out in the Letter from the Board, on 19 November 2014 (after trading hours), the Company entered into the Supplemental Deed with the Subscriber pursuant to which the Company and the Subscriber agreed to amend certain terms and conditions of the Convertible Bond as follows:

- (i) the maturity date of the Convertible Bond will be extended for 12 months and the conversion period will accordingly be extended for 12 months to 31 December 2015;
- (ii) the denomination of the Convertible Bond will be amended such that the denomination of the Principal Amount, the Conversion Price of the Convertible Bond, the integral multiple of the principal amount for conversion of the Convertible Bond will be converted from Hong Kong Dollars to Renminbi, and the Principal Amount, the Conversion Price, and the integral multiple of the principal amount for conversion of the Convertible Bond will be converted to the equivalent Renminbi amount calculated based on the official mid-exchange rate between Hong Kong Dollars and Renminbi as of the effective date of the Amendment of Terms, as quoted on the China Foreign Exchange Trading System; and

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- (iii) subject to the other terms and conditions of the Convertible Bond, payment of all sums (whether principal, fees or otherwise) payable under the Convertible Bond shall be made in Renminbi unless otherwise agreed by the Bondholder.

The Amendment of Terms is subject to the satisfaction of following conditions (a) passing by the Shareholders at the EGM of the necessary resolutions to approve the Supplemental Deed and the Amendment of Terms; (b) the Stock Exchange having approved the Amendment of Terms pursuant to the Listing Rules and the Listing Committee granting approval for the listing of, and permission to deal in, the Conversion Shares on the Stock Exchange and the approval not having been subsequently revoked or cancelled; and (c) all necessary consents and approvals required to be obtained on the part of the Company and the Subscriber in respect of the Amendment of Terms having been obtained. None of the conditions could be waived by the parties to the Supplemental Deed and as at the Latest Practicable Date, the Stock Exchange has approved the Amendment of Terms in accordance with Rule 28.05 of the Listing Rules subject to approval by the Independent Shareholders and condition (c) above has been satisfied. Save for the Amendment of Terms, all other terms and conditions the Convertible Bond shall remain unchanged and in full force. The principal terms of the Convertible Bond (as amended by the Supplemental Deed) will be as follows:

Principal amount:	The equivalent RMB amount to HK\$100 million calculated based on the official mid-exchange rate between Hong Kong Dollars and Renminbi as of the effective date of the Amendment of Terms, as quoted on the China Foreign Exchange Trading System
Maturity date:	31 December 2015
Interest rate:	The Convertible Bond shall not bear any interest

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Conversion:

The Bondholder shall have the right to convert the whole or any part of the outstanding principal amount of the Convertible Bond (which shall be in the principal amount of the equivalent RMB amount to HK\$1,000,000 calculated based on the official mid-exchange rate between Hong Kong Dollars and Renminbi as of the effective date of the Amendment of Terms, as quoted on the China Foreign Exchange Trading System or its integral multiples) into Shares at any time and from time to time during the Conversion Period, subject to (i) the extent that immediately after such conversion, there will not be sufficient public float of the Shares as required under the Listing Rules; and (ii) that immediately after the conversion, the Bondholder together with parties acting in concert with it, taken together, directly or indirectly, control or be interested in 30% or more of the voting rights of the Company (or in such percentage as may from time to time be specified in the Takeovers Code being the level for triggering a mandatory general offer), a mandatory general offer shall be given by the Bondholder and the parties acting in concert with it in accordance with the requirement of the Takeovers Code or, where applicable, waiver from the Shareholders should be obtained by the Bondholder and the parties acting in concert with it in accordance with the Takeovers Code.

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- Conversion Price:** The equivalent RMB amount to HK\$0.29 calculated based on the official mid-exchange rate between Hong Kong Dollars and Renminbi as of the effective date of the Amendment of Terms, as quoted on the China Foreign Exchange Trading System, being the conversion price per Conversion Share, subject to adjustment for, among other matters, subdivision, consolidation, capitalization of profits or reserves, capital distribution, rights issue or open offer of Shares or grant of any options or warrants to subscribe for new Shares at a price which is less than 90% of the then market price of the Shares at the time of the announcement of the relevant events, issue of securities other than Shares which are convertible into or exchangeable for or carry rights of subscription for new Shares and the total effective consideration per Share as less than 90% of the then market price of the Shares at the time of the announcement of the relevant events, issue of Shares wholly for cash or for the acquisition of asset at a price which is less than 90% of the then market price of the Shares at the time of the announcement of the relevant events.
- Conversion Period:** The period commencing from the date of issue of the Convertible Bond and ending upon the Maturity Date.
- Ranking:** The Conversion Shares, when allotted and issued, will rank pari passu in all respects with the other Shares then in issue as at the date of issue of such Conversion Shares.
- Transferability:** The Convertible Bond is issued in registered form and may be assigned or transferred in whole or in part to any independent third party. The Convertible Bond may not be assigned or transferred to party or parties connected with or acting in concert with any Directors, chief executives or substantial Shareholders of the Company, any of its subsidiaries or any of their respective associates.

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- Early redemption: Subject to the events of default in the Subscription Agreement, the Bondholder shall have no right before the Maturity Date to request the Company to redeem the whole or part of the outstanding principal amount of the Convertible Bond. The Convertible Bond is not redeemable by the Company before the Maturity Date of the Convertible Bond.
- Voting rights: The Bondholder shall not be entitled to attend or vote at any general meetings of the Shareholders by reason only of it being the Bondholder.
- Listing application: No application will be made for the listing of, or permission to deal in, the Convertible Bond on the Stock Exchange or any other stock exchange. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

3. *Reasons for the Amendment of Terms*

The Maturity Date Extension

The Board considers that the Maturity Date Extension allows the Company to refinance the debts under the Convertible Bond under the same terms for a further 12 months. The Company is in a rapid development stage and several projects are still at initial stage. The management of the Company believes that once most of the existing projects commence operation, they will provide revenue contribution and improve the financial position of the Company. With rising growth momentum and strong competitive edge in the waste treatment industry, the Company requires capital for future project acquisitions and fund its expansion plans. As at 30 June 2014, the Company had ten waste treatment projects that commanded a total investment of approximately RMB2,887.8 million. As at 30 June 2014, the Company is actively proposing and negotiating investments in four to five waste treatment projects by way of tender or acquisition. To fund such expansion plans and investments, other than the extension of maturity date of the Convertible Bond, the Company has also considered other financing methods such as equity financing and debt financing which however are still in negotiation process. In addition the Company approached certain banks in Hong Kong for obtaining bank loans and a bank facility amounting to HK\$372 million has been raised on 27 October 2014 solely for the purpose of financing the Group's projects. Given the above and the fact that the Convertible Bond carries zero coupon, the Board is of the view that the Maturity Date Extension will enable the Company to retain its funds for potential project development.

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The Group is principally engaged in the waste treatment and waste-to-energy business in China. As disclosed in the Company's 2014 interim report, the Group has a number of development projects currently in progress, namely, (i) the Beijing Dongcun Sorting Comprehensive Treatment Plant ("**Beijing Plant**"); (ii) the Nanchang Solid Waste Incineration Power Generation Plant; (iii) the new waste treatment plant in Guangdong Huizhou and (iv) the kitchen waste treatment project located in Jiangsu Yangzhou. The Beijing plant is the first waste-to-energy project in the PRC applying the technology of anaerobic digestion and is currently under trial commercial operation and progressing in line with the development plan. The Group has been closely monitoring the progress such that the operation can successfully commence by the end of 2014. Meanwhile, the Nanchang plant was currently under construction according to schedule and is expected to commence trial run by the end of 2014. The Company considers that the Nanchang plant project marks another milestone of the development of the Group as the Nanchang plant is an advanced integrated waste treatment facility which incorporated waste treatment, power generation, waste storage and gas purification systems. The resulting waste residue can be further recycled turning into commercial products such as ceramic tiles generating extra revenues to the Group. Regarding the new waste treatment plant in Guangdong Huizhou and the kitchen waste treatment project located in Jiangsu Yangzhou, as advised by the Company, the Huizhou plant has completed the relevant procedures of changes on the industrial and commercial registration in July 2014 and the site for establishing the waste treatment plant is still being located whilst the Yangzhou project is undergoing preliminary design and equipment tendering and is expected to commence construction by the end of 2014. Furthermore, we understand that the Group is on target for securing three to four waste-to-energy projects per year in the upcoming years and the Group has been actively proposing and negotiating investments in four to five waste treatment projects by way of tender or acquisition.

We note that the Group has been loss-making consecutively for the three years ended 31 December 2013 and the six months ended 30 June 2014. The Group recorded a loss for the period amounted to approximately HK\$347.1 million, approximately HK\$147.8 million, approximately HK\$42.6 million and approximately HK\$33.3 million respectively for each of the three years ended 31 December 2013 and the six months ended 30 June 2014. We note that the loss recorded by the Group displayed a decreasing trend and we concur with the management of the Group that the financial performance of the Group has been improving and the Group is now in a rapid development stage and the smooth development and on schedule completion of the abovementioned development projects create additional growth momentum to the Group and is key to restore the Group's future profitability. As the development projects are highly capital intensive in nature, the Maturity Date Extension enables the Group to postpone the possible redemption of the Convertible Bond for 12 months should the Bondholder elect to request the Company to redeem the outstanding principal amount of the Convertible Bond at the Original Maturity Date and thus retaining the funds for the development projects. Also, given the Convertible Bond bears

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zero coupon, the Maturity Date Extension would not create any additional interest burden to the Group. In view of the above, we consider that the Maturity Date Extension is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Amendment of Denomination

As set out in the Letter from the Board, the Board considers that as the functional currency of the Company is Renminbi while the denominated currency of the Convertible Bond is Hong Kong Dollar, under the current accounting standards in Hong Kong, the redemption of the Convertible Bond may give rise to a fair value adjustment in the Company's statement of profit and loss. According to the Hong Kong Accounting Standard 39, financial liabilities, such as the Convertible Bond, are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognised in profit or loss. This applies at the redemption of the Convertible Bonds. However, if the Convertible Bond is extended based on the reasons outlined, there will be further fair value adjustment on the income statement due to fluctuation of share price of the Company. For example, if the share price of the Company increases and is higher than the price at the date of which the financial statements were issued previously, the fair value of equity option of the Convertible bond will increase and will be recorded on the income statement as a loss. If the denominated currency of the Convertible Bond remains as Hong Kong dollar and the Convertible Bond is extended for 12 months, the financial statements of the Company will be further affected accordingly. Accordingly, the Amendment of Denomination will remove the potential fair value adjustment caused by fluctuation of the Share price of the Company and is to the benefit of the Company as a whole. We concur with the Directors that given the majority of the Group's business is located in China and the Group adopts Renminbi as its functional currency, the Amendment of Denomination will eliminate the effect of future potential gain or loss on the Company's statement of profit and loss caused by fluctuation of the Share price, and thus we consider that the Amendment of Denomination is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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4. Shareholding structure of the Company

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately upon the full conversion of the Convertible Bond, on the assumption that there is no other change in the issued share capital and shareholding structure of the Company from the Latest Practicable Date, save for the issue of the Conversion Shares upon the conversion of the Convertible Bond:

Name of Shareholders	As at the Latest Practicable Date		Immediately upon the full conversion of the Convertible Bond	
	<i>Number of Shares</i>	%	<i>Number of Shares</i>	%
Beijing Capital (Hong Kong) Limited and associates <i>(Note)</i>	2,342,128,286	49.50	2,611,093,803	52.22
Simple Success Investments Limited	270,760,000	5.72	270,760,000	5.41
Other Public Shareholders	<u>2,118,616,378</u>	<u>44.78</u>	<u>2,118,616,378</u>	<u>42.37</u>
Total	<u>4,731,504,664</u>	<u>100.00</u>	<u>5,000,470,181</u>	<u>100.00</u>

Note: Beijing Capital (Hong Kong) Limited is interested in the Convertible Bond issued by the Company and the initial number of ordinary Shares issuable upon conversion of such Convertible Bond is 268,965,517 Shares at the Conversion Price. These Shares represent 2,318,918,286 Shares held by Beijing Capital (Hong Kong) Limited and 23,210,000 Shares held by BC Water Investments Co., Ltd.. Both Beijing Capital (Hong Kong) Limited and BC Water Investments Co., Ltd. are wholly-owned subsidiaries of Beijing Capital Co., Ltd..

As illustrated in the above table, immediately upon the full conversion of the Existing Convertible Bond, on the assumption that there is no other change in the issued share capital and shareholding structure of the Company from the Latest Practicable Date, save for the issue of the conversion shares upon the full conversion of the Existing Convertible Bond, the shareholding interests of the public Shareholders would be diluted from approximately 50.5% to approximately 47.8%. We are of the view that the Amendment of Terms could delay the potential dilution effect to the public Shareholders and are in the interest of the Independent Shareholders.

Independent Shareholders should note that as at the Latest Practicable Date, the Subscriber and its associates aggregately hold approximately 49.50% of the total issued Shares of the Company. If the Subscriber is to convert the whole amount of the outstanding Convertible Bond, the Subscriber and its associates would then hold approximately 52.22% of the total issued Shares of the Company. Although the Convertible Bond is currently in-the-money, the Subscriber cannot convert the whole amount of them on or before the Original Maturity Date without triggering the mandatory offer obligation under Rule 26 of the Takeovers Code.

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RECOMMENDATION

Having considered the principal factors and reasons above, we are of the view that the Amendment of Terms are on normal commercial terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolution to approve the Supplemental Deed, the Amendment of Terms and the transactions contemplated thereunder at the upcoming EGM.

Yours faithfully,
For and on behalf of
Octal Capital Limited

Alan Fung
Managing Director

Louis Chan
Director

Note: Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 20 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong. Mr. Louis Chan has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2008. Mr. Chan has more than 10 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

Interests of the Directors and the chief executives

As at the Latest Practicable Date, none of the Directors or any chief executive of the Company or their respective associates had any interests or short position in any shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, none of the Directors had any interest in the Shares, options, warrants, derivatives and securities carrying conversion or subscription rights into Shares.

Interests of the substantial Shareholders and other persons

As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, the following persons (other than a Director or the chief executive of the Company) had an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholders	Capacity and nature of interests	Number of Shares/ underlying Shares held	Approximately percentage of issued share capital of the Company
Beijing Capital (Hong Kong) Limited	Beneficial owner (Note 1)	2,587,883,803(L)	54.69%
Beijing Capital Co., Ltd.	Interest of controlled corporations (Note 1)	2,611,093,803(L)	55.19%

Name of Shareholders	Capacity and nature of interests	Number of Shares/ underlying Shares held	Approximately percentage of issued share capital of the Company
Beijing Capital Group Co., Ltd.	Interest of a controlled corporation (<i>Note 1</i>)	2,611,093,803(L)	55.19%
Simple Success Investments Limited	Beneficial owner (<i>Note 2</i>)	270,760,000(L)	5.72%
New World Strategic Investment Limited	Interest of a controlled corporation (<i>Note 2</i>)	270,760,000(L)	5.72%
New World Development Company Limited	Interest of a controlled corporation (<i>Note 2</i>)	270,760,000(L)	5.72%
Chow Tai Fook Enterprises Limited	Interest of a controlled corporation (<i>Note 2</i>)	270,760,000(L)	5.72%
Chow Tai Fook (Holding) Limited	Interest of a controlled corporation (<i>Note 2</i>)	270,760,000(L)	5.72%
Chow Tai Fook Capital Limited	Interest of a controlled corporation (<i>Note 2</i>)	270,760,000(L)	5.72%
Cheng Yu Tung Family (Holdings) Limited	Interest of a controlled corporation (<i>Note 2</i>)	270,760,000(L)	5.72%
Cheng Yu Tung Family (Holdings II) Limited	Interest of a controlled corporation (<i>Note 2</i>)	270,760,000(L)	5.72%
Favor Action Limited	Beneficial owner (<i>Note 3</i>)	290,000,000(L)	6.13%
Yang Zhi You	Interest of a controlled corporation (<i>Note 3</i>)	290,000,000(L)	6.13%

(L) denotes a long position

Notes:

1. These Shares represent 2,318,918,286 Shares and 268,965,517 underlying Shares which may be issuable upon conversion of all the outstanding amount of the convertible bonds held by Beijing Capital (Hong Kong) Limited, which was a wholly-owned subsidiary of Beijing Capital Co., Ltd, and 23,210,000 Shares held by BC Water Investments Co., Ltd., an indirect wholly-owned subsidiary of Beijing Capital Co., Ltd.. Beijing Capital Co., Ltd. is in turn controlled by Beijing Capital Group Co., Ltd.. As such, Beijing Capital Group Co., Ltd. and Beijing Capital Co., Ltd. were deemed to have interest in the said Shares and underlying Shares held by Beijing Capital (Hong Kong) Limited and BC Water Investments Co., Ltd. for the purposes of the SFO.

2. These Shares represent 270,760,000 Shares held by Simple Success Investments Limited, which was a wholly-owned subsidiary of New World Strategic Investment Limited, which was in turn wholly-owned by New World Development Company Limited. Cheng Yu Tung Family (Holdings) Limited and Cheng Yu Tung Family (Holdings II) Limited hold 49% and 46.7% interests in Chow Tai Fook Capital Limited, respectively. Chow Tai Fook Capital Limited in turn owns 74.1% interest in Chow Tai Fook (Holding) Limited which holds the entire interest in Chow Tai Fook Enterprises Limited, which in turn has more than one-third of the issued shares of New World Development Company Limited. As such, Cheng Yu Tung Family (Holdings II) Limited, Cheng Yu Tung Family (Holdings) Limited, Chow Tai Fook Capital Limited, Chow Tai Fook (Holding) Limited, Chow Tai Fook Enterprises Limited, New World Development Company Limited, New World Strategic Investment Limited were deemed to have interest in the said Shares held by Simple Success Investments Limited for the purposes of the SFO.
3. These Shares represent 190,000,000 Shares and 100,000,000 underlying Shares which may be issuable upon conversion of all the warrants held by Favor Action Limited, which was wholly owned by Mr. Yang Zhi You. As such, Mr. Yang Zhi You was deemed to have interest in the said Shares and underlying Shares held by Favor Action Limited for the purposes of the SFO.

Save as disclosed herein, as at the Latest Practicable Date, so far as is known to any Directors or chief executive of the Company, no other person had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

Directorship in and employment with substantial Shareholders

Set out below are particulars of the Directors' directorship in or employment with companies which have interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Director	Position	Name of substantial Shareholder
Yu Changjian	Director	Beijing Capital (Hong Kong) Limited
	Director	Beijing Capital Co., Ltd.
Cao Guoxian	Director	Beijing Capital (Hong Kong) Limited
	Vice General Manager	Beijing Capital Co., Ltd.
Liu Xiaoguang	Director	Beijing Capital (Hong Kong) Limited
	Director	Beijing Capital Co., Ltd.
	Director	Beijing Capital Group Co., Ltd.
Shen Jianping	Director	Beijing Capital Group Co., Ltd.

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered into any service contracts with any member of the Group which is not expiring or determinable by the employer within one year without payment of compensation other than statutory compensation.

4. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim known to the Directors to be pending or threatened against any members of the Group which in the opinion of the Directors would be or is likely to be of material importance.

5. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates had any direct or indirect interest in a business which competes or is likely to compete with the business of the Group.

6. DIRECTORS' INTERESTS IN CONTRACT OR ARRANGEMENT

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting which was significant in relation to the business of the Group, nor has any Director had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2013, being the date to which the latest published audited consolidated financial statements of the Group were made up.

7. QUALIFICATION AND CONSENT OF EXPERT

The following is the qualification of the expert who has given, or agreed to inclusion of, its opinion or advice in this circular:

Name	Qualification
Octal Capital Limited	A licensed corporation for carrying out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO

Octal Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they appear. The letter of Octal Capital Limited is given as of the date of this circular for incorporation herein.

As at the Latest Practicable Date, Octal Capital Limited did not have any interest in the share capital of any member of the Group nor had any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any

member of the Group, and Octal Capital Limited did not have any interest, either directly or indirectly, in any assets which have been, since 31 December 2013, the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2013, the date to which the latest published audited consolidated accounts of the Group were made up.

9. GENERAL

- (a) The company secretary of the Company is Ms. Wong Bing Ni, who holds a Master's degree in Professional Accounting and is also a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, and an associate member of both the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators.
- (b) The Hong Kong branch share registrar of the Company is Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (c) The English text of this circular shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Units 1613–1618, 16th Floor, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong during normal business hours on any Business Day from the date of this circular up to and including the date of the EGM:

- (a) the Supplemental Deed



CAPITAL ENVIRONMENT HOLDINGS LIMITED

首創環境控股有限公司

(FORMERLY KNOWN AS NEW ENVIRONMENTAL ENERGY HOLDINGS LIMITED 新環保能源控股有限公司)

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 03989)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (“EGM”) of Capital Environment Holdings Limited (formerly known as New Environmental Energy Holdings Limited) (the “**Company**”) will be held at Unit 1613–1618, 16/F., Bank of America Tower, 12 Harcourt Road, Central, Hong Kong at 3:00 p.m. on Monday, 29 December 2014 for the purpose of considering and, if thought fit, passing the following resolution:

ORDINARY RESOLUTION

“**THAT:**

- (a) the supplemental deed dated 19 November 2014 (“**Supplemental Deed**”) entered into between the Company and the holders of the redeemable convertible bond in an aggregate principal amount of up to HK\$100 million (the “**Convertible Bond**”) issued by the Company on 11 September 2012 and 31 December 2012 (a copy of the Supplemental Deed having been produced to the EGM and marked “A” and initialled by the chairman of the EGM for the purpose of identification) in relation to the proposed amendment of certain terms and conditions of the Convertible Bond which in substance relates to (i) the proposed amendment of certain terms and conditions of the Convertible Bonds pursuant to the Supplemental Deed, including the Maturity Date Extension and Amendment of Denomination; (ii) the proposed extension of the maturity date of the Convertible Bond for 12 months to 31 December 2015 pursuant to the Supplemental Deed; and (iii) all transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;
- (b) subject to the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the Conversion Shares that may be issued after approval of the alternation to the terms and conditions of the Convertible Bond, the specific mandate for the allotment and issue of the Conversion Shares to the holders of the Convertible Bond upon the conversion and/or redemption of the Convertible Bond be and are hereby approved;

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- (c) the directors (each a “**Director**” and collectively the “**Directors**”) of the Company be and are hereby authorised to exercise all the powers of the Company and take all steps as might in their opinion be desirable, necessary or expedient to give effect to or in connection with the Supplemental Deed including without limitation to:
- a. the execution, amendment, ratification, delivery, submission and/or implementation of any further documents or agreements in relation to the Supplemental Deed; and
 - b. the taking of all necessary actions to implement the transactions contemplated under the Supplemental Deed.”

On behalf of the Board
Capital Environment Holdings Limited
Yu Changjian
Chairman

Hong Kong, 8 December 2014

Notes:

1. A form of proxy for use at the EGM is enclosed with the circular of the Company dated 8 December 2014.
2. Any member of the Company entitled to attend and vote at the EGM is entitled to appoint one or, where that member holds two or more shares, more proxies to attend and vote on behalf of him/her. A proxy need not be a shareholder of the Company.
3. To be valid, a proxy form, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power of authority, must be deposited at the branch share registrar and transfer office of the Company in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong not less than 48 hours before the time fixed for the holding of the EGM or any adjournment thereof.
4. Where there are joint holders of any ordinary share of the Company, any one of such holders may vote at the EGM, in person or by proxy, in respect of such share as if he/she/it was solely entitled thereto, but if more than one of such holders be present at the EGM, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding. Several executors or administrators of a deceased shareholder in whose name any share stands shall for this purpose be deemed joint holders thereof.

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5. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her/its attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.
6. In accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the voting on the ordinary resolution at the EGM will be conducted by way of poll.
7. Completion and delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the EGM if the member so wish and in such event, the instrument appointing a proxy should be deemed to be revoked.