

*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.*



中滔環保

**CT ENVIRONMENTAL GROUP LIMITED**

**中滔環保集團有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1363)**

## **QUARTERLY UPDATE ANNOUNCEMENT**

### **PROGRESS OF FULFILLMENT OF RESUMPTION GUIDANCE**

As at the date of this announcement, the Board is of the view that Company has already taken steps which it believes to have fulfilled all Resumption Guidance, save and except for Resumption Guidance 2 and 4. The Company is currently working with its auditors to complete the annual reports for FY2018 and FY2019; and formulating and implementing the remaining remedial actions for internal control weaknesses and deficiencies, the Company expects to fulfill the remaining Resumption Guidance in October 2020.

### **CONTINUED SUSPENSION OF TRADING**

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended with effect from 9:00 a.m. on 1 April 2019. Trading in the Shares will remain suspended until further notice.

This announcement is made by the board of directors (the “**Board**” or the “**Directors**”) of CT Environmental Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rules 13.09(2)(a) and 13.24A of the Rules (the “**Listing Rules**”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

Reference is made to (i) the announcements of the Company dated 29 March 2019, 1 April 2019, 25 April 2019, 25 June 2019 and 13 November 2019 (the “**Prior Announcements**”) in relation to, among other things, the suspension of trading in the shares of the Company (“**Shares**”) on the Stock Exchange pending the publication of the annual results of the Company and its subsidiaries for the year ended 31 December 2018 (the “**Annual Results**”), the reasons for such delay in publication and the resumption guidance issued by the Stock Exchange, (ii) the quarterly update announcements dated 28 June 2019, 2 October 2019, 31 December 2019, 1 April 2020 and 30 June 2020 (the “**Previous Quarterly Update Announcements**”), and (iii) the announcements dated 27 June 2019 and 13 May 2020 in relation to certain legal proceedings against a number of subsidiaries of the Group (the “**Legal Update Announcements**”). Unless otherwise stated, capitalised term used in this announcement shall have the same meaning as those defined in the above relevant announcements.

## **PROGRESS OF FULFILLMENT OF RESUMPTION GUIDANCE**

Summarised below are the Resumption Guidance as stated in the Resumption Guidance Announcements and the status of the Company in fulfilling the Resumption Guidance:

<b>Resumption Guidance</b>		<b>Status</b>
1.	conduct an appropriate investigation into the Allegations, announce the findings and take appropriate remedial actions (“ <b>Resumption Guidance 1</b> ”)	The Company has taken steps which it believes to have fulfilled Resumption Guidance 1.
2.	publish all outstanding financial results and address any audit modifications (“ <b>Resumption Guidance 2</b> ”)	<p>The Company has already submitted the draft annual reports for the year ended 31 December 2018 (the “<b>FY2018</b>”) and the year ended 31 December 2019 (the “<b>FY2019</b>”) to the Stock Exchange and addressed the audit modifications (if applicable).</p> <p>The draft annual reports for FY2018 and FY2019 are expected to be published in October 2020. The Company is in the course of finalising the annual reports for FY2018 and FY2019 and interim results for the six months ended 30 June 2019 and 30 June 2020.</p>

<b>Resumption Guidance</b>		<b>Status</b>
3.	announce all material information for the Company's shareholders and other investors to appraise the Company's position (" <b>Resumption Guidance 3</b> ")	The Company has taken steps which it believes to have fulfilled Resumption Guidance 3.
4.	demonstrate that the Company has in place adequate internal controls and procedures to comply with the Listing Rules (" <b>Resumption Guidance 4</b> ")	The Company has taken steps and is in the progress to fulfill Resumption Guidance 4. The Company expects the report on Internal Control Review will be completed in October following the completion of follow-up review of remedial actions taken and implementations undertaken by the Group.
5.	demonstrate that there is no reasonable regulatory concern about management integrity and/or the integrity of any persons with substantial influence over the Company's management and operations, which will pose a risk to investors and damage market confidence (" <b>Resumption Guidance 5</b> ")	The Company has taken steps which it believes to have fulfilled Resumption Guidance 5.
6.	demonstrate that all Directors meet a standard of competence commensurate with their position as directors of a listed issuer to fulfil duties of skill, care and diligence as required under Rules 3.08 and 3.09 (" <b>Resumption Guidance 6</b> ")	The Company has taken steps which it believes to have fulfilled Resumption Guidance 6.

## DETAILS OF PROGRESS OF FULFILLMENT OF RESUMPTION GUIDANCE

The Company has taken actions with a view to fulfilling the Resumption Guidance, a summary of which is set out below.

### 1. **Resumption Guidance 1 – conduct an appropriate investigation into the Allegations, announce the findings and take appropriate remedial actions**

On 29 June 2020, the Board resolved to form an independent investigation committee (“**IIC**”) consisting of three independent non-executive Directors of the Company for conducting the investigation into the Allegations (“**Investigation**”) against Guangzhou Haitao Environmental Protection Technology Company Limited (“**Guangzhou Haitao**”) and recommend appropriate remedial actions, if necessary. Subsequently, Resumption Guidance 1 has been amended and extended to cover two subsidiaries of the Company involved in legal proceedings with allegations similar to the Allegations, namely Zhongshan Haitao Environmental Protection Technology Company Limited (“**Zhongshan Haitao**”) and Guangzhou Liangang Vessel Wastewater Treatment Company Limited (“**Guangzhou Liangang**”).

The Board has engaged Crowe (HK) Risk Advisory Limited (“**Crowe Advisory**”), an independent risk advisory consultant to assist the Investigation. The Board has also engaged Crowe Advisory as internal control consultant to advise, assist and give recommendations to the Company to put in place adequate internal controls and procedures to comply with the Listing Rules.

The Company hereby announces that Crowe Advisory has completed the Investigation on the Allegations against Guangzhou Haitao, Zhongshan Haitao and Guangzhou Liangang, and recommended appropriate remedial actions. Crowe Advisory has submitted their findings and analyses on the above matters (the “**Investigation Reports**”) to the IIC.

## ***Key findings of the investigation by Crowe Advisory***

### ***Allegation against Guangzhou Haitao***

Guangzhou Haitao, a wholly-owned subsidiary of the Company, was involved in illegal disposal of sludge, fraudulent receipt of fees for disposal of sludge and suspected forgery of the seals of state authorities.

#### **a) Suspected forgery of seals of state authorities**

The seals were found in a co-working space which is common area that can be accessed by personnel of the Group and by employees of the non-listed affiliated company. Therefore, it is hard to ascertain which party held or owned the forged official seals at the time when they were found on spot. The statement of claim issued by the People's Procuratorate of Guangzhou City, Guangdong Province (the "**Procuratorate**") has proved that Guangzhou Haitao and the Company have not been prosecuted for forging official seals of the state authorities. Furthermore, no prosecution has been filed for allegation of "suspected forgery of seals of state authorities" against Guangzhou Haitao or the Company after investigation conducted by the Procuratorate.

In light of the abovementioned and relevant prima facie evidence, there is no concrete apparent evidence that Guangzhou Haitao and the Company were involved in forging the seals of state authorities.

In addition, based on the results of the investigation as set out in the Investigation Report, Crowe Advisory recommends the Group to strengthen the internal control measures, including but not limited to: (i) establishing access control in the shared office space to restrict access to the Group's personnel only; (ii) strengthening the legal awareness of frontline staffs; and (iii) improving internal control measures related to seal management, including strengthening written policies and procedures, maintaining logs of affixing of seals, completely retaining approval evidence for seals affixed and copies of documents with seals affixed.

## **Response from the IIC**

The IIC concurs with Crowe Advisory that the Group should strengthen the internal control management mechanism. The Company has (i) established access control for authorised personnel only; (ii) provided training courses to frontline staff to strengthen their legal awareness and (iii) implemented updated internal control measures related to seal management of accounts, approval of printing documents and complete retention of copies.

### **b) Sludge disposal process by Guangzhou Haitao**

The Procuratorate had investigated the relevant allegations. After the investigation, the Procuratorate determined that Guangzhou Haitao illegally dumped sludge that has not been wholly processed (known as anaerobic nutrient soil) and that Guangzhou Haitao disposed of such sludge during the period from 1 January 2016 to 31 March 2018. On 23 April 2019, Guangzhou Haitao was prosecuted for contravention of “environmental pollution offences”.

It was alleged that “illegal disposal of sludge” was mainly due to the change of sludge treatment process from aerobic fermentation to anaerobic fermentation. According to management of Guangzhou Haitao, during the relevant period (from 1 January 2016 to 31 March 2018), it was found that certain sludge disposal methods did not adopt aerobic fermentation but adopt anaerobic fermentation instead in the sludge treatment process. The purpose of changing the sludge disposal process is to shorten the time required for sludge processing and increase the efficiency, which does not mean disposal of hazardous sludge. Such change in sludge disposal process represents change in sludge disposal method instead of skipping through certain treatments or processing flows.

The analysis of the above findings and relevant prima facie evidences show that: (1) Guangzhou Haitao sludge disposal procedures were changed for a portion of sludge; (2) there was not enough prima facie evidence to support that the sludge dumping procedures of Guangzhou Haitao is inappropriate which led to the illegal disposal of sludge.

Guangzhou Haitao ceased the sludge processing business since April 2018. Based on the result of the investigation, Crowe Advisory recommended the Group to strengthen the internal control measures, including but not limited to (i) conduct assessment and produce assessment report whenever there is change of sludge processing methods (e.g. change from aerobic fermentation to anaerobic fermentation), analyse the impact on environmental hazards and vindicate the requirements of pollutant emissions, product quality, customer commitments and contract terms, strict control of waste disposal permits are sufficiently met. At the same time, the supervisor should approve the disposal process changes and evaluation results; and (ii) the written policy for sample testing should be strengthened. The testing of nutrient soil samples should be conducted in accordance with the standards required by relevant environmental protection laws and/or contractual requirements for all items. The Company shall keep proper records of testing reports which are encouraged to be done by independent laboratories.

### **Response from the IIC**

The IIC concurs with Crowe Advisory that the Group should strengthen the internal control measures. The Company has (i) implemented internal control guideline in all the matters recommended by Crowe Advisory in relation to sludge related businesses and (ii) promulgated written policy on sample testing in which test reports by independent laboratories are preferred.

c) **Whether Guangzhou Haitao's sludge treatment fees are justified and reasonable**

The allegation of fraudulent receipt of fees for disposal of sludge was because Guangzhou Haitao failed to use aerobic fermentation (which is contractual requirement in some of the customer contracts) but used anaerobic fermentation instead. Guangzhou Haitao and four sewage plants in Zengcheng District in Guangzhou ("**Zengcheng Sewage Plants**") were conspired to defraud environmental protection subsidies and it was noted that there was manipulation of the sludge treatment volume (and sludge treatment fee as a result), the amount charged under the indictment against Guangzhou Haitao (the "**Indictment**") accounted for approximately 2% of the revenue of Guangzhou Haitao from 1 January 2016 to 31 March 2018.

Guangzhou Haitao received the sludge from 50 sewage plants, the sludge treatment fee is settled based on the quantity of sludge received per the electronic sludge transfer receipt, which has no relationship with the sludge disposal process or quality. According to management of Guangzhou Haitao, during the period from 1 January 2016 to 31 March 2018, it was true that part of the sludge treatment did not use the aerobic fermentation process in accordance with the contract requirements, but this should be an imperfection or negligence in the execution of the contract, and not for the purpose of fraudulent sludge treatment fees. As Guangzhou Haitao did not record the volume of sludge treated by anaerobic fermentation hence no relevant document was available, Crowe Advisory could not obtain enough information to correctly calculate the amount of sludge processed by anaerobic fermentation during the period from 1 January 2016 to 31 March 2018 and was unable to calculate the corresponding sludge treatment fee income and the impact on the financial statement.

After Crowe Advisory took 24 sewage treatment plant samples from the above months with transactions to test the reasonableness of the sludge treatment fee, Crowe Advisory noticed that the volume of sludge accounted for sludge treatment fee calculated by Guangzhou Haitao is consistent with the electronic sludge transfer receipt that the volume of sludge received is consistent with the volume of sludge recorded in the sludge monthly ledgers. The unit price used for calculating the sludge treatment fee is as agreed in corresponding contracts. No sludge treatment fee calculation is found to be abnormal.



In relation to Zengcheng Sewage Plants which were the clients of sludge treatment plants of Guangzhou Haitao, Guangzhou Haitao agreed that it has manipulated the sludge treatment volume of 26,755.08 tons. However, the amount of RMB7,769,675.49, being the environmental protection subsidies, which was alleged as defrauding the government under the Indictment, was paid directly to the Zengcheng Sewage Plants and has not been paid to Guangzhou Haitao as the sludge treatment fee. The Zengcheng Sewage Plants, used to transfer the domestic sludge to Guangzhou Haitao for sludge treatment. According to the results of the company background searches, Zengcheng Sewage Plants were not connected parties of the Guangzhou Haitao. During the period from 1 January 2016 to 31 March 2018, in order to fulfill the government's environmental indicators (i.e. to reach a certain volume of sludge being treated so to obtain the government subsidies), Zengcheng Sewage Plants demanded Guangzhou Haitao to manipulate the sludge treatment volume. Zengcheng Sewage Plants informed Guangzhou Haitao the volume needed to be manipulated and Guangzhou Haitao would then produce the related record such as GIS electronic combined sludge volume and weighing list. The sludge treatment volume for the Zengcheng Sewage Plants shown in sludge ledger included both the actual part and the manipulated part. Guangzhou Haitao did not keep the record of the manipulated sludge treatment volume for the period from 1 January 2016 to 31 March 2018. The account receivable of the sludge treatment fee payable by the Zengcheng Sewage Plants has also been combined. Thus, it is impossible to distinguish the portion of the accounts receivable of the Zengcheng Sewage Plants due to the manipulation of the sludge treatment volume. The management of Guangzhou Haitao stated that they were unclear how the total manipulated sludge treatment volume of 26,755.08 tons was calculated in the Indictment, yet they agreed with such volume.

Crowe Advisory have analyzed the impact of (1) the manipulation of the sludge treatment volume and (2) the fraudulent receipt of the environmental protection subsidies to the financial statement of the Company based on the sludge ledger and the revenue from sludge treatment for the period from 1 January 2016 to 31 March 2018. Crowe Advisory noticed that, the alleged total manipulated sludge treatment volume stated in the Indictment (26,755.08 tons) accounted for approximately 3% of the total sludge treatment volume, being 788,638.41 tons, of Guangzhou Haitao and the volume of sludge received from Zengcheng Sewage Plants (75,218.89 tons) account for approximately 10% of the total sludge received by Guangzhou Haitao. Also, the amount of fraudulent receipt of the environmental protection subsidies (RMB7,769,675.49) accounted for approximately 2% of the income from sludge treatment of Guangzhou Haitao. Besides, the revenue generated from Zengcheng Sewage Plants, being RMB16,994,413.29, contributed approximately 5% of the revenue of Guangzhou Haitao generated by sludge treatment.

Based on the analysis of the investigation results and relevant prima facie evidence, it is concluded that (1) Guangzhou Haitao has cooperated with Zengcheng Sewage Plants in the manipulation of the sludge treatment volume, the impact to the overall financial statement accounted for approximately 5%; and (2) save for Zengcheng Sewage Plants, there was no sufficient information to support that other sludge treatment fee received was unreasonable or unjustified.

In addition, based on the results of the investigation procedure stated in the Investigation Report, it indicated that Guangzhou Haitao should strengthen its internal control over contract management, sludge receipt process and ledger management, classification of accounting record, capacity monitoring and outsourcing management. Such enhancements include but not limited to (1) optimisation of its sludge treatment contracts management system by keeping the contracts intact, renewing the expiring contract in time and assessing the impact and obtaining legal opinion when the terms of a contract are to be amended; (2) improvement of the sludge ledger management through correct and complete record of the receipt, output and logistic data of the sludge; (3) establishment of accounting classification according to the nature of the revenue; (4) improvement of the sludge receipt procedure by weighting and recording all sludge when receive and enter the treatment plants; and (5) improvement of its sludge treatment capacity monitoring by evaluating whether total amount of sludge received exceeds its sludge processing capacity, entering into outsourcing contract for the outsourcing sludge and proper record keeping of GIS electronic combined sludge volume and weighing list.

#### **Response from the IIC**

The IIC concurs with Crowe Advisory that the Group should strengthen the internal control measures. The Company has implemented revised internal control guideline on (i) sludge treatment contracts management system by keeping the contracts intact, renewing the expiring contract in time and assessing the impact and obtaining legal opinion when the terms of a contract are to be amended; (2) sludge ledger management through correct and complete record of receipts, output and logistic data of the sludge; (3) accounting classification according to the nature of the revenue; (4) sludge receipt procedure by weighting and recording all sludge when receive and enter the treatment plants; and (5) sludge treatment capacity monitoring by evaluating whether total amount of sludge received exceeds the sludge processing capacity, entering into outsourcing contract for the outsourcing sludge and proper record keeping of GIS electronic combined sludge volume and weighing list.

Set out below is the investigation results and recommendations made by Crowe Advisory in respect of Zhongshan Haitao and Guangzhou Liangang.

*Allegation against Zhongshan Haitao*

According to the judgment issued by the People's Court of the First City District of Zhongshan City of Guangdong Province on 14 April 2020 to Zhongshan Haitao, since the year of 2015 the representative of Zhongshan Haitao allowed and/or acquiesced the plant manager in the arrangement of employees to discharge unprocessed sewage and sludge through concealed pipes; and modified the online monitoring data. Therefore, Zhongshan Haitao was convicted of "environmental pollution offences" and was fined for RMB500,000. According to management of Zhongshan Haitao, since the terms of the imprisonment of the employees involved imposed under the judgment had almost been fulfilled, and the fine amount was not material, Zhongshan Haitao decided not to appeal against the ruling. The management of Zhongshan Haitao confirmed that after the incident, Zhongshan Haitao has spent approximately RMB11 million to adjust the process, personnel and equipment.

Management of Zhongshan Haitao acknowledged that the concealed pipes were arranged by the then plant manager who decided on his own and arranged subordinate personnel to carry out the activities. Zhongshan Haitao and the Group were not aware of the secret discharge of unprocessed sewage and sludge and the modification of online monitoring data. The relevant government authority has completely dismantled the relevant concealed pipes and the clear water pipes used to inject clean water to dilute the sewage and interfere with the online monitoring data. The amount of sewage and sludge discharged through concealed pipes and the interfered volume of online monitoring data had not been specifically quantified. In addition, the management of Zhongshan Haitao also confirmed that they were unable to provide information on the volume of unprocessed and secretly discharged sewage and sludge at the time and the interfered data of online monitoring data.

The analysis of the investigation results and relevant prima facie evidence show that (i) Zhongshan Haitao did illegally discharge sewage and sludge and interfered with online monitoring data. Zhongshan Haitao believes that these actions were carried out by the former plant manager alone. However from a legal point of view, the court ultimately concluded that Zhongshan Haitao committed an enterprise crime; and (ii) there was insufficient information for the investigation to analyze the volume of sewage and sludge Zhongshan Haitao secretly discharged at the material time and the modification of online monitoring data and the relevant impact on the Group's financial statements as a whole.

### **Response from the IIC**

The IIC is of the view that this allegation was a one-off event caused by former management of Zhongshan Haito and the present management of Zhongshan Haitao also confirmed that the relevant concealed pipes and the clear water pipes have completely been dismantled. The Company is in the process of implementing new policies and guideline on qualification assessment process and records keeping for third party contractors to address the weaknesses and deficiencies of internal control per Crowe Advisory's advices in order to prevent similar offences in future.

### *Allegation against Guangzhou Liangang*

(a) Fraudulent issuance of value-added tax invoices (the “**VAT Invoices**”)

According to the judgment issued on 22 April 2019, from 1 January 2016 to 31 December 2017, Guangzhou Liangang issued a total of 13 VAT Invoices, in an aggregate amount of RMB5,649,849, under the circumstances that no goods were sold and no taxable service was provided three companies (“**Three Involved Companies**”). Since these companies used the 13 fraudulently issued VAT Invoices to apply for tax deduction, Guangzhou Liangang was convicted for the fraudulent issuance of VAT Invoices and was fined for RMB300,000. The management of Guangzhou Liangang has no plan to appeal this judgment.

Crowe Advisory inspected the documents in relation to Guangzhou Liangang’s receipts and found that Guangzhou Liangang had received payments from the Three Involved Companies in a total sum of RMB5,649,849, which was related to the 13 fraudulently issued VAT Invoices.

Based on the results of the company searches, the Three Involved Companies were not connected parties of the Guangzhou Liangang. According to the analysis in relation to the alleged amount, the alleged amount stated in the Guangzhou Liangang Judgment accounted for approximately 5% of the Guangzhou Liangang's revenue (i.e. RMB111,380,502) and the total revenue from the Three Involved Companies, being RMB5,554,489, accounted for approximately 5% of the Guangzhou Liangang's revenue from 1 January 2016 to 31 December 2017.

The analysis of the investigation results and relevant prima facie evidence show that (i) Guangzhou Liangang in fact issued the 13 fraudulently issued VAT Invoices in amount of RMB5,649,894 which has an approximately 5% impact to the overall financial statement of Guangzhou Liangang; and (ii) no evidence suggesting other than 13 fraudulently issued VAT Invoices in amount of RMB5,649,894, other issued VAT Invoices are unjustified and unreasonable.

### **Response from the IIC**

The IIC is of the view that the fraudulent issuance of VAT Invoices was a one-off event caused by former management of Guangzhou Liangang. Taking into account that i) all the staff involved in this allegation no longer have any roles and responsibilities in the management or operations of any of the Company's subsidiaries, ii) Guangzhou Liangang has no actual business development since June 2018 and the land, plant and equipment of Guangzhou Liangang will be disposed of, and iii) the Company has also implemented and is in the process of implementing new policies and guideline to address the weaknesses and deficiencies of internal control per Crowe Advisory's advices on issuance of VAT Invoices such as strengthening written policies and procedures on issuance of VAT Invoice and maintaining logs of affixing seals, similar offence will be prevented in future.

*(b) Whether it is appropriate for Guangzhou Liangang to cooperate with a third party for hazardous waste treatment*

According to the judgment dated 29 April 2020, during the period from January 2017 to April 2018, Guangzhou Liangang leased part of the premises and equipment to a company in Shenzhen (“**Shenzhen Party**”) to operate the “oil cleaning” business and Shenzhen Party illegally used the “sulphuric acid clay method” to clean oil at the site as well as illegally provided the hazardous waste (white clay residue) produced in the oil cleaning process to a third party who did not possess a business license for disposal, causing environmental pollution. It was alleged that Guangzhou Liangang provided Shenzhen Party with services and conveniences (including the purchase of raw material (sulphuric acid), safety management, technical support, hazardous waste disposal, etc.) to assist and ensure the smooth operation of Shenzhen Party’s “oil cleaning” business. It was alleged that Guangzhou Liangang and Shenzhen Party jointly illegally disposed of hazardous residual oil in tank and white clay residue. It was stated in the relevant judgment that the relationship between Guangzhou Liangang and Shenzhen Party was not merely a lease but partner in crime. Since Guangzhou Liangang had provided assistance to Shenzhen Party’s environmental pollution behavior, it played a supporting role in the joint crime and thus was an accomplice. Therefore, Guangzhou Liangang was convicted of “environmental pollution offences”. Guangzhou Liangang was fined for RMB300,000. Guangzhou Liangang decided to appeal against this judgment and had filed an appeal to the court on 8 May 2020.



According to the results of the review on the lease contract entered into between Guangzhou Liangang and Shenzhen Party, Crowe Advisory noticed that the transaction between Guangzhou Liangang and Shenzhen Party was lease of site and oil tank equipment. Crowe Advisory had not found any stipulations of other material fees in the lease contract. In addition, the terms of the lease contract clearly stipulated that Shenzhen Party must comply with relevant national laws and regulations for its uses of oil tanks as well as in compliance with the relevant safety regulations of Guangzhou Liangang. Shenzhen Party shall operate in compliance with the laws and regulations and shall not use the premises in Guangzhou Liangang to conduct illegal business activities. If Shenzhen Party violates the laws and regulations, all legal and economic responsibilities shall be borne by Shenzhen Party alone.

According to the results of the company searches, Shenzhen Party is not related to Guangzhou Liangang nor the Company. According to the analysis of Guangzhou Liangang's accounting records from January 2017 to April 2018, Crowe Advisory found that only one record of collecting deposits from Shenzhen Party. The management of Guangzhou Liangang confirmed that the responsible accounting staff had already left and the completeness and correctness of the record of Guangzhou Liangang's income from Shenzhen Party could not be ascertained.

The analysis of the investigation results and relevant prima facie evidence show that (i) Guangzhou Liangang did provide Shenzhen Party with additional services other than site and equipment rental. Guangzhou Liangang believes that it was not to cover up Shenzhen Party's criminal acts but only considerations of customer services and safety. However, from a legal point of view, the court ultimately held that Guangzhou Liangang was an accomplice in such environmental pollution offences; and (ii) there was insufficient information for investigation to analyse whether Guangzhou Liangang cooperated in hazardous waste disposal by a third party and the impact on the Group's financial statements as a whole arising from such offences.

## **Response from the IIC**

The IIC is of the view that this allegation was a one-off event caused by the criminal acts taken by the leasee of Guangzhou Liangang and the Company is not intended to cover up the leasee's criminal acts, so Guangzhou Liangang decided to appeal the relevant judgment and filed an appeal to the court on 8 May 2020. As the fine in this case is immaterial, there is no significant impact to the Group. Moreover, as Guangzhou Liangang has no actual business development since June 2018 and the land, plant and equipment of Guangzhou Liangang will be disposed of and relevant internal control policies have been implemented in accordance with the requirements of the Group, the occurrence of similar event is prevented in future.

In view of the fact that the Company has taken appropriate investigation into the Allegations and remedial actions accordingly, the Company has taken steps which it believes to have fulfilled Resumption Guidance 1.

## **2. Resumption Guidance 2 – publish all outstanding financial results and address any audit modifications**

The annual results and annual reports of the Group for FY2018 and FY2019 (which will have been audited by the auditors of the Company (the “**Auditors**”)) are expected to be published in October 2020. The Company is in the course of finalising the annual reports for FY2018 and FY2019 and interim results for the six months ended 30 June 2019 and 30 June 2020.

Furthermore, the Company has already submitted the draft annual reports for FY2018 and FY2019 to the Stock Exchange and addressed the audit modifications (if applicable).

**3. Resumption Guidance 3 – announce all material information for the Company’s shareholders and other investors to appraise the Company’s position**

Having made such enquiry with respect to the Company as is reasonable in the circumstances, the Directors confirm that to the best of their knowledge, information and belief, save as disclosed in this announcement and the announcements and publications previously made by the Company including but not limited to the announcements in relation to the Resumption Guidance and this announcement, save for the annual results/report for FY2018 and FY2019 and interim results for the six months ended 30 June 2019 and 30 June 2020, there is no other material information that needs to be disclosed pursuant to any of the requirements set out in the Listing Rules, nor are there any other matters that need to be brought to the attention of the shareholders and potential investors of the Company in connection with the Resumption Guidance, and the Directors are not aware of any other inside information that needs to be disclosed under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as at the date of this announcement. The Company will continue to inform the market of all material information as and when appropriate.

**4. Resumption Guidance 4 – demonstrate that the Company has in place adequate internal controls and procedures to comply with the Listing Rules**

In response to the internal control issues identified during the Investigation and to assist the Company in fulfilling the Resumption Guidance 4, the Company engaged the Crowe Advisory to conduct the Internal Control Review (“**Internal Control Review**”).

The Internal Control Review has been completed and awaits the completion of follow-up review of remedial actions taken by the Group. Crowe Advisory has conducted a review on the internal control systems and procedures of the Company and the five major subsidiaries of the Group (namely, Guangzhou Haitao, Zhongshan Haitao, Qingyuan Lvyou Environmental Protection Technology Company Limited\* (清遠綠由環保科技有限公司), Guangzhou Lvyou Environmental Protection Technology Company Limited\* (廣州中滔綠由環保科技有限公司) and Guangzhou Kangxiang Material Metal Recycling Company Limited\* (廣州康翔物資金屬回收有限公司). In carrying out the Internal Control Review, Crowe Advisory has:

- (i) interviewed the relevant management and process owners of the Group and reviewed the existing internal control systems to understand the design of the internal control procedures and to identify the weaknesses and deficiencies of such systems;

- (ii) performed tests of controls on a sampling basis to ascertain whether these control procedures were implemented by the Group;
- (iii) notified the Group of any material weaknesses and deficiencies in the design and implementation of the control procedures;
- (iv) explained the weaknesses and deficiencies found in the review process to relevant management and personnel of the Group and provide recommendations for rectification; and
- (v) conducted a follow-up review after the Group has responded on the weaknesses and deficiencies identified by Crowe Advisory to ascertain whether the Group has taken relevant remedial measures, and issued the final review report.

Crowe Advisory recommended improvements and/or remedial measures to address the weaknesses and deficiencies of the internal control system identified in the Internal Control Review to the Company. The Company is in the process to implement the remedial measures recommended by Crowe Advisory to strengthen the internal control measures of the Company.

***Remedial actions taken and implementation of improved internal control measures to be completed by the Group***

Crowe Advisory has been performing a follow-up review from time to time since the Company and the five subsidiaries are still in the process to implement appropriate policies and guideline on certain areas to improve the internal control measures and tackle each of the material internal control weakness or deficiency which are considered to have significant and direct impact on the assessed area. The Company and the five subsidiaries have already formulated and implemented most of the remediation actions with reference to the recommendations provided by Crowe Advisory. The Company expects the report on Internal Control Review, will be completed by mid-October 2020 following the follow-up review of remedial actions taken and implementation done by the Group.

On the basis of the above, the Board is of the view that the Company has taken steps which it believes Resumption Guidance 4 will be fulfilled in October 2020.

**5. Resumption Guidance 5 – demonstrate that there is no reasonable regulatory concern about management integrity and/or the integrity of any persons with substantial influence over the Company’s management and operations, which will pose a risk to investors and damage market confidence**

As at the date of this announcement, the Board comprises four executive directors, Ms. Huang Qing, Mr. Cheung Siu Fai, Mr. Li Yang and Mr. Wu Changbiao, and the three independent non-executive directors, Mr. He Jingyong, Mr. Fong Wai Ho and Ms. Lai Pik Chi Peggy. All of the current Directors of the Company were appointed after the Allegations having taken place and were not involved in any of the Allegations.

The Company also confirmed that all the responsible personnel (including Mr. Tsui Cham To (“**Mr. Tsui**”), the former Chairman and executive director of the Company) involved in the Allegations have left the Group or do not have any participation in the daily operations of any subsidiaries of the Group.

In addition, it is noted that Emperor Securities Limited and Hammer Capital Private Investments Limited have enforced the security of the loans to Mr. Tsui and as a result, the voting rights of 951,620,000 Shares and 835,000,000 Shares originally owned by Keen Vast Holdings Limited, an entity controlled by Mr. Tsui, were transferred to Emperor Securities Limited and Hammer Capital Private Investments Limited respectively. Given that Mr. Tsui and his associates now only control approximately 25.42% of the voting right of the Company, his influence to the Group on the shareholder level is not considered as material and determined.

Since (i) no current Directors were involved when the Allegations took place and there has been no evidence to date implicating any of the members of the Board of the Company may be involved in the Allegations and the other issues identified in the Investigation conducted by Crowe Advisory, (ii) all the responsible personnel involved in the Allegations have left the Group or do not have any participation in the daily operations of any subsidiaries of the Group, and (iii) the influence of Mr. Tsui to the Group on the shareholder level is not considered as material and determined, the Board therefore considered that there is no reasonable regulatory concern about management integrity and/or the integrity of any persons with substantial influence over the Company’s management and operations.

On the basis of the above, the Board is of the view that the Company has taken steps which it believes to have fulfilled Resumption Guidance 5.

**6. demonstrate that all Directors meet a standard of competence commensurate with their position as directors of a listed issuer to fulfil duties of skill, care and diligence as required under Rules 3.08 and 3.09**

The Board and the nomination committee, after taking into account of their experience, skill and background, are of the view that the current Directors possess the character, experience and integrity and are able to demonstrate a standard of competence commensurate with their positions as a director of a listed issuer as required under Rule 3.08 and 3.09. The composition of the Board consists of experienced management from different backgrounds including, amongst others, management in the environmental protection industry, capital market and corporate restructuring, business administration, accounting and finance. The Board is of the view that each member of the Board would be able to individually and collectively fulfill their duties of skill, care and diligence as required under Rules 3.08 and 3.09 of the Listing Rules.

In addition, a director training session in relation to the Listing Rules and director's responsibilities is scheduled in October 2020 to be conducted by an external professional legal consultant in order to enhance their knowledge in respect of the Listing Rules and director's responsibilities for fulfilling their director duties.

As mentioned above, all the responsible personnel involved in the Allegations have left the Company or do not have any participation in the daily operations of any subsidiaries of the Group and no current Directors were involved when the Allegations took place. The Board is of the view that each member of the Board had been able to fulfil such duties of skill, care and diligence as required under Rules 3.08 and 3.09 of the Listing Rules. In particular, (i) none of the current Directors have been found to be acting in a dishonest, bad faith or similar manner otherwise than in the interests of the Company as a whole, (ii) the current Directors have always been acting in the proper purpose to facilitate the Group's business operations.

On the basis of the above, the Board is of the view that the Company has taken steps which it believes to have fulfilled Resumption Guidance 6.

The Board considers that the actions taken by the Company as disclosed above are in the best interest of the Company and the Shareholders as a whole. The Company will continue to work with its professional and legal advisors to advance the resumption progress.

Fulfillment of the above Resumption Guidance is subject to the Stock Exchange's confirmation.

## **BUSINESS OPERATIONS**

The Group is a professional environmental plan and solution provider, which offers one-stop centralized and customized environmental protection services. The Group is engaged in services in the whole chain, inclusive of industrial wastewater treatment, industrial water supply, general and industrial solid waste treatment and hazardous waste disposal and treatment, urban and domestic waste detoxification, and environmental inspection. The Group had continued its normal business operations since the suspension of the trading of the Shares.

As disclosed in the Previous Quarterly Update Announcements, an agreement had been signed for the disposal of 49% equity stake of a non-core subsidiary. This transaction has been completed in August 2020 and the proceeds has been utilised for repayment of a bank loan.

The Group is continuing its active and constructive discussions with certain local governments on the potential handover of some land parcels of the Group to the government in return for compensation. As of the date of this announcement, no legally binding agreement has been reached in respect of the above.

The Group also engages in negotiations with potential investors to raise additional funding for the purpose of the repayment of certain bank loans and other indebtedness and for general working capital purpose of the Group. As of the date of this announcement, no legally binding agreement has been reached in respect of the above.

The Company will keep the Shareholders and the public informed of the progress of the above.

## OTHER UPDATES

On 28 September 2020, Guangzhou Zhongtao Lvyou Environmental Technology Company Limited\* (廣州中滔綠由環保科技有限公司, “**Guangzhou Lvyou**”), a wholly-owned subsidiary of the Company, entered into the resumption agreement with the Land Development Centre of Guangzhou Nansha District\* (廣州南沙開發區土地開發中心) and the Land Resumption and Compensation Office of Hengli Town in Guangzhou Nansha District\* (廣州市南沙區橫瀝鎮土地征收與補償工作辦公室); pursuant to which Guangzhou Lvyou agrees to, among others, surrender the Property to the Land Development Centre in return of the compensation amount of RMB1,237,883,558 (equivalent to approximately HK\$1,405,647,599).

For details, please refer to the announcement of the Company dated 30 September 2020 in relation to the land resumption.

## APPOINTMENT OF JOINT FINANCIAL ADVISER

The Board is pleased to announce that Platinum Securities Company Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong), has been appointed, together with Emperor Capital Limited who was appointed in May 2020, as one of the joint financial advisers to the Company with effect from 24 September 2020 to advise on matters relating to the resumption of trading in the Shares of the Company on the Stock Exchange.



## CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended with effect from 9:00 a.m. on 1 April 2019. Trading in the Shares will remain suspended until further notice.

By Order of the Board  
**CT Environmental Group Limited**  
**Huang Qing**  
*Chairman and Executive Director*

Hong Kong, 30 September 2020

*As at the date of this announcement, the executive directors of the Company are Ms. Huang Qing, Mr. Cheung Siu Fai, Mr. Li Yang and Mr. Wu Changbiao, and the independent non-executive directors of the Company are Mr. He Jingyong, Mr. Fong Wai Ho and Ms. Lai Pik Chi Peggy.*

\* *for identification purpose only*