

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



## 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)**

### **KEY FINDINGS IN RELATION TO THE INDEPENDENT INVESTIGATION AND PRELIMINARY MANAGEMENT RESPONSES**

The Board wishes to update the Shareholders and the investing public on, among other things, the details of Allegations and the Independent Investigation.
--

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, 26 July 2013, 2 August 2013 and 7 August 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**”), the resignation of the Company’s auditor, and the appointment of the Company’s auditor.

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

The Board wishes to update the Shareholders and the investing public on, among other things, the details of the Allegations and the Independent Investigation.

#### **Background of the Allegations**

On 26 March 2013, the Company received a letter from the legal counsel of a then executive director of the Company (the “**Former Director**”) addressing certain allegations against certain previous transactions and the Company’s performance (the “**Allegations**”; each of the Allegations, the “**Allegation**”) and demanding independent investigations to be carried out (the “**Letter**”). The Company has formally engaged Mazars Corporate Recovery & Forensic Services Limited (the “**Independent Professional Advisor**”) to conduct the Independent Investigation in accordance with Hong Kong Standard on Related Services 4400 “Engagements to Perform Agreed-Upon Procedures Regarding Financial Information” issued by the Hong Kong Institute of Certified Public Accountants (the “**Independent Investigation**”). The Independent Investigation is a report of the factual findings of agreed-upon procedures and no assurance is expressed.

In order to assist the Board and the Independent Committee on the legal issues of the Allegations, the Company engaged D. S. Cheung & Co., its legal advisers as to the laws of Hong Kong, to issue a legal opinion on the Allegations (the “**Legal Opinion**”).

### **The Allegations**

The Independent Professional Advisor has conducted an investigation on Allegation 1, Allegation 2 and Allegation 3 (as defined below). By a Board resolution dated 6 June 2013, the Board resolved that, after considering the Independent Investigation Report, the Legal Opinion and the view of the Independent Committee, (i) Allegation 1, Allegation 2 and Allegation 3 are unfounded; and (ii) due to insufficient information on Allegation 4 by the Former Director, it would be difficult to conduct any further investigation.

Set out below are the details of the Allegations and for each of the Allegations, (i) the key findings of the Independent Investigation; (ii) the Legal Opinion; and (iii) the view of the Board and the Independent Committee on the Allegations:-

#### **Allegation 1**

Background information : Allegation 1 is related to the acquisition of the entire equity interest of Beijing Jingrui Kemai Water Purification Technology Co., Ltd\* (北京精瑞科邁淨水技術有限公司) (“**Beijing Jingrui**”) by the Group in 2010 (the “**Acquisition**”).

Before the Acquisition, Mr. Xu Zhong Ping, an executive Director, indirectly owned 17.5% of Beijing Jingrui from April 2009 till October 2010 and thereafter 55% of the entire equity interest of Beijing Jingrui (the “**Former Acquisition**”), hence the Acquisition constituted a connected transaction as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

The interest of Mr. Xu Zhong Ping in the Acquisition has been disclosed in the relevant announcement and circular of the Company dated 9 November 2010 and 3 December 2010 respectively.

Details of Allegation 1 : The Former Director mainly alleged that:

- (i) notices were not given for some Board meetings in connection with the Acquisition;
- (ii) there was a transfer of benefit to Mr. Xu Zhong Ping, since the payment for the Former Acquisition in October 2010 had not been settled by Mr. Xu Zhong Ping;
- (iii) the Company had failed to prepare an analysis on the return on investments (“**Allegation 1**”).

Key findings of the Independent Investigation : (i) The Independent Professional Advisor had interviewed the company secretary of the Company (the “**CS**”) and was advised that the Company had no specific rule on how or

when notice of meeting of Directors should be served. The CS confirmed that he had notified all the then Directors including the Former Director to attend the relevant Board meetings by either telephone or short message service (“**SMS**”).

The Independent Professional Advisor further interviewed relevant Directors including Mr. Xu Zhong Ping, Mr. Zhang Fang Hong, Ms. Song Xuan (the Former Director), Mr. Xu Xiao Yang, Mr. Ge Ze Min, Mr. Wong Kam Wah and Professor Zhu Nan Wen. (the “**Interviewee Directors**”). Some Interviewee Directors confirmed that they had received notices for the relevant Board meetings, while others could not recall whether they had received notices for the relevant Board meetings due to the lapse of time. As at 16 May 2013 (being the date of the Independent Investigation Report), the Independent Professional Advisor had not received the evidence of the said notices of the meeting.

- (ii) The Independent Professional Advisor reviewed a copy of the equity transfer agreement in respect of the Former Acquisition entered into in October 2010. Mr. Xu Zong Ping confirmed in writing to the Independent Professional Advisor that the relevant consideration was fully paid up on 29 October 2010 (i.e. prior to the Acquisition).

The Independent Professional Advisor had also reviewed the relevant payment receipts for the said consideration and noted that the information appeared in the receipts matched with Mr Xu’s representation.

- (iii) According to the Board minutes dated 9 November 2010, it was unanimously resolved that the Acquisition was in the interest of the Company. It was also noted from the attendance register attached to the minutes that Mr. Zhang Fang Hong, Mr. Xu Xiao Yang and the Former Director attended the Board meeting held on 9 November 2010. As Mr. Xu Zong Ping was a connected person (as such term is defined under the Listing Rules) of the Company, he did not participate in the voting on the relevant resolution in respect of the Acquisition.
- (iv) The Company had engaged an independent financial adviser (the “**IFA**”) in respect of the Acquisition. The IFA had listed out the reasons for and the benefits of the Acquisition. As part of the due diligence, the IFA had considered the gross profit margins of the sewage treatment services companies listed on the main board of The Stock Exchange of Hong Kong Limited ranged from 51.8% to 61.0% and noted that the gross profit margins of the Beijing Jingrui were above 22.4% from 1

January 2008 to 31 October 2010, which were similar to that of the existing principal business of the Company. Moreover, the IFA concurred with the then Directors' view to the extent that the estimated profit margin of the sewage treatment business of the target companies under the Acquisition would be similar to and possibly be higher than that of the then existing principal business of the Group.

Legal Opinion : The Legal Opinion on Allegation 1:

- (i) in relation to Board meetings, the articles of association of the Company provides that: (a) the quorum of any meeting of the Board shall be two unless otherwise determined; (b) notice of Board meeting shall be given to each Director; and (c) questions arising at any Board meeting shall be decided by a majority of votes.
- (ii) If there was irregularity in giving notice of Board meetings approving the Acquisition, the resolutions passed at the Board meetings were nonetheless valid because (a) a quorum was present throughout the Board meetings; (b) even if the Former Director attended such Board meetings and voted against the resolutions, it would not alter the majority decision to acquire Beijing Jingrui; (c) the Acquisition has been duly approved by the then independent Shareholders of the Company (the **"Independent Shareholders"**) on 29 December 2010 at an extraordinary general meeting of the Company; and (d) the Former Director may not be able to challenge the validity of the Board meetings approving the Acquisition given the delay of almost 3 years in alleging the irregularity in giving notices of Board meeting by the Former Director, which may amount to acquiescence.
- (iii) the evidence produced in the Independent Investigation Report shows that the alleged outstanding payment was prima facie fully settled in 2010.
- (iv) the Company has engaged the IFA to advise (a) the independent board committee (which comprised of all the then independent non-executive directors of the Company) (the **"IBC"**) and the Independent Shareholders as to whether the terms and conditions of the acquisition agreement of Beijing Jingrui and the transactions contemplated thereunder were fair and reasonable to the Independent Shareholders and were in the interest of the Company and the then Shareholders as a whole; (b) the Independent Shareholders how to vote in respect of the resolution regarding the Acquisition in the general meeting of the Company. The IFA was of the opinion that it was commercially justifiable for the Group to proceed with the acquisition of Beijing Jingrui.

Unless there is other compelling evidence, based on the above reasons, Allegation 1 is unlikely to be founded.

- The view of the Board and the Independent Committee
- : After due consideration of the Independent Investigation Report and the Legal Opinion, the Board and the Independent Committee are of the view that Allegation 1 was unfounded based on the following reasons:
- (i) the acquisition of Beijing Jingrui has been duly approved by the Independent Shareholders of the Company on 29 December 2010. Even if notices were not duly given for the Board meetings approving the acquisition of Beijing Jingrui, the Board meeting approving the acquisition of Beijing Jingrui was valid;
  - (ii) As supported by the evidential documents contained in the Independent Investigation Report, the alleged outstanding payment for the Former Acquisition has been fully settled in 2010; and
  - (iii) The acquisition of Beijing Jingrui was (1) opined by the IFA to be commercially justifiable for the Group to proceed after a detailed analysis on (a) the industry overview of the principal business of Beijing Jingrui (i.e. PRC sewage treatment business); (b) the information of the Group at the time of the acquisition; (c) information on the target group companies under the Acquisition (including the financial performance of Beijing Jingrui); (2) recommended by the IBC to the Independent Shareholders to vote in favour of the acquisition; and (3) duly approved by the Independent Shareholders.

## **Allegation 2**

- Background information
- : Allegation 2 is related to the acquisition of the entire equity interest of Fanhe (Beijing) Water Investment Company Limited\* (凡和（北京）水務投資管理有限公司) (“**Fanhe Beijing**”) by the Group in 2010 (the “**Fanhe Beijing Acquisition**”).

Prior to the Fanhe Beijing Acquisition, the entire equity interest of Fanhe Beijing was held by Fanhe (Beijing) Investment Management Company Limited\* (凡和（北京）投資管理有限公司) for the benefit of Regal Vantage Limited, the vendor to the Fanhe Beijing Acquisition.

Details of Allegation 2 : In Allegation 2, the Former Director mainly alleged that:

- (i) notice was not given for the Board meeting approving the Fanhe Beijing Acquisition;
- (ii) it was a connected transaction on the basis that before the Fanhe Beijing Acquisition, Mr. Xu Zhong Ping arranged (a) Mr.

Xu Xiao Yang (being a Director) to establish Fanhe Beijing; and  
(b) an executive director of the Company to be the sole shareholder of Fanhe Beijing (“**Allegation 2**”).

Key findings of the Independent Investigation : (i) The Independent Professional Advisor interviewed the CS and was advised that the Company had no specific rule on how or when notice of meeting of Directors should be sent. The CS confirmed that he had notified all the then Directors including the Former Director to attend the relevant board meeting by either telephone or SMS.

The Independent Professional Advisor further interviewed the Interviewee Directors. Some Interviewee Directors confirmed that they had received notice for the relevant Board meeting, while others could not recall whether they had received notice for the relevant Board meeting due to the lapse of time. As at 16 May 2013 (being the date of the Independent Investigation Report), the Independent Professional Advisor had not received the evidence of the said notice of the meeting.

(ii) The Independent Professional Advisor had conducted company searches on Fanhe Beijing and noted that before the Fanhe Beijing Acquisition, the then directors of the Company (including Mr. Xu Zhong Ping and Mr. Xu Xiao Yang) were not the legal representative nor shareholder of Fanhe Beijing.

Legal opinion : The Legal Opinion on Allegation 2:

(i) in relation to Board meetings, the articles of association of the Company provides that: (a) the quorum of any meeting of the Board shall be two unless otherwise determined; (b) notice of Board meeting shall be given to each Director; and (c) questions arising at any Board meeting shall be decided by a majority of votes.

(ii) If there was irregularity in giving notice of the Board meeting approving the Fanhe Beijing Acquisition, the resolutions passed at the Board meeting were nonetheless valid because (a) a quorum was present throughout the Board meeting; (b) even if the Former Director attended such Board meeting and voted against the resolutions, it would not alter the majority decision to acquire Fanhe Beijing; and (c) the Former Director may not be able to challenge the validity of the Board meeting approving the Fanhe Beijing Acquisition given the delay of over 3 years in alleging the irregularity in giving notices of Board meeting by the Former Director, which may amount to acquiescence.

(iii) Based on the evidential documents contained in the Independent Investigation, the Fanhe Beijing Acquisition was unlikely to be a connected transaction (such term as defined under the Listing Rules) of the Company.

Unless there is other compelling evidence, based on the above reasons, Allegation 2 is unlikely to be founded.

The view of the Board : After due consideration of the Independent Investigation Report and  
and the Independent the Legal Opinion, the Board and the Independent Committee are of  
Committee the view that:

- (i) The alleged procedural irregularity would not affect the validity of the Board meeting approving the Fanhe Beijing Acquisition; and
- (ii) The Independent Investigation does not reveal any of the then directors of the Company (including Mr. Xu Zhong Ping and Mr. Xu Xiao Yang) were involved in the Fanhe Beijing Acquisition. Mr. Xu Xiao Yang only became the legal representative of Fanhe Beijing after the completion of the Fanhe Beijing Acquisition. Unless there is other compelling evidence to show any of the then directors of the Company were connected persons of the Company in respect of the Fanhe Beijing Acquisition, it should not be classified as a connected transaction of the Company (such term as defined in the Listing Rules).

### **Allegation 3**

Background : Allegation 3 is related to Shenzhen Fortune Creation Environmental  
information Protection Technology Limited (深圳興創富啟環保科技有限公司)(now known as Shenzhen CETH Environmental Technology Co., Ltd. (深圳中環科環保科技有限公司), an indirect wholly owned subsidiary of the Company (“**SZ Fortune Creation**”), whereby SZ Fortune Creation acquired golf club memberships in 2010 (the “**Golf Club Membership Acquisition**”) of a golf club in Shenzhen (the “**Golf Club**”).

At the time of the Golf Club Membership Acquisition, the Golf Club no longer issued new membership. As such, the sale and purchase of memberships to the Golf Club could only be done through third parties who owned such memberships.

The Golf Club Membership Acquisition involved two sellers (the “**Sellers**”) who individually owned membership to the Golf Club.

Details of Allegation 3 : The Former Director noted that the Company had used HK\$1.8 million in the Golf Club Membership Acquisition, but some of the invoices of the Golf Club Membership Acquisition were issued by another golf club other than the Golf Club or the Sellers. The Former Director requested the Company to advise on the reason(s) for the Golf Club Membership Acquisition, the golf club memberships are to be utilized by which senior management of the Group and if the Board has approved the Golf Club Membership Acquisition (“**Allegation 3**”).

- Key findings of the Independent Investigation : (i) Based on the relevant golf club membership acquisition agreements, only the membership transfer fees were to be received by the Golf Club, the remaining balances were to be received by the Sellers. Based on the supplementary explanations prepared by the Sellers dated 16 February 2011 and 14 March 2011 respectively, the Sellers provided the fapiao (tax invoices) of another golf club to SZ Fortune Creation.
- (ii) According to the articles of association of SZ Fortune Creation, the board of directors is composed of three members and significant matters have to be approved by two directors. According to the board resolution dated 24 January 2011, the Golf Club Membership Acquisition had been approved by two directors as required by the articles of associations.
- Legal opinion : As supported by the Independent Investigation Report, the Golf Club Membership Acquisition was approved by a board resolution of SZ Fortune Creation.
- Unless there is other compelling evidence, Allegation 3 is unlikely to be founded based on the above reason and existing information.
- The view of the Board and the Independent Committee : The purpose of having golf club memberships is for the development of business of the Company, and it is reasonably common in the business world. After due consideration of the Independent Investigation Report and the Legal Opinion, the Board and the Independent Committee are of the view that the Golf Club Membership Acquisition has been duly approved by the board of directors of SZ Fortune Creation.

#### **Allegation 4**

- Details of Allegation 4 : The Former Director was not satisfied with the performance of the Company, and made allegations about the amount of administrative expenses incurred in 2010 and also the considerations of some disposals of assets made in the same year (“**Allegation 4**”)
- Independent Investigation on Allegation 4 : The Independent Professional Advisor wrote to the Former Director on 29 April 2013 and 2 May 2013 respectively, requesting for further information on the Allegations (including Allegation 4); however, by a letter dated 6 May 2013 from the legal counsel of the Former Director to the Independent Professional Advisor, it was stated that the details of the Allegations had already been listed in the Letter. Subsequently, the Company decided not to proceed with this section of the investigation by the Independent Professional Advisor.
- Legal opinion : Due to unclear information on Allegation 4 provided by the Former Director, unless there is other compelling evidence, Allegation 4 is unlikely to be founded.
- The view of the Board and the Independent : In lack of sufficient information on the Allegation 4, it is difficult for the time being to conduct the Independent Investigation on this issue given its unclear scope, thus, taking into account the Legal Opinion, the Board



Committee and the Independent Committee are of the view that it would not be in the interest of the Group to investigate on Allegation 4.

After considering the above, the Board decided to exclude Allegation 4 in the Independent Investigation.

### **Status of the audit of the 2012 Financial Statements**

Crowe Horwath, being the auditors of the Company, is in the process of finalizing their audit work for the consolidated financial statements of the Group for the nine months ended 31 December 2012 (the “**2012 Financial Statements**”).

It is expected that the annual report of the Company containing the 2012 Financial Statements will be dispatched on or before 31 January 2014.

### **Suspension of trading**

At the Company’s request, trading in the Shares on the Stock Exchange has been suspended from 9:00 a.m. on 2 April 2013 and will remain suspended under further notice.

Further announcement(s) will be made by the Company giving an update to the Shareholders and the investing public on the developments of the fulfillment of the resumption conditions imposed on the Company by the Stock Exchange.

*\* for identification purpose only*

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

Hong Kong, 13 December 2013

*As at the date of this announcement, the executive directors are Mr. Xu Zhong Ping, Mr. Pan Yutang, Mr. Zhang Fang Hong 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.*