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)

CLARIFICATION ANNOUNCEMENT IN RELATION TO DIFFERENCES BETWEEN THE FINANCIAL INFORMATION AND ADDITIONAL MODIFICATION OF AUDIT REPORT DISCLOSED IN THE ANNUAL REPORT AND THE FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

Reference is made to the announcements of the Company dated 12 April 2019 in relation to the preliminary annual results for the year ended 31 December 2018 (the "**Final Results**") and dated 29 April 2019 in relation to the annual report for the year ended 31 December 2018 (the "**Annual Report**"). Unless the context required otherwise, terms shall have the same meaning as ascribed to them in the Final Results and the Annual Report.

PUBLICATION OF THE FINAL RESULTS AND THE ANNUAL REPORT

The Company published the Final Results on 12 April 2019 which at the time of its publication, had not been reviewed and agreed by the auditor of the Company, ZHONGHUI ANDA CPA Limited (the "**Auditor**"), as the Auditor was still in the process of completing the audit of the financial statements of the Group. The Board and the Audit Committee considered that it was not in the interest of the Company and its Shareholders for the Company to further delay the publication of the Final Results and thus, the Board and the Audit Committee approved the publication of the Final Results in compliance with the Rule 13.49(3)(i) of the Listing Rules, while the Auditor was still going through their final review of key evidences. Having completed review of key evidences in April, the Auditor was able to complete its work in time and the Company was able to publish the Annual Report containing the Auditor's report on 29 April 2019.

DIFFERENCES BETWEEN THE FINAL RESULTS AND THE ANNUAL REPORT

The Company wishes to draw the attention of its Shareholders and potential investors to certain differences between the financial information disclosed in the Final Results and the Annual Report (the "**Differences**"). In this connection, the Company hereby sets out in this announcement, full particulars of, and reasons for, the Differences in accordance with the Listing Rule 13.49(1)(3)(ii)(c).

The Company would also like to clarify that some of the Differences are due to adjustment/reclassification. Such adjustment/reclassification is due to additional evidence obtained by the Company after the publication of the Final Results and subsequently decisions reached by the Company and the Auditors after careful discussions. The Company confirms that the Company's internal accounting manual is in line with the requirements under the IFRS and it has in place a proper accounting system and internal control procedures for complying with its financial reporting obligations under the Listing Rules. To ensure that the Company complies with its financial reporting obligation and Rule 2.13(2) under the Listing Rules, the Company's directors have fulfilled their fiduciary duties as required under Rules 3.08 and 3.09.

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2018

	Annual Report 2018 *Audited* *HK$'000*	**Final Results 2018** *Unaudited* *HK$'000*	**Differences** *HK$'000*	*Notes*
Revenue	49,443	51,716	(2,273)	1
Cost of sales	(39,395)	(41,976)	2,581	1
Gross profit	**10,048**	**9,740**	**308**	
Other income	1,625	1,693	(68)	2
Other net gain/(loss)	4,666	(107,906)	112,572	3
Distribution costs	(1,368)	(1,368)	-	
Loss on deconsolidation of subsidiaries	(135,388)	(135,389)	1	
Impairment/write off various assets	(111,470)	(2,936)	(108,534)	3
Gain on disposal of subsidiaries	9,082	9,082	-	
Gain on disposal of an associate company	-	2,175	(2,175)	3
Administrative expenses	(87,698)	(87,436)	(262)	3
Loss from operations	**(310,503)**	**(312,345)**	**1,842**	
Finance cost	(16,218)	(16,218)	-	
Loss before tax	**(326,721)**	**(328,563)**	**1,842**	
Income tax credit/(expenses)	308	308	-	
Loss for the year	(326,413)	(328,255)	1,842	
Other comprehensive income/(expenses) for the year, net of tax:				
Items that may be reclassified to profit or loss:				
Exchange differences on translation of financial statements of foreign operations	3,794	4,043	(249)	
Exchange differences reclassified to profit or loss on disposal of subsidiaries, deconsolidation of subsidiaries and disposal of an associate	527	527	-	
	4,321	4,570	(249)	4

Total comprehensive expenses for the year	**(322,092)**	**(323,685)**	**1,593**	
(Loss)/profit for the year attributable to:				
Owners of the Company	(309,054)	(310,896)	1,842	
Non-controlling interest	(17,359)	(17,359)	-	
	(326,413)	(328,255)	1,842	
Total comprehensive (expenses)/income for the year attributable to:				
Owners of the Company	(305,200)	(306,717)	1,517	
Non-controlling interest	(16,892)	(16,968)	76	
	(322,092)	(323,685)	1,593	
Loss per share				
- Basic (HK cent per share)	(8.47)	(8.52)	0.05	
- Diluted (HK cent per share)	(8.47)	(8.52)	0.05	

Consolidated Statement of Financial Position as at 31 December 2018

	Annual Report 2018 *Audited* *HK$'000*	**Final Results 2018** *Unaudited* *HK$'000*	***Differences*** *HK$'000*	*Notes*
Non-current assets				
Property, plant and equipment	2,400	2,401	(1)	
Intangible assets	1,169	1,169	-	
Construction in progress	62,313	62,057	256	5
Prepayment for construction in progress	14,233	-	14,233	6
Goodwill	2,937	-	2,937	7
Interests in associates	-	-	-	
	83,052	65,627	17,425	
Current assets				
Inventories	561	13,497	(12,936)	8
Trade and other receivables	38,181	58,393	(20,212)	9
Contract assets and contract costs	19,582	4,935	14,647	10
Restricted and pledged bank deposits	343	343	-	
Bank and cash balances	4,981	4,975	6	11
	63,648	82,143	(18,495)	
Current liabilities				
Trade and other payables	213,921	212,490	1,431	12
Contract liabilities	14,060	6,657	7,403	13
Borrowings	76,678	76,678	-	
Current tax liabilities	636	12,167	(11,531)	14
	305,295	307,992	(2,697)	
Net current (liabilities)/assets	**(241,647)**	**(225,849)**	(15,798)	
Total assets less current liabilities	**(158,595)**	**(160,222)**	1,627	
Non-current liabilities				
Borrowings	3,000	3,000	-	
Convertible bonds	46,113	46,113	-	
	49,113	49,113	-	
Net (Liabilities)/Assets	**(207,708)**	**(209,335)**	1,627	
Capital and reserves				
Share capital	91,259	91,259	-	
Reserves	(301,498)	(303,012)	1,514	15

Equity attributable to owners of the Company	(210,239)	(211,753)	1,514
Non-controlling interests	2,531	2,418	113
Total (Deficit)/Equity	**(207,708)**	**(209,335)**	1,627

Notes:

1. Revenue and cost of sales

The Differences in "revenue" and "cost of sales" of approximately HK$2,273,000 and approximately HK$2,581,000 respectively are mainly due to revenue recognition of a particular project of which the revenue and cost amount to approximately HK$3,132,000 and HK$2,038,000 respectively. This project has been substantially completed as of 31 December 2018, and therefore, based on internal accounting manual, the revenue and cost of such project had been recognized as of 31 December 2018 by the Company in the Final Results. However, unlike other projects which are standalone in nature, this project formed part of a much larger project which the project completion report had not been issued up to the date of the Annual Report. As a result, the Auditor decided (and the Company agreed) that such project revenue and cost should not be recognized in the profit or loss account for the year ended 31 December 2018 in the Annual Report.

In addition, revenue amounting to approximately HK$990,000 was regarded as should be recognized as of 31 December 2018 based on confirmation received from the customer after the Final Results. And the cost of several projects were adjustment based on the updated project cost reports received after the Final Results, which led to the decrease in cost of sales of approximately HK$458,000.

2. Other income

The Difference in "other income" of approximately HK$68,000 is mainly due to the reclassification of approximately HK$70,000 of exchange loss from administrative expenses in the Final Results to other income in the Annual Report. Such exchange losses were initially recorded in accordance to internal accounting manual in the Final Results, and was reclassified to other income based on IFRS presentation.

3. Operating Expenses

a. Other net gain/(loss)

The difference in "other net gain/(loss)" of approximately HK$112,572,000 is mainly attributable to the following two reasons:

I. in order to make it clearer and easier for the Shareholders and the public to understand the financial results of the Group, the Company agreed with the Auditor to separately disclose all impairment/write off of various assets (including trade and other receivables and property and plant and equipment) in a single item, as such impairment/write off was considered material when compared to other items in the financial statements for the year ended 31 December 2018. Therefore, the impairment/write off of various assets amounting to HK$110,397,000 was moved from other net gain/(loss) to impairment/write off various assets in the Annual Report; and

II. the gain on disposal of an associate company of approximately HK$2,175,000 was disclosed separately in the Final Results. However, given that such amount is not really material when compared to other items in the financial statements for the year ended 31 December 2018, it was consolidated into other net gain/(loss) in the Annual Report.

b. Impairment/write off various assets

The Difference in "impairment/write off various asset" of approximately HK$108,534,000 is mainly consisted of:

I. reversal of impairment of goodwill of approximately HK$2,937,000 (please refer to Note 7 below for the details of the impairment of goodwill);

II. move of the impairment/write off of various assets (including impairment of other receivables) of approximately HK$110,454,000 from other net gain/ (loss) and administrative expenses (please refer to Notes 3a and 3d);

III. additional write-off of the property, plant and equipment in PFI Singapore of approximately HK$643,000 based on additional information provided by the Judicial Managers; and

IV. additional write-off of trade receivables of approximately HK$374,000 of which the aging was over one year as at 31 December 2018 and the confirmation was not yet received by the date of the Annual Report.

c. Gain on disposal of an associate company

The Difference in "gain on disposal of an associate company" of approximately HK$2,175,000 is due to the reason that such amount was consolidated into "other net gain/(loss)" in the Annual Report as explained in Note 3a above.

d. Administrative expenses

The Difference in "administrative expenses" of approximately HK$262,000 is mainly consisted of:

I. exclusion of impairment of other receivables of approximately HK$57,000 due to the reason explained in Note 3a; and

II. accrual of additional remuneration of HK$276,000 payable to the Auditor for the audit of the consolidated financial statements for the year ended 31 December 2018 because the actual audit work load was more than the expected.

The other net gain/(loss) and impairment/write-off various assets for the year ended 31 December 2017 had also been reclassified accordingly in the audited financial statements included in the Annual Report.

4. Exchange differences on translation of financial statements of foreign operations

The Difference in "exchange differences on translation of financial statements of foreign operations" is approximately HK$249,000. The Difference was caused by the changes in the consolidated statement of profit or loss as explained in Notes 1 to 3 above.

5. Construction in progress

The Difference in "construction in progress" is approximately HK$256,000. The Group's construction in progress as at 31 December 2018 represented the renovation work of Beijing INNOMED Women's and Children's Hospital ("**BJ Inno Hospital**"). The Difference is due to a clerical error during the preparation of the Final Results.

6. Prepayment for construction in progress

The Difference in "prepayment for construction works in progress" is approximately HK$14,233,000. In order to facilitate reviewing and monitoring of the payments made to the contractors and suppliers for the renovation of BJ Inno Hospital, the Group had been recording both of the accrued payables and payments made under trade payables in daily booking. In the Final Results, the balance of trade and other payables as at 31 December 2018 was disclosed as per the ledgers of related accounts. However, after conducting more reviews after the Final Results, the Group noticed that there were payments made to certain contractors or suppliers in advance to the progress of the related construction works in accordance with respective contracts of approximately HK$14,233,000, which was included in trade and other payables. Therefore, such advanced payments to contractors, were reclassified from trade and other payables to contractors to the prepayment for construction works in progress, namely from current liabilities to non-current assets, in the audited financial statements included in the Annual Report.

7. Impairment/ write off various assets and goodwill / onerous contract

As explained in Note 3b above, among the Difference in "impairment/ write off various assets ", approximately HK$2,937,000 is due to reversal of impairment of goodwill. This impairment of goodwill for the year ended 31 December 2018 disclosed in the Final Results was made for the impairment loss on goodwill of a subsidiary, Beijng Jianbao Kangying Medical Technology Co., Limited ("**Beijing Jianbao Kangying**"), the direct holding company of the BJ Inno Hospital, which the Group acquired 90% equity interest in November 2017. Please refer to the details of the acquisition in the Company's 2017 annual report. The principal activity of Beijing Jianbao Kangying was the provision of health consultancy services.

Due to the inherent uncertainties in respect of the Group's restructuring during the year and lack of historical and practical reference on the Group's operating performance on its new business operation in women's and children's hospital, the management had prudently assessed that the goodwill was impaired as of 31 December 2018 as disclosed in the Final Results. However, based on a valuation report issued by an external appraiser after the Final Results for subsequent impairment assessment, the Company agreed with the Auditor that such goodwill was not impaired as of 31 December 2018 and such change in assessment was reflected in the Annual Report.

On the other hand and also due to the inherent difficulties to provide robust supportable evidence on the profitability of such new women's and child's hospital business operations, the management agreed with the Auditor to include an additional qualification in the audit report accordingly. Please refer to section headed "Details of the Additional Audit Qualification" below for details.

8. Inventories

The Difference in "inventories" is approximately HK$12,936,000. Inventories were reclassified to contract assets and contract costs in accordance with HKFRS 15 in the audited financial statements included in the Annual Report.

9. Trade and other receivables

The Difference in "trade and other receivables" is approximately HK$20,212,000.

In the Final Results, the balances of input value added tax ("**VAT**") and VAT paid as at 31 December 2018 were included in trade and other receivables; while the balances of output VAT as at 31 December 2018 were included in trade and other payables based on the Company's internal accounting manual. When preparing the audited financial information disclosed in the Annual Reports, the Company took a view that such debit balances of input VAT and VAT paid and the credit balances of output VAT by subsidiary should be eliminated. This approach has been agreed by the Auditor and as a result, such elimination reduced both of the trade and other receivables and the trade and other payables as at 31 December 2018 by approximately HK$19,928,000 respectively in the Annual Report when compared to the Final Results.

10. Contract assets and contract costs

The Difference in "contract assets and contract costs" is approximately HK$14,647,000.

As explained on Note 8 above, an amount of approximately HK$12,936,000 was reclassified from inventories to contract assets and contract costs in the Annual Report. Meanwhile, as explained on Note 1 above, the cost of a project amounting to approximately HK$2,038,000 was derecognized from cost of sales and was recognized as contract assets and contract costs while preparing the Annual Report due to the fact that the project completion report had not been issued up to the date of the Annual Report.

11. Bank and cash balances

The Difference in "bank and cash balance" of approximately HK$6,000 is mainly due to an adjustment made based on a bank confirmation received after the Final Results.

12. Trade and other payables

The Difference in "trade and other payables" of approximately HK$1,431,000 is mainly due to the following adjustments made after the Final Results:

a. as explained on Note 6 above, debit balances of approximately HK$14,233,000 in total were reclassified from trade and other payables to prepayment for construction in progress;

b. as explained on Note 9 above, the elimination of the VAT related balances reduced the balance of trade and other payables as at 31 December 2018 by approximately HK$19,928,000;

c. approximately HK$4,861,000 was reclassified from trade and other payables to contract liabilities in accordance with HKFRS 15; and

d. tax liabilities of HK$11,531,000 which was deemed to exist as a result of the Group's restructuring in prior years were reclassified from current tax liability to trade and other payables as both the management and the Auditor considered it as more appropriate to classify such provision.

13. Contract liabilities

The Difference in "contract liabilities" is approximately HK$7,403,000.

As explained in Notes 1 and 10 above, the revenue of a project was derecognized in the Annual Report due to lack of project completion report. Therefore, the proceeds received from the customer, amounting to approximately HK$2,542,000, were recognized as contract liabilities in the Annual Report. Besides, as explained Note 12 above, an amount of approximately HK$4,861,000 was reclassified from trade and other payables to contract liabilities in the Annual Report.

14. Current tax liabilities

The Difference in "current tax liabilities" is approximately HK$11,531,000 which was, as explained in Notes 12 above, reclassified from current tax liability to trade and other payables in the Annual Report.

15. Reserve

The Difference in "reserve" of approximately HK$1,514,000 is due to the changes in the consolidated statement of profit or loss and other comprehensive income as explained in Notes 1 to 4 above.

DETAILS OF THE ADDITIONAL AUDIT QUALIFICATION

As part of the final review process of the Auditor, despite the Company had provided the Auditor with the detailed internal work plan, detailed forecast cash flows, education and experience background of key management team, and external valuation report of BJ Inno Hospital, the Auditor was in the view that since there were changes in key executive management of the Group and the lack of historical and practical reference on the Group's operating performance in women's and children's hospital operations, there were inherent uncertainties as to whether the Group can operate the hospital successfully as planned. Also, given that BJ Inno Hospital was situated in a leased premises with a 20-year non-cancellable lease, the Auditor believed that there were inherent uncertainties that such lease agreement might turn out to be an onerous contract as defined under Hong Kong Accounting Standard 37 despite no indicating factors appeared as at the date of the Annual Report. Such lease agreement was entered into between a wholly owned subsidiary of the Company, Innomed Group Limited as the tenant and an independent third party as the landlord ("**Lease Agreement**"). Pursuant to the Lease Agreement, the lease period is 20 years at the annual rent of RMB14m which shall be increased by 5% every 24 months.

BJ Inno Hospital is designed to accommodate 105 beds with Neonatal Intensive Care Center facilities and is expected to have 36 beds in operation during the initial stage with an aim to serve the mid and high-end market in Beijing.

In terms of the potential impact on the Group, the Company was of the view that if the Lease Agreement was an onerous contract, a provision would be required to the extent for which the related unavoidable cost of meeting the obligations under the Lease Agreement exceeds the economic benefits expected to be received.

Having said that, the Board was confident to manage this investment, including but not limited to, inviting new investors and engaging with experience professional hospital management group to manage this women's and children's hospital, in the hope to achieve profitability in the near future and to ensure this 20-year long term lease would not become onerous.

The Audit Committee had duly reviewed the Additional Audit Qualification and had discussed with the Auditor during the Audit Committee meeting held on 29 April 2019. The Audit Committee agreed with the Board's position concerning the Additional Audit Qualification.

Please refer to point (d) on page 12 of 2018 Annual Report for the details of the Additional Audit Qualification.

As disclosed in the Company's 2019 Interim Report announced on 27 September 2019, the Company adopted HKFRS 16 in accounting for its leases. Upon the adoption, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. In short, all future lease payments were recorded as liabilities on the consolidated statement of financial position since 1 January 2019.

As such, under the new accounting standard, there is no differences between onerous contract and other lease contracts, and there is no need for further provision of onerous contract as the present value of all remaining lease payments are recorded on the consolidated statement of financial position. Therefore, in the opinion of the directors, the Audit Qualification shall not impact the Group's profit or loss for the year ending 31 December 2019 and financial position as at 31 December 2019.

The Company confirms that the Auditors have reviewed and agreed with contents of this clarification announcement.

The Company wishes to state that shortly after the publication of the Annual Report, the Company received a fax enquiry dated 7 May 2019 from the Stock Exchange in relation to the differences between the Final Results and the Annual Report. The Stock Exchange requested the Company to issue this clarification announcement. In order to ensure all necessary information has been included in this clarification announcement, the Company had submitted various versions of draft clarification announcement to the Stock Exchange for its review and comment during the period from May 2019 to July 2019. The Company submitted the latest draft clarification announcement on 19 July 2019 to the Stock Exchange. Finally, the Company received a fax from the Stock Exchange on 15 November 2019 urging the Company to publish this clarification announcement as soon as possible.

By order of the Board
China Environmental Technology Holdings Limited
XU Zhong Ping
Chairman

Hong Kong, 19 November 2019

As at the date of this announcement, the executive directors are Mr. Xu Zhong Ping, Ms. Hu Yueyue and Mr. Yang Baodong; the non-executive director is Mr. Ma Tianfu; and the independent nonexecutive directors are Mr. Tse Chi Wai, Professor Zhu Nan Wen and Professor Li Jun.