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CHINA ENVIRONMENTAL TECHNOLOGY HOLDINGS LIMITED

中國環保科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 646)

RESIGNATION OF AUDITOR

The Board announces that PwC resigned as the auditor of the Company with effect from 19 July 2013. The Company is currently in the process of identifying a suitable replacement to fill the vacancy following the resignation of PwC.

Reference is made to the announcements of China Environmental Technology Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 28 March 2013, 10 May 2013, 6 June 2013 and 26 July 2013 (together, the “**Announcements**”; individually the “**Announcement**”) in relation to, among other things, the suspension of trading in the shares of the Company (the “**Shares**”) and the resignation of the Company’s auditor.

Unless otherwise stated, capitalized terms used herein shall have the same meanings as defined in the Announcements.

PwC’s resignation

The Board announces that the Board and the audit committee of the Company (the “**Audit Committee**”) have received a letter (the “**Letter**”) from Messrs. PricewaterhouseCoopers (“**PwC**”) dated 19 July 2013 advising its resignation as the auditor of the Company with immediate effect from 19 July 2013, whereby PwC set out the matters leading to its resignation as the auditor of the Company (the “**Resignation**”). The relevant paragraph of the Letter is reproduced as follows:

“On 26 March 2013, the Company received a letter from the legal counsel of an executive director addressing certain allegations against certain previous transactions and the Company’s performance (the “**Allegations**”) and demanding independent investigations to be carried out (the “**Letter**”). As the Allegations stated in the Letter could have a potentially significant impact on the Company’s consolidated financial statements for the nine months ended 31 December 2012, we had advised the Board of Directors as to our view, audit requirements and suggested actions towards how to deal with the Allegations for audit purpose through various meetings with the Company and its representatives as well as setting out our requests in writing to the Company dated 28 March 2013, 16 April 2013, 21 May 2013 and 3 July 2013, respectively. However, up to the date of this letter, we are still unable to reach an agreement with the Company on the scope of our extended audit procedures and the respective proposed fee. As we are not able to perform the necessary extended audit procedures in relation to the

Allegations and thus unable to properly complete the audit, we hereby tender our resignation as the auditor of the Company with effect from the date of this letter”.

The Company’s response to the view of PwC

With due respect to PwC’s decision to resign, the Board would like to draw your attention to the following matters:

(I) Results Announcement

The Company published an announcement dated 26 March 2013 (the “**Results Announcement**”) containing, among others, preliminary consolidated financial results of the Group for the nine months ended 31 December 2012 (the “**Final Results**”). Before the publication of the Results Announcement, the Company sent the drafts of the Results Announcement to PwC for its comment. The Company published the Results Announcement only after the receipt of an e-mail confirmation from PwC that it had no further comment on the Results Announcement.

The Company has used its best endeavors to cooperate with and to facilitate PwC during its course of audit of the Final Results, and the Company has not in any way restricted its gathering of audit evidence in connection with its audit engagement. The Board is of the view that save for formalities and internal procedures, PwC should have substantially completed its audit procedures on or before the publication of the Results Announcement.

On 28 March 2013, PwC informed the Company that the audit procedures for the Final Results would have to be extended due to the Allegation and requested the Company to clarify that the Final Results as contained in the Results Announcement are unaudited. Thus the Company published an announcement dated 28 March 2013 to clarify that the Final Results as contained in the Results Announcement were unaudited and requested for the suspension of trading for the Shares from 9:00 a.m. on 2 April 2013 pending the release of an announcement in relation to, among others, the audited Final Results.

(II) Our due respect to actions suggested by PwC

The Allegation is (a) substantially on previous specific transactions of the Group; and (b) on performance of the Group in general not to the satisfaction of the complainant. By letters dated 28 March 2013 and 16 April 2013, PwC suggested the Company to conduct an independent investigation on the Allegation, and to involve PwC in the investigation process as PwC needed to assess the competence, objectivity and independence of the independent professional adviser to be appointed to conduct the investigation; and to be satisfied with respect to the adequacy of the scope and procedures of the investigation. The Company therefore invited a few professional parties (including an affiliate of PwC) to provide the proposed scope for the independent investigation and the respective fee quotes for consideration. The Independent Committee has duly considered all professional parties’ proposals and has resolved to engage the Independent Professional Adviser for the following reasons:

- (1) The Independent Committee considered that engaging a separate firm of independent professional adviser would add credibility to the findings and to avoid any potential conflict of interest given PwC was the auditor of the Group for the financial year ended 31 March 2012 (the “**FY2012**”) and issued the audit report for FY2012, and it still had an

audit engagement with the Company for the audit of the Final Results during the material time when the Company was considering the candidate for conducting the independent investigation on the Allegation; and

- (2) The Independent Committee considered that the proposed fee quotes from other professional parties (including PwC's affiliate) in respect of the independent investigation was not competitive.

(III) The Allegation was unfounded

The Independent Professional Adviser issued the Independent Investigation report dated 16 May 2013 in relation to previous specific transactions of the Group (the “**Independent Investigation Report**”), and a copy of which was provided to PwC on or around 21 May 2013.

The Board concluded that the Allegation in relation to previous specific transactions of the Group was unfounded with the support of the result of the Independent Investigation Report and the advice of the Independent Committee which having taken into account, among others, the results of the Independent Investigation Report. And in lack of sufficient information on the Allegation in relation to the performance of the Group in general not to the satisfaction of the complainant, it is difficult for the time being to conduct the Independent Investigation on this issue given its unclear scope, thus, taking into account the advice of the Independent Committee, the Board is of the view that it would not be in the interest of the Group to investigate any further.

However, PwC stated that it could only place very limited reliance on the Independent Investigation Report principally because its comments on the scope of the investigation to be conducted by the independent professional advisor have not been taken up and it was not allowed to obtain its proposed level of involvement in the Independent Investigation process.

In finalizing the scope of service for the Independent Investigation, the Independent Committee had provided the Independent Professional Adviser with the proposed scope of investigation from PwC for its consideration.

The Company has used its best effort to coordinate PwC's requests to actively participate in the process of the Independent Investigation. However, after discussion with the Independent Professional Adviser, the Company formed an impression that PwC's proposed active participation might adversely affect the independence of the investigation. The Board believes that the independence of the Independent Investigation should not be compromised in any event, and thus not appropriate to insist the Independent Professional Adviser to allow PwC's proposed participation in the Independent Investigation.

(IV) Our due respect to PwC's proposed extended audit procedures

After the result of the Independent Investigation has been revealed to PwC, the Audit Committee had various discussions with PwC on the proposed scope and fee of extended audit procedures without success, and reported to the Board that it could not resolve the issue with PwC. The Board also participated in the latter stage of discussions with PwC regarding the proposed scope and fee of the extended audit procedures; however, up to the date of the Resignation, no agreement could be reached with PwC.

The Audit Committee and the Board could not compromise with PwC regarding the scope and fee of the extended audit procedures mainly due to, but not limited to, the following reasons:

- (i) after a detailed review of the Allegation, taking into account the Independent Investigation Report and the advice from the Independent Committee, the Audit Committee and the Board were of the view that given the nature of the Allegation, it was unlikely that the Allegation would have a significant impact on the Final Results, while PwC was of the view that the extended audit procedures on the Allegation was still necessary for it to assess the potential impact of the Allegation on the Final Results (even after submitting the Independent Investigation Report to PwC);
- (ii) the proposed scope of extended audit procedures on the Allegation was further extended by PwC after the Independent Investigation Report (which in the view of the Audit Committee and the Board, has no findings of serious nature) has been revealed to PwC, which was not understandable to the Audit Committee and the Board; and
- (iii) it was the understanding of the Audit Committee and the Board that the purpose of the extended audit procedures was to obtain reasonable assurance about whether the Final Results were free from material misstatement in relation to the Allegation; however, the Audit Committee and the Board are of the view that PwC's proposed scope of extended audit procedures was more akin to a fact-finding investigation as to whether the Allegation was founded or not, and that PwC could rely on the findings in the Independent Investigation Report for their audit purpose.

Basis of the Board for accepting the Resignation

After a lapse of four months since the suspension of trading in the Shares from 2 April 2013 pending the release of, among others, the audited Final Results, the delay of which was caused by the Allegation, and PwC's request for an independent investigation and extended audit procedures in respect of the Allegation, notwithstanding our effort and various meetings and other forms of communications with PwC, the Company was still unable to reach an agreement with PwC on the scope of its extended audit procedures and the respective proposed fee. The Board is of the view that it is in the best interest of the Company and its shareholders for the Company to accept the Resignation and to identify suitable new auditor to fill the vacancy following the resignation of PwC, such that the audit work for the Final Results can be completed soonest possible and then having the audited Final Results to be published accordingly. Based on the above, the Board accepted the Resignation.

Further announcement(s) relating to the appointment of new auditor will be made by the Company in due course.

Confirmation from the Board

The Company was not able to obtain a confirmation from PwC as to whether or not there is any circumstances connected with the Resignation which should be brought to the attention of the shareholders of the Company. The Company has enquired PwC the reason for not providing such confirmation and was advised by PwC that there is no statutory requirement under the laws of the Cayman Islands nor requirements under the Listing Rules for the resigning auditor to give such confirmation. PwC has therefore not issued such confirmation.

Save and except for the disclosure made in this announcement, the Board confirms that there are no circumstances in connection with the Resignation that need to be brought to the attention of the shareholders of the Company.

General

The Board would like to express its appreciation for the professional services rendered by PwC to the Company during its tenure.

At the request of the Company, the trading of the Shares of the Company on the Stock Exchange was suspended since 9:00 a.m., 2 April 2013 pending the release of the audited Final Results.

By Order of the Board
**CHINA ENVIRONMENTAL TECHNOLOGY
HOLDINGS LIMITED**
Li Wang Hing, Nelson
Company Secretary

Hong Kong, 2 August 2013

As at the date of this announcement, the executive directors are Mr. Xu Zhong Ping, Mr. Zhang Fang Hong, Mr. Pan Yutang and Mr. Xu Xiao Yang; the non-executive directors are Mr. Ge Ze Min and Mr. Ma Tianfu; and the independent non-executive directors are Mr. Wong Kam Wah, Mr. Xin Luo Lin, Professor Zhu Nan Wen and Professor Zuo Jiane.

The English text of this announcement shall prevail over the Chinese text in case of any inconsistency.