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CHINA ENVIRONMENTAL TECHNOLOGY HOLDINGS LIMITED

中國環保科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 646)

VERY SUBSTANTIAL DISPOSAL

Financial Adviser

MIZUHO

Mizuho Securities Asia Limited

THE DISPOSAL

Reference is made to an announcement of the Company dated 31 July 2014 in respect of the Framework Agreement relating to the Disposal. On 19 December 2014 (after trading hours), the Vendor and the Purchaser entered into the SPA, pursuant to which the Vendor conditionally agreed to sell, and the Purchaser conditionally agreed to purchase the entire equity interest in the Disposal Company, at a consideration of RMB102,000,000 (equivalent to approximately HK\$128,520,000) which will be satisfied in cash. Upon Completion, the Company will not hold any interest in the Disposal Company and the Disposal Company will cease to be a subsidiary of the Company.

IMPLICATIONS OF THE DISPOSAL UNDER THE LISTING RULES

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Disposal exceeds 75%, the Disposal constitutes a very substantial disposal for the Company pursuant to Chapter 14 of the Listing Rules and is subject to the reporting, announcement and the Shareholders' approval requirements.

A circular containing, inter alia, further details about the Disposal and a notice convening the EGM is expected to be despatched to the Shareholders in January 2015.

As the Disposal is subject to the fulfillment of the Conditions Precedent under the SPA and may or may not proceed to Completion, Shareholders and investors are reminded to exercise caution in dealing in the securities of the Company.

THE DISPOSAL

Reference is made to an announcement of the Company dated 31 July 2014 in respect of the Framework Agreement relating to the Disposal. On 19 December 2014 (after trading hours), the Vendor entered into the SPA with the Purchaser.

THE SPA

Date

19 December 2014 (after trading hours)

Parties

Vendor: Fanhe (Beijing) Water Investment Management Company Limited* (凡和(北京)水務投資管理有限公司), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company; and

Purchaser: Beijing Capital Co., Limited* (北京首創股份有限公司), a company established in the PRC with limited liability, whose shares are listed on the Shanghai Stock Exchange (stock number 600008).

As at the date of this announcement, the Purchaser, through its wholly-owned subsidiary Beijing Capital (Hong Kong) Limited (首創(香港)有限公司), holds approximately 2.59% shareholding interest in the Company. Beijing Capital (Hong Kong) Limited also holds 15% of Gentle International Holdings Limited which in turn holds approximately 47.99% shareholding interest in the Company.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries and so far as the Directors are aware, the Purchaser and its ultimate beneficial owners, are third parties independent of the Company and its connected persons (as defined in the Listing Rules).

Assets to be disposed of

Pursuant to the SPA, the Vendor will sell the entire equity interest in the Disposal Company to the Purchaser. The principal asset of the Disposal Company is the concession rights (特許經營權) (the “**BOT Concession**”) to a wastewater treatment plant project under build-operate-transfer (BOT) arrangement in Hulu Island, Liaoning Province, the PRC (the “**BOT Project**”).

The BOT Project and the BOT Concession

On 9 April 2010, the Company (through its wholly-owned subsidiary) entered into an agreement to acquire 100% of the equity interest in the Vendor, which in turn held 100% of the equity interest in the Disposal Company, at a consideration of HK\$55,000,000. Completion took place on 27 April 2010 and the Disposal Company became an indirect wholly-owned subsidiary of the Company.

By an agreement dated 23 April 2010 (the “**BOT Agreement**”) between Hulu Island City Sewage Processing Co. Ltd* (葫蘆島污水處理有限責任公司) (the “**Grantor**”) and the Disposal Company, the Disposal Company was granted the BOT Concession for a period of 30 years from the date of the BOT Agreement. Under the BOT Agreement, the Disposal Company agreed to commit and bear an agreed amount for (i) increasing the water-processing capacity of the wastewater treatment plant through expansion and modification and (ii) upgrading the effluent quality to certain standards set out in the BOT Agreement. The Disposal Company will be responsible for operating and maintaining the wastewater treatment plant and is entitled to charge a sewage treatment fee for each tonne of water processed during the term of the BOT Concession. The amount of sewage treatment fee is subject to a price adjustment mechanism set out in the BOT Agreement.

On 12 December 2013, the Disposal Company and the Grantor entered into a supplemental agreement to the BOT Agreement, pursuant to which the Disposal Company agreed to increase its commitment to the BOT Project by RMB16,000,000 (equivalent to approximately HK\$20,160,000) to a total of RMB181,000,000 (equivalent to approximately HK\$228,060,000) and the sewage treatment fee (per tonne of processed water) was adjusted/increased to reflect such change.

Under the supplemental agreement, the expansion and modification works under the BOT Project shall commence after the required plot of land has been resumed by the Grantor and transferred to the Disposal Company. The plot was successfully resumed and transferred to the Disposal Company and construction works have commenced. The expansion and modification works are estimated to complete before 31 December 2015.

Under the BOT Agreement, the Disposal Company is entitled to use the property, plant and equipment of the wastewater treatment plant during the BOT Concession period and the Grantor will monitor the services provided by the Disposal Company under the BOT Project. At the expiration of the BOT Concession, the Disposal Company is required to hand over all the assets relating to the BOT Project to the Grantor.

Effect of Completion

Upon Completion, the Company will not hold any interest in the Disposal Company and the Disposal Company will cease to be a subsidiary of the Company.

Consideration

The consideration for the Disposal is RMB102,000,000 (equivalent to approximately HK\$128,520,000). The Consideration was determined after arm's length negotiations between the Vendor and the Purchaser after taking into consideration of, inter alia, the historical financial performance and future prospects, as well as the net asset value of the Disposal Company, and the carrying value of the BOT Concession acquired through business combination as at 30 June 2014. The Consideration is very close to the aggregate of the net asset value of the Disposal Company and the carrying value of the BOT Concession acquired through business combination of approximately HK\$129 million as at 30 June 2014.

A sum of RMB50,000,000 (equivalent to approximately HK\$63,000,000) which was previously paid in cash by the Purchaser to the Vendor subsequent to the signing of the Framework Agreement shall be treated as a deposit under the SPA upon the fulfilment of all Conditions Precedent and shall form part of the Consideration upon Completion (the "**Deposit**").

The remaining sum of the Consideration shall be payable by the Purchaser to the Vendor in the following manner:-

- (i) a sum of RMB32,000,000 (equivalent to approximately HK\$40,320,000) shall be payable in cash within five (5) business days from the Completion Date (the "**First Payment**"); and
- (ii) a sum of RMB20,000,000 (equivalent to approximately HK\$25,200,000) in cash shall be payable in cash within five (5) business days after the satisfaction of all post completion matters agreed under the SPA (the "**Second Payment**"), details of which are set out in the paragraph headed "Post completion matters" below.

Completion

The Completion shall take place within ten (10) business days after the fulfilment of all Conditions Precedent.

In the event that the Completion is delayed due to the fault of the Vendor, the Vendor shall pay to the Purchaser daily interests of 0.5% on the Deposit as damages for delaying the Completion.

In the event that the Completion is delayed for more than thirty (30) days due to the fault of the Vendor, the Purchaser shall have the right to terminate the SPA. In such event, the Vendor shall within thirty (30) days upon such termination refund the Deposit, together with interest, to the Purchaser and pay liquidated damages equivalent to 10% of the Consideration in accordance with the terms of the SPA.

If the Completion is delayed otherwise than the fault of the Vendor for more than thirty (30) days, the Purchaser shall have the right to terminate the SPA and the Deposit paid, together with interest, shall be refunded by the Vendor to the Purchaser within thirty (30) days upon such termination in accordance with the terms of the SPA and the Vendor shall not be liable to pay any liquidated damages to the Purchaser.

Conditions Precedent

The Completion of the SPA is conditional upon, among other things, the following Conditions Precedent being satisfied within six (6) months from the date of the Framework Agreement, failure of which the SPA will be terminated and the Deposit, together with interest, shall be refunded by the Vendor to the Purchaser in accordance with the terms of the SPA:

- (a) the Purchaser has completed the relevant reporting or approval procedure(s) at the State-owned Assets Management Department of Beijing* (北京市國有資產管理部門) in relation to the transactions contemplated under the SPA and the board of directors of the Purchaser and/or its shareholders at general meeting has/have approved the SPA and the transactions contemplated thereunder;
- (b) the board of directors of the Vendor and/or its shareholders at general meeting has/have approved the SPA and the transactions contemplated thereunder and the passing by the Shareholders in general meeting of an ordinary resolution approving the SPA and the transactions contemplated thereunder;
- (c) the Vendor has obtained all necessary approval from the relevant governmental and regulatory bodies in relation to the SPA and the transactions contemplated thereunder, and the Grantor has waived its pre-emptive right over the equity interest in the Disposal Company;
- (d) the Vendor has obtained all necessary approvals, from its creditor(s) and its guarantor(s) in relation to the transactions contemplated under the SPA; and
- (e) the Disposal Company has obtained a confirmation and approval from the relevant governmental and regulatory bodies in relation to the completion of construction of the wastewater facility in the BOT Project, and has obtained a waiver of administrative penalty on any historical breach in relation to the transportation of raw materials.

For the avoidance of doubt, under the SPA, Conditions Precedent (a) to (c) above are incapable of being waived. The other Conditions Precedent may be waived by the Purchaser in writing. If the Conditions Precedent cannot be satisfied or otherwise waived by the Purchaser in accordance with the terms of the SPA, the SPA shall be terminated. As at the date of this announcement, the Purchaser has no intention to waive any of the Conditions Precedent which are capable of being waived under the SPA.

Should failure to satisfy Conditions Precedent (b), (d), or (e) be solely due to reason(s) of the Vendor, the Vendor shall pay the Purchaser a sum equivalent to 20% of the Consideration as liquidated damages and refund the Deposit, together with interest, to the Purchaser in accordance with the terms of the SPA. In the event that only Condition Precedent (c) above cannot be satisfied solely due to reason(s) of the Vendor, and all other Conditions Precedent have been fulfilled, the Vendor shall only be required to refund the Deposit, together with interest of approximately 7.28% per annum (based on 30% premium to the benchmark lending rate for tenor of one year or below as published by the People's Bank of China), to the Purchaser in accordance with the terms of the SPA and no liquidated damages is required to be paid.

Based on the advice given by the Company's PRC legal advisers, Jincheng Tongda & Neal (金誠同達律師事務所) dated 5 November 2014, the Vendor will not be liable to pay liquidated damages to the Purchaser in the event that Condition Precedent (b) cannot be satisfied, unless such failure to obtain approval from, inter alia, the Shareholders in general meeting is solely due to the reason(s) of the Vendor itself.

In the event that only Conditions Precedent (a) cannot be satisfied solely due to reason(s) of the Purchaser, and all other Conditions Precedent have been fulfilled, the Purchaser shall within one (1) month upon the termination of the SPA pay to the Vendor any fees relating to the preparation of the audit and valuation reports on the Disposal Company and such fees may be deducted from the Deposit, together with interest, which the Vendor is required to refund to the Purchaser in accordance with the terms of the SPA.

Post completion matters

The making of the Second Payment is conditional upon the satisfaction of all post completion matters agreed under the SPA, the main terms of which are as follows:

- (a) the modification and expansion works under the BOT Project have been completed no later than 31 December 2015 (or such later date as agreed between the Vendor and the Purchaser) within the agreed budget amount of RMB58.8 million (equivalent to approximately HK\$74.1 million). The Purchaser is entitled to deduct any over budget amount (as determined by a mutual expert to be appointed by the Purchaser and the Vendor) from the Second Payment. If the Second Payment is insufficient to cover the over budget amount, the Vendor shall reimburse the Purchaser on such remaining amount, which is not subject to a maximum amount;
- (b) the Vendor has procured its associated company to repay its outstanding debt of approximately RMB14.7 million (equivalent to approximately HK\$18.5 million) as at 30 June 2014, together with interest at a rate of 8.5% per annum, calculated from 30 June 2014 until full repayment is made, to the Disposal Company;
- (c) from 30 June 2014 to the Completion Date, there has been no increase in other receivables from third parties to the Disposal Company;
- (d) the BOT Project has been transferred to the Purchaser in accordance with the terms of the SPA; and

(e) the Vendor has procured the Disposal Company to obtain a valid discharge permit (排污許可證).

For post completion matter (a) above, the budget was estimated by the contractor. The Directors are of the view that it would be fair to the Purchaser to have a certainty in their commitment under the BOT Project subsequent to the Disposal and such term is commercially reasonable. Furthermore, the Directors are of the view that it would be unlikely for the budget to be exceeded and the Second Payment should provide a sufficient buffer and it is under no foreseeable circumstances that the Company would need to reimburse the Purchaser out of its pocket.

INFORMATION OF THE GROUP, THE VENDOR, THE PURCHASER AND THE DISPOSAL COMPANY

The Group is principally engaged in the environmental related business in the PRC including the provision of environmental technologies, products, equipments and system integration relating to water treatment, conservation, purification, recycling and management, and wastewater treatment.

The Vendor is an indirect wholly-owned subsidiary of the Company, and its principal business is investment holding.

The Purchaser is principally engaged in the public infrastructure industry. With a main business scope covering the investments, operation and management of infrastructure, the Purchaser is also engaged in businesses in the PRC's water market, concentrating on urban water supply and sewage disposal. The substantial shareholder of the Purchaser and its affiliates are engaged in diversified businesses in the PRC and are state-owned enterprises in the PRC.

The Disposal Company is principally engaged in wastewater treatment and water purification business in Hulu Island, the PRC. The Disposal Company owns the BOT Concession.

Financial Information on the Disposal Company

The net profit/loss before and after taxation of the Disposal Company for each of the two years ended 31 December 2012 and 2013 are set out below:

	Year ended 31 December	
	2012	2013
	<u>HK\$'000</u>	<u>HK\$'000</u>
Net profit/(loss) before taxation	2,620	(1,425)
Net profit/(loss) after taxation	2,620	(1,425)

In the consolidated financial statements of the Group, there were amounts in respect of amortization for the BOT Concession acquired through business combination of HK\$1,965,000 and HK\$1,997,000 (net of tax credit) for the year ended 31 December 2012 and 2013 respectively relating to the Disposal Company.

As disclosed in note 35 to the financial statements in the 2011 annual report of the Company, the Disposal Company was acquired through business combination by the Group on 27 April 2010. In accordance with HKFRS 3 "Business Combination", the fair value of the identifiable assets and liabilities of the acquired business was measured at the date of acquisition, in which the fair value of the BOT Concession acquired through business combination was valued at RMB63,900,000 (equivalent to approximately HK\$72,688,000) by an independent valuer, Cushman & Wakefield Valuation Advisory

Services (HK) Limited, and the corresponding deferred tax liabilities was RMB15,975,000 (equivalent to approximately HK\$18,172,000). The key basis and assumptions of the valuation were disclosed in note 17 to the financial statements in the 2011 annual report of the Company. As at the acquisition date, the book value of the BOT Concession in the Disposal Company was nil.

The BOT Concession acquired through business combination was amortised on a straight-line basis over a period of 30 years, and the deferred tax liabilities were charged to the profit and loss on the same basis. The carrying value of the BOT Concession acquired through business combination and the deferred tax liabilities attributable to the BOT Project as at 30 June 2014 were as follows:

	RMB'000	Equivalent to HK\$'000
BOT Concession	55,025	69,331
Deferred tax liabilities	(13,756)	(17,333)
	41,269	51,998

Based on the unaudited management accounts of the Disposal Company as at 30 June 2014, the net assets value of the Disposal Company amounted to approximately RMB61,226,000 (equivalent to approximately HK\$77,145,000).

The financial information on the Disposal Company was prepared based on Hong Kong Financial Reporting Standards, and has been reviewed by the Company's reporting accountants, RSM Nelson Wheeler.

REASONS FOR THE DISPOSAL

It is the strategy of the Group to further develop its business in the environmental related business in the PRC, particularly with the added value it intends to bring to different projects by virtue of its own technology or enhancement solutions and/or from its technology partners from time to time.

After reviewing the financial and operational performance of the BOT Project, as well as its funding needs, the Board considers that the BOT Project, which did not produce any net profit for the year ended 31 December 2013, and contributed only a very small net profit to the Group for the year ended 31 December 2012, is expected to provide less superior return to the Company compared to some other projects which the Company is able to source and intend to acquire.

The BOT Project is still in its early stage of operations and its operations have been relatively steady. The BOT Project incurred a loss for the year ended 31 December 2013 as compared to the net profit of approximately HK\$2,620,000 it derived in the financial year ended 31 December 2012, largely due to the financing costs which were previously being capitalized during the construction stage of the BOT Project but were recognized as expense in the income statement after completion of the initial construction stage of the BOT Project. Such financing costs shall continue to be booked as expense for the BOT Project for the current and future financial years. After completion of the second stage of the BOT Project with an estimated construction and other costs of approximately RMB 55,000,000 (equivalent to approximately HK\$69,300,000), excluding financing costs, the BOT Project is expected to generate additional revenue. Considering the nature of the BOT Project, its expected future revenue is considered to produce relatively higher return to the Group in the medium to long run, and the realization of such revenue is subject to various risks, including the reliance on the local government which is the only customer of the Disposal Company.

The decisions made by the Directors on the Disposal, and for making use of the net proceeds from the Disposal to make potential acquisition or investment into other projects in the environmental related business in the PRC were made based on, inter alia, the principal considerations on the expected investment return of the projects in different horizon, the capital investment amounts for the respective projects, and on whether the Group can utilize its environmental technology to enhance returns and create synergies.

With regard to the capital investment amounts on the BOT Project, it is a binding term in the BOT Agreement and its supplemental agreement that the Group shall commit to invest in the second stage of the BOT Project, failing which the Group shall be in breach of the BOT Agreement and its supplemental agreement and cannot enforce its rights thereunder. Based on the assessment of the Company, in particular, taking into account of the loss for the year ended 31 December 2013, and the small net profit for the year ended 31 December 2012 for the BOT Project, it is not in the interest of the Group to make further investment in the second stage of the construction work of the BOT Project. In making its decision on the Disposal, the Company also takes into account the lack of control of the Disposal Company on the unit charge for the water supply of the BOT Project and on the authority of its single customer which is the local government. Due to its own nature and profile, compared to the investment projects being reviewed and negotiated for acquisition or investment by the Group, the BOT Project has relatively less synergistic advantages which can be achieved by the Group.

The Disposal shall release cash and other resources of the Company to make acquisitions or participate in projects of different nature in the environmental related business in the PRC. The business being carried out by the Disposal Company is under the category of Water Recycling and Management, which falls within a more mature segment of the environmental related business in the PRC. The environmental related business in the PRC covers four major segments, namely (1) Water Recycling and Management (水務項目), (2) Solid Waste Recycling (固廢處理), (3) Soil Remediation (土壤修復) and (4) Environmental Material Science (環保新材料). While consolidating its businesses in the Water Recycling and Management segment, the Company intends to expand into the Solid Waste Recycling segment, which is relatively new in the PRC, and the industry entry barrier of which is comparatively high. The industry entry barrier includes, inter alia, licensing requirements and approvals from environmental protection authorities at both municipal and central government. In assessing potential acquisition and investment targets, the Company will consider whether the target's business, market coverage and expertise will create synergy with the Company, in particular its water treatment technologies and expertise in environmental manipulation and project management.

With regard to potential acquisition or investment, the Company has entered into a few framework agreements with different third parties in exploring such acquisition or investment opportunities, and has made certain voluntary announcements accordingly in the past few months. Please refer to the "Use of Proceeds" section below for further information. Since the Group has decided to expand its principal business in the environmental related sector in the PRC since some three years ago, it has made committed efforts in sourcing and identifying suitable investment projects. The Group has made good progress in such direction and is well placed to expand into the sectors as described above. The framework agreements and the pipeline of projects being reviewed and negotiated demonstrate the ability of the Group to realise its vision and execute its strategy in the foreseeable future. In making every acquisition and investment, the Group shall exercise due care in assessing the investment returns and the potential enhancement that the Group can create for the projects and achieve synergistic advantages.

In view of the above, the Directors (including the independent non-executive Directors) consider that the Disposal is in the interest of the Group. The Directors (including the independent non-executive Directors) also consider that the terms of the Disposal have been concluded after arms' length

negotiations, and are normal commercial terms which are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

BUSINESS OF THE GROUP AFTER THE DISPOSAL

It is the explicit strategy of the Directors to continue to focus on environmental related business in the PRC for the Group after the Disposal. In addition, it is the intention of the Directors to enter into legally binding agreement for at least one investment project described in the “Use of Proceeds” section below or other projects in the pipeline.

Apart from the business being carried out by the Disposal Company, the Group is currently engaged in the following environmental related businesses in the PRC:

1. The Chanba Project

The Chanba Framework Agreement

On 15 April 2011, the Company entered into a non-legally binding framework agreement (the “**Chanba Framework Agreement**”) with the management committee of Chanba ecological zone in Xi’an, the PRC (the “**Management Committee**”), in relation to the possible investment in the construction of an intensive-model high-tech environmental ecological system project in the north-wing of the Chanba ecological zone (the “**Zone**”) (the “**Chanba Project**”). The Chanba Project covers an area of about 30 square kilometres, having a total construction cycle from 8 to 12 years.

Terms of the Chanba Framework Agreement

The Company is entrusted by the Management Committee to perform the following in the Chanba Project, which is non-exhaustive:

- (a) the construction of a wastewater treatment system in the Zone and the operation thereof;
- (b) the construction of a water supply system in the Zone and the operation thereof;
- (c) the construction of an urban heating system in the Zone and the operation thereof;
- (d) the construction of a wastewater treatment system in a wetland park within the Zone and the operation thereof; and
- (e) the investment of energy saving and energy management project(s).

The intended total investment for the Chanba Project under the Chanba Framework Agreement is RMB6 billion (equivalent to approximately HK\$7.6 billion). The Company shall be responsible for the funding of the Chanba Project when any legally binding agreement(s) pursuant to the Chanba Framework Agreement is/are entered into. At the time of the execution of the Chanba Framework Agreement, the Company intended that it might form joint venture(s) or cooperation agreement(s) with several large-scale enterprises in respect of the Chanba Project if any part of the Chanba Framework Agreement would materialize.

The First Chanba Agreement

Pursuant to the Chanba Framework Agreement, Beijing Jingrui Kemai Water Purification Technology Co. Ltd. (北京精瑞科邁淨水科技有限公司) (“**Beijing Jingrui**”), an enterprise established in the PRC and an indirect wholly owned subsidiary of the Company, entered into a legally binding agreement with the Management Committee on 11 July 2011 in relation to the water quality maintenance project of a lake in the 2011 World Horticultural Expo Zone within the Zone (the “**First Chanba Agreement**”).

The total consideration under the First Chanba Agreement was RMB11.60 million (equivalent to approximately HK\$14.6 million), pursuant to which, Beijing Jingrui provided several units of mobile magnetic separation water treatment system (移動式載入磁分離處理系統裝置) (the “**Mobile Device(s)**”) with models of 5,000 tonnes, 3,000 tonnes and 1,000 tonnes to the Management Committee, and the mode of services included sales of equipment, and lease and daily operation of the Mobile Devices. The First Chanba Agreement was completed in September 2013.

The Second Chanba Agreement

Pursuant to the Chanba Framework Agreement, Beijing Jingrui entered into a second legally binding agreement with the Management Committee on 27 June 2013 (the “**Second Chanba Agreement**”) for the provision of Mobile Device with model of 1,000 tonnes. The total consideration under the Second Chanba Agreement is RMB1.9 million (equivalent to approximately HK\$2.4 million).

Due to malfunctions of the Mobile Device, the project was inadvertently delayed. As at the date of this announcement, Beijing Jingrui has received 35% of the consideration under the Second Chanba Agreement. The Mobile Device provided under the Second Chanba Agreement has successfully undergone a testing stage. It is expected that the Management Committee shall pay Beijing Jingrui 60% of the consideration within December 2014 after the completion of certain internal procedures of Management Committee. The remaining 5% of the consideration shall be released to Beijing Jingrui after the guarantee period in late 2015 is over.

Ongoing negotiations are being carried out between Beijing Jingrui and the Management Committee, including an agreement to provide two Mobile Devices of 3,000 tonnes. Beijing Jingrui has submitted the draft agreement in respect of the two Mobile Devices of 3,000 tonnes to the Management Committee for approval. A formal agreement will be entered into between Beijing Jingrui and the Management Committee after obtaining such approval.

2. The water-quality enhancement project for Empress Xiao River (蕭太后河), Beijing, the PRC

Beijing Jingrui entered into a contract with the Water Authority of Beijing on 24 April 2013, pursuant to which Beijing Jingrui shall install and operate magnetic separation water treatment devices which will be used to process the water of Empress Xiao River from 1 June 2013 to 30 November 2015. The estimated total contract sum for the project is RMB38.2 million (equivalent to approximately HK\$48.1 million).

This project on average processes 50,000 tonnes of water per day. As such, the Board estimates that the project will on average contribute a revenue of approximately RMB1.06 million (equivalent to approximately HK\$1.40 million) per month upon reaching full operation. Since the commencement of this project in 1 June 2013, it has generated revenue of approximately RMB3.1 million (equivalent to approximately HK\$3.9 million) for the year ended 31 December 2013 and approximately RMB6.8 million (equivalent to approximately HK\$8.6 million) for the six months ended 30 June 2014.

3. The sewage treatment project for Qing River (清河), Beijing, the PRC

In September 2014, Beijing Jingrui submitted its tender for the sewage treatment project for the Qing River in the PRC. Should Beijing Jingrui be granted the project, it will install and operate magnetic separation water treatment and other devices at the sewage outfall located in the

Chaoyang District (朝陽區). These devices will be used to process the sewage before discharging into the Qing River. The project term will be for a period of one year and three months.

Beijing Jingrui was subsequently awarded the project and entered into contract with the Water Authority of Beijing on 28 October 2014. The project commenced in early November 2014. The estimated capacity for the project is to process approximately 23,000 tonnes of water per day.

The Board estimates that the project will generate revenue of approximately RMB9.46 million (equivalent to approximately HK\$11.92 million) for the year ending 31 December 2015.

4. Comprehensive manipulation project of the rural environment in Hunan, the PRC

On 20 July 2012, the Company entered into a non-legally binding cooperation agreement with the municipal government of Zixing City in Hunan, the PRC (the “**Zixing Municipal Government**”) in relation to, among other things, (a) the ecological environment protection of Dongjiang Lake; (b) the urban infrastructure constructions; and (c) the tourism development projects (the “**Hunan Cooperation Agreement**”).

Terms of the Hunan Cooperation Agreement

The Hunan Cooperation Agreement set out the broad basis on which the Company and the Zixing Municipal Government would cooperate to develop future business and projects in Zixing City. The major terms of the Hunan Cooperation Agreement are as follows:

(a) The ecological environmental protection of Dongjiang Lake

The Company is entrusted by the Zixing Municipal Government to invest into and to provide service(s) for a comprehensive ecological environment protection project in respect of Dongjiang Lake. The scope of work includes, among other things, the planning of environmental protection, the designing of pollution control, the provision of consulting service(s), investment(s), construction(s) and operation(s) of environmental related project(s).

(b) Urban infrastructure constructions

The Company is invited by the Zixing Municipal Government to actively participate in the construction of infrastructures in Zixing City by providing investment(s), technology(ies) and planning design(s). The Zixing Municipal Government has agreed under the Hunan Cooperation Agreement to actively grant large-scale project(s) to the Company according to the need of the city.

(c) Tourism development projects

The Company is invited by the Zixing Municipal Government to jointly develop the areas around Dongjiang Lake as a tourist’s attraction to promote the natural and cultural environment of Zixing City.

The Hunan Cooperation Agreement only set down the general principles in which the Company and the Zixing Municipal Government would cooperate to develop future business and projects within the city, no consideration was involved in respect of the execution of the Hunan Cooperation Agreement.

The Hunan Agreement

Pursuant to the Hunan Cooperation Agreement, the Company submitted a bid through its indirect wholly owned subsidiary, Hunan Chenzhou CETH Environmental Technology Development Co.

Limited* (湖南郴州中環科環保科技發展有限公司) (“**Hunan Chenzhou CETH**”) in relation to a comprehensive manipulation project of the rural environment along the Dongjiang Lake in Xingning Town, Bailang County, Zixing City, Hunan Province (the “**Hunan Project**”). On 31 December 2012, Hunan Chenzhou CETH received an official bid-winning notice for the Hunan Project.

On 4 January 2013, Hunan Chenzhou CETH and Zixing City Rural Environmental Protection Investment Company Limited* (資興市城鄉環境保護投融資有限公司) entered into a legally binding agreement in respect of the Hunan Project (the “**Hunan Agreement**”). The total consideration under the Hunan Agreement is approximately RMB5.8 million (equivalent to approximately HK\$7.3 million).

The scope of the Hunan Project includes the treatment of agricultural wastewater, the treatment of refuse, the control of non-scale poultry-breeding pollution, and rural water resource protection signage production and installation. The Hunan Project was completed in late 2013.

In addition, the Company commenced to develop its business in the trading of petrochemical products through its wholly owned subsidiary, Great Champion Holdings Limited in March 2014. As at the date of this announcement, the Company has engaged in one transaction only, which generated approximately HK\$15.4 million revenue. The Directors opted for a more prudent approach in exploring this new business segment and prefer to trade only with reputable entities or entities having former business relationship with the Directors and/or the Company.

To provide consultation services and to promote the Remaining Group’s water treatment equipment, the Group and Beijing Capital (Hong Kong) Limited (首創(香港)有限公司) formed a joint venture company, Beijing Shuoqiang Innovative Environmental Technology Company Limited* (北京首強創新環保科技有限公司)。

Based on the annual reports of the Group for the years ended 2012 and 2013 and the interim report of the Group for the six months ended 30 June 2014, the turnover from the business of the Remaining Group (the “**Remaining Business**”) for the nine month period ended 31 December 2012, the year ended 31 December 2013 and the six months period ended 30 June 2014 amounted to approximately HK\$21,096,000, HK\$14,650,000 and HK\$25,184,000 respectively. For the same periods, the gross profit/(loss) was approximately HK\$(447,000), HK\$2,529,000 and HK\$3,826,000 respectively. The Group made net losses over the periods primarily due to the operating costs and the expenses made by the Group in sourcing new projects and instituting measures for achieving synergistic advantages for the projects. The Remaining Business on itself is viable and can sustain future growth. As natural business growth, the Remaining Business shall be strengthened with the new investment projects within the same industry. Having made the investments and efforts in the environmental related business in the last few years, the Directors consider that the Group is well placed at this stage to source a number of projects and achieve synergistic advantages and returns from such projects.

The Company does not have any intention to make any significant change to the Board and the management of the Company upon the Completion and after plans on the recently proposed acquisitions of the Company are executed. The Group might consider to strengthen its middle management and explore alternatives to achieve synergistic advantages among its investment projects in due course. As at the date of this announcement, the Company has no intention, arrangement, agreement, understanding or negotiation (concluded or otherwise) to dispose, scale down, or terminate the business of the Group save and except that of the Disposal Company.

The Directors are presently exploring different alternatives of equity or other financing for the potential acquisitions or investments to be made by the Group, including but not limited to an open offer. The net proceeds to be raised shall be utilized for the proposed acquisitions and investments and working capital for the projects, as well as general working capital for the Group.

The Company has received written confirmation from (1) its substantial shareholder, Gentle International Holdings Limited, which holds approximately 47.99% of the issued share capital of the Company as at the date of this announcement, and (2) the confirmation of Mr. Xu Zhongping, the chairman of the Board and executive Director who indirectly holds (i) 60% shareholding interest in Gentle International Holdings Limited and (ii) approximately 2.56% of the issued share capital of the Company as at the date of this announcement that they have no intention to dispose of any of its equity interest in the Company at least in the next 12 months.

FINANCIAL EFFECT OF THE DISPOSAL

For illustrative purposes, based on (i) the consideration of the Disposal of approximately RMB102,000,000 (equivalent to approximately HK\$128,520,000), (ii) the net asset value of the Disposal Company and the carrying value of the BOT Concession acquired through business combination of HK\$77.1 million and HK\$52.0 million, respectively as recorded in the Company's unaudited consolidated statement of financial position as at 30 June 2014, (iii) the estimated expenses to the Disposal of approximately HK\$2.8 million, (iv) the estimated maximum PRC tax payable on the Disposal of approximately RMB 12.9 million (equivalent to approximately HK\$16.3 million), and (v) the release of the cumulative translation reserve of HK\$10.9 million, the Group is expected to record an unaudited loss of approximately HK\$8.8 million from the Disposal.

Upon the Completion, the Company will not hold any interest in the Disposal Company and the Disposal Company will cease to be a subsidiary of the Company.

The actual financial effect of the Disposal to be accounted for in the consolidated financial statements of the Company for the financial year ending 31 December 2015 will be computed based on, inter alia, the financial information of the Disposal Company as recorded in the Company's consolidated financial statements and the fair value of the cash consideration received and receivable by the Company at the date of Disposal following Completion. The Company is in the process of ascertaining from the PRC tax authority the PRC tax amount payable by the Company in respect of the Disposal. The estimated maximum PRC tax payable is based on 25% of the estimated net gain regarding the Disposal Company without taking into consideration the investment amounts made by the Group outside of the PRC. As most of the consideration for the acquisition of the BOT Project was paid by the Group outside of the PRC, and should be considered as part of the investment costs of the Group, the Directors consider that the final PRC tax amount payable regarding the Disposal shall be significantly lower than the estimated maximum amount, and as such, the loss to be recorded by the Group regarding the Disposal is expected to be lower than HK\$8.8 million.

USE OF PROCEEDS

The Directors intend to apply the net proceeds from the Disposal as consideration for the possible acquisition or investment in projects in environmental related businesses in the PRC, and as working capital for some of the acquired projects, and for general working capital of the Group.

The Company has made certain voluntary announcements regarding the signing of framework agreements or memorandum of understanding since June 2014 regarding possible acquisition or investments in projects in environmental related businesses in the PRC. Some of these projects, which the Company found to be suitable after due diligence and negotiations, are summarized below. The Company is in the process of conducting further due diligence review and/or negotiations on the consideration and other terms for acquisition and formulating appropriate structure for conducting any acquisition at this stage. While the Directors have stated their intention to conduct acquisition or investment which falls within the sector of environmental related business in the PRC in the near future, there is no assurance that the Company may finally be conducting any of such acquisition, or that any of the potential investment contained herein are conducted. As at the date of this announcement, save for the proposed transactions disclosed in the voluntary announcements referred to above, the Company has not entered into any agreement, arrangement, understanding or undertaking, whether formal or informal and whether express or implied, with an intention to acquire any new businesses for the Group. In its continuing efforts to identify appropriate investment projects for expanding its principal business of environment related business in the PRC, the Company shall make announcements of any other investment projects as appropriate

Certain investment projects being the subjects of voluntary announcements by the Company since June 2014:

The proposed establishment of a joint stock company engaging in water project investment in Huizhou, the PRC

On 21 August 2014, the Company has entered into a memorandum of co-operation with Huizhou Water Affairs Investment Group Limited* (惠州市水務投資集團有限公司), Beijing Capital Environment Construction (Hong Kong) Company Limited (首創環保建設(香港)有限公司) and Huizhou Zhongxin Investment Company Limited* (惠州市中聖投資發展有限公司), for the establishment of a joint stock company in Huizhou (惠州), the PRC (the “**Memorandum**”).

The proposed business of the joint stock company shall mainly include the introduction of advanced water treatment, desalination and effluent reuse technology from Israel, the manufacturing of relevant equipments based on the said technologies, and environmental and water treatment projects such as water conservation, treatment, purification and protection in Huizhou (惠州).

The proposed share capital of the joint stock company is RMB100,000,000 (equivalent to approximately HK\$126,000,000), which will be contributed in accordance with the agreed shareholding between each of the abovementioned four parties. Under the Memorandum, the Company will directly hold 30% interest in the joint stock company. Subsequent to a proposed reorganisation, the Company will own 90% of the issued share capital of Beijing Capital Environment Construction (Hong Kong) Company Limited. As such, the Company will indirectly have a further 25% equity interest in the joint stock company. Therefore the Company will in aggregate contribute RMB52,500,000 (equivalent to approximately HK\$66,150,000). It is estimated that approximately RMB30,000,000 (equivalent to approximately HK\$37,800,000) will be satisfied using the proceeds from the Disposal, and the remaining balance shall be satisfied by debt financing and/or internal resources.

It is anticipated that the joint stock company will generate a net profit of approximately RMB150 million (equivalent to approximately HK\$189 million) for the first year after commencing its works on the environmental and water treatment projects and will steadily generate approximately RMB200 million (equivalent to approximately HK\$252 million) from the second year onwards for the project period.

Under the Memorandum, the parties shall form the joint stock company within one (1) year from the date of the Memorandum.

For details, please refer to the voluntary announcement issued by the Company on 28 August 2014.

The proposed investment in Beijing Huaxia Yuan Jie Water Technology Co., Ltd.*(北京華夏源潔水務科技有限公司)

On 28 August 2014, the Company and Beijing Huaxia Yuan Jie Water Technology Co., Ltd.*(北京華夏源潔水務科技有限公司) (the “**Investment Target**”) have entered into a framework agreement, pursuant to which the Company intends to make capital contribution to the Investment Target by way of cash. Should the said target investment materialized, the Company will hold approximately 51% equity interest in the Investment Target.

The Investment Target is principally engaged in the research and development, design, manufacturing, installation, sales and services of water system integration for buildings and water treatment equipments and other businesses. The core technologies of the Investment Target include integrated purification overlying technology, variable frequency water supply technology with non-negative pressure water tanks, two-way water supply technology and OB biochemical technology.

As at the date of this announcement, the Company is still in negotiations with the owners of the Investment Target after completion of due diligence work in late August 2014. Should the proposed investment materialize, it is estimated that the Company will invest approximately RMB30,000,000 (equivalent to approximately HK\$37,800,000) into the Investment Target. The Company intends to use approximately RMB20,000,000 (equivalent to approximately HK\$25,200,000) from the proceeds generated from the Disposal to satisfy part of its investment in the Investment Target, and the remaining balance by debt financing and/or internal resources.

Based on the information available to the Group, it is anticipated that the Investment Target will generate a net profit of approximately RMB4.5 million (equivalent to approximately HK\$5.7 million) for the first year, gradually increasing to RMB6 million (equivalent to approximately HK\$7.6 million) for the second year and it is anticipated that at the fifth year of investment it will generate a net profit of approximately RMB40 million (equivalent to approximately HK\$50 million).

Under the said framework agreement, the parties shall enter into a formal agreement within three (3) months from the completion of the due diligence review.

For details, please refer to the Group’s voluntary announcement dated 1 September 2014.

IMPLICATIONS OF THE DISPOSAL UNDER THE LISTING RULES

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Disposal exceeds 75%, the Disposal constitutes a very substantial disposal for the Company pursuant to Chapter 14 of the Listing Rules and is subject to the reporting, announcement and Shareholders' approval requirements.

As the Purchaser, through its wholly-owned subsidiary Beijing Capital (Hong Kong) Limited, holds approximately 2.59% shareholding interest in the Company as at the date of this announcement, Beijing Capital (Hong Kong) Limited, being a Shareholder, will abstain from voting at the EGM.

Save for the above, to the best knowledge, information and belief of the Directors having made all reasonable enquires, no other Shareholder is required to abstain from voting for the resolution to be proposed at the EGM.

A circular containing, among other matters, further details of the Disposal and the notice of the EGM is expected to be despatched to the Shareholders in January 2015.

As the Disposal is subject to the fulfillment of the Conditions Precedent under the SPA and may or may not proceed to Completion, Shareholders and investors are reminded to exercise caution in dealing in the securities of the Company.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following respective meanings:

“Board”	the board of Directors;
“Company”	China Environmental Technology Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange;
“Completion”	the completion of the Disposal;
“Completion Date”	a date within ten (10) business days from the satisfaction of the Conditions Precedents;
“Conditions Precedents”	the conditions precedents to the Completion as set out in the SPA;
“Consideration”	the consideration for the Disposal in the sum of RMB102,000,000 (equivalent to approximately HK\$128,520,000);
“Directors”	the directors of the Company;
“Disposal”	the disposal of the entire equity interest in the Disposal Company from the Vendor to the Purchaser in accordance with the terms of the SPA;
“Disposal Company”	Fanhe (Hulu Island) Water Investment Company Limited* (凡和(葫蘆島)水務投資有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Vendor;
“EGM”	the extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving, among other things, the SPA and the transactions contemplated thereunder;
“Framework Agreement”	The framework agreement entered into between the Vendor and the Purchaser in relation to the Disposal. Details of which are set out in the Company’s announcement dated 31 July 2014;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“PRC”	the People’s Republic of China which, for the purpose of this announcement, exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;
“Purchaser”	Beijing Capital Co., Limited* (北京首創股份有限公司), a company established in the PRC with limited liability and the shares of which are listed on the Shanghai Stock Exchange (stock number 600008);

“Remaining Group”	the Company and its subsidiaries immediately after Completion, without taking into account any proposed acquisitions or investments by the Company;
“Shareholders”	holders of the Shares;
“Shares”	ordinary shares of HK\$0.025 each in the share capital of the Company;
“SPA”	the conditional sale and purchase agreement dated 19 December 2014 entered into between the Vendor and the Purchaser in relation to the Disposal;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Vendor”	Fanhe (Beijing) Water Investment Management Company Limited* (凡和(北京)水務投資管理有限公司), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“RMB”	Renminbi, the lawful currency of the PRC; and
“%”	per cent.

For the purpose of this announcement, conversion of RMB into HK\$ is based on the exchange rate of RMB1.00 to HK\$1.26. The exchange rate has been used, where applicable, for the purposes of illustration only and do not constitute a representation that any amounts were or may have been exchanged at this or any other rates or at all.

**English translation is for reference only*

By Order of the Board
**CHINA ENVIRONMENTAL TECHNOLOGY
HOLDINGS LIMITED**
Xu Zhong Ping
Chairman

Hong Kong, 19 December 2014

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. Cao Guoxian 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.