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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)

Discloseable transaction in relation to the disposal of a subsidiary of the Company

On 21 September 2011, Yardway Motors (a wholly owned subsidiary of the Company, as vendor) and the Purchaser entered into the Disposal Agreement, pursuant to which the Group has agreed to sell the entire registered capital in YAPE (a wholly owned subsidiary of the Company held through Yardway Motors) at a sale price of RMB467,423 (equivalent to approximately HK\$567,000).

In connection with the Disposal Agreement, Yardway Motors, the Purchaser and YAPE entered into the Debt Settlement Agreement on the same date. Under the Debt Settlement Agreement, the Purchaser has agreed to settle certain indebtedness in the sum of about RMB840,603 (equivalent to approximately HK\$1,019,000) owing from YAPE to the Group.

The aggregate amount payable by the Purchaser to Yardway Motors in connection with the Disposal Agreement and the Debt Settlement Agreement was about RMB1,308,026 (equivalent to approximately HK\$1,586,000).

As the applicable percentage ratios (within the meaning of the Listing Rules) for the Disposal Agreement and Debt Settlement Agreement exceed 5% but are less than 25%, the Disposal Agreement together with the Debt Settlement Agreement constitute a discloseable transaction for the Company under the Listing Rules.

THE DISPOSAL AGREEMENT

Principal terms of the Disposal Agreement

The principal terms of the Disposal Agreement are summarised below:

Date *21 September 2011*

Parties to the Disposal Agreement:

Vendor:	Yardway Motors, a wholly owned subsidiary of the Company
Purchaser:	the Purchaser

Each of the Purchaser and its ultimate beneficial owners is an Independent Third Party.

Subject matter under the Disposal Agreement and the sale price

Under the Disposal Agreement, Yardway Motors has agreed to sell to the Purchaser the entire registered capital in YAPE at a sale price of RMB467,423 (equivalent to approximately HK\$567,000). Upon completion of the Disposal, YAPE will no longer be a subsidiary of the Company.

Under the Disposal Agreement, 50% of the sale price shall be paid within 3 days following the signing of the Disposal Agreement, and the remaining 50% of the sale price shall be paid within 3 days following the date of approval and completion of registration by the relevant authorities in the PRC of the change in equity-holder of YAPE into the Purchaser.

Debt Settlement Agreement

In connection with the Disposal Agreement, Yardway Motors, the Purchaser and YAPE entered into the Debt Settlement Agreement. Under the Debt Settlement Agreement, the Purchaser has agreed to pay on behalf of YAPE the indebtedness in the sum of about RMB840,603 (equivalent to approximately HK\$1,019,000) owing from YAPE to Yardway Motors as at the date of the Disposal Agreement.

The Debt Settlement Agreement provides that 50% of the outstanding indebtedness of YAPE shall be paid within 3 days following the date of approval and completion of registration by the relevant authorities in the PRC of the change in equity-holder of YAPE into the Purchaser, and the remaining 50% shall be paid 6 months following the said date of approval.

Under the Debt Settlement Agreement, if either Yardway Motors or the Purchaser becomes default of its obligations under that agreement, it would be liable to a penalty of 5% on the total sums to be paid under this agreement.

Aggregate amount payable by the Purchaser to Yardway Motors

Under the Disposal Agreement and the Debt Settlement Agreement, the aggregate amount payable by the Purchaser to Yardway Motors was about RMB1,308,026 (equivalent to approximately HK\$1,586,000).

The consideration was determined after arm length's negotiation between Yardway Motors and the Purchaser, as (i) YAPE (as a stand-alone basis) made operating losses for each of the two years ended 31 March 2011 and is expected to continue to make loss in the current financial year, (ii) YAPE has a net liability of about HK\$1.5 million (taking account of about HK\$3 million advanced by the Group), and (iii) the aggregate consideration of about RMB1,308,026 (equivalent to about HK\$1,586,000), represents the adjusted net asset value of YAPE (adding back the amount advanced by the Group mentioned above) with a premium of about HK\$85,000, which would enable the Group to realise the value of YAPE whilst covering the costs incurred in the present transaction.

Effective date of the Disposal Agreement

Under the Disposal Agreement, the Disposal Agreement will become effective upon all the following conditions being fulfilled:

- the Disposal Agreement being approved by the board of directors of the parties to the agreement;
- the relevant PRC authority(ies) approving and registering the Disposal Agreement and the transactions contemplated thereby; and
- if the Disposal Agreement is required to be approved by the Company's shareholders in general meeting under the Listing Rules, such approval being obtained from the Company's shareholders.

INFORMATION ON THE GROUP AND REASONS FOR THE DISPOSAL AGREEMENT

The Group's principal business are trading of vehicles, machinery, equipment; environmental protection technology, equipment system integration, sewage treatment in urban areas, project technical service and licensing of related environmental protection technical know-how.

YAPE has been engaged in the business of trading of spare parts of vehicles and machinery. As disclosed in the Company's annual report published on 6 July 2011, YAPE accounted for about 6.8% of the Group's turnover and 4.5% of the Group's gross profit for year ended 31 March 2011. The adjusted net asset value of YAPE (adding back the amount of HK\$3 million advanced by the Group) as at 31 March 2011 amounted to about RMB1.3 million (equivalent to approximately HK\$1.6 million). For the two years ended 31 March 2010 and 2011, the net losses before taxation and extraordinary items attributable to YAPE amounted to RMB2.2 million and RMB1.5 million, and the net losses after taxation and extraordinary items attributable to YAPE amounted to RMB2.4 million and RMB1.5 million, respectively.

Since the Group's acquisition of Fanhe (Beijing) Water Investment Co., Ltd. in April 2010 (as disclosed in the Company's announcement dated 12 April 2010), the Group has begun to diversify its business into environmental protection and sewage treatment. Following the Group's acquisition of certain patents in respect of water purification technology and formation of 北京首強創新環保有限公司 (Beijing Shuoqiang Innovative Environmental Protection Co., Ltd.*), a wholly foreign owned enterprise operating under the Group's jointly-controlled entity (as disclosed in the Company's announcement dated 11 August 2011), it is expected that the significance of the sector of environmental protection and sewage treatment to the Group's entire business would increase, while the influence of business arising from trading of vehicles, machinery and equipment would decrease.

In view of the above, the Directors believe the disposal of YAPE would enable the Group to free up resources (in particular, management as well as financial resources) and focus on its emerging business of environmental protection and sewage treatment. Accordingly, the Directors (including all the independent non-executive Directors) consider that the disposal of YAPE is beneficial to the Company and its shareholders as a whole.

The Directors (including the independent non-executive Directors) also consider that the terms of the Disposal Agreement and the Debt Settlement Agreement and the aggregate consideration are fair and reasonable and are in the interest of the Company and its shareholders as a whole.

YAPE made operating losses (before taxation and extraordinary items) of about RMB2.2 million and RMB1.5 million, for year ended 31 March 2010 and 2011, respectively, and it is expected that it would continue to make a loss in the current financial year if YAPE were to remain in the Group. The Group expects there will be positive contribution to the Group's net profit following

the disposal of YAPE whilst the proceeds for the disposal will be applied towards the Group's working capital.

LISTING RULES IMPLICATIONS

As the applicable percentage ratios (within the meaning of the Listing Rules) for the Disposal Agreement and Debt Settlement Agreement taken together exceed 5% but are less than 25%, the Disposal Agreement and the Debt Settlement Agreement together constitute a discloseable transaction for the Company under the Listing Rules.

DEFINITIONS

In this announcement, the following terms shall have the meanings set out below, unless the context requires otherwise:

“Board”	the board of Directors of the Company
“Company”	China Environmental Technology Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the main board of the Stock Exchange
“Debt Settlement Agreement”	the agreement dated 21 September 2011 regarding settlement by the Purchaser on behalf of YAPE of certain indebtedness owing from YAPE to Yardway Motors, which forms part of the Disposal Agreement
“Disposal Agreement”	the share purchase agreement dated 21 September 2011 and entered into between Yardway Motors Limited (as vendor) and the Purchaser (as purchaser in relation to the acquisition of the entire issued share capital /registered capital of YAPE
“Directors”	the directors of the Company
“Group”	collectively, the Company and its subsidiaries
“HK\$”	Hong Kong Dollar, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Third Party”	a person who, to the best of the Directors' knowledge and belief, information and belief having made all reasonable enquiries, is not a connected person of the Company and is a third party independent of and not connected with the Company and its subsidiaries and its connected persons (as defined under the Listing Rules)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC” or “China”	the People's Republic of China

“Purchaser”	北京依擎动力商贸有限公司 (Beijing Yichang Dongli Commerce Company Limited*), a company incorporated in the PRC with limited liability, being the purchaser under the Disposal Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“YAPE”	啟帆未來動力設備(北京)有限公司 (Yardway Advance Power Equipment (Beijing) Co., Ltd.*), a company incorporated in the PRC with limited liability and a wholly owned subsidiary of the Company held indirectly through Yardway Motors, being the vendor under the Disposal Agreement
“Yardway Motors”	Yardway Motors Limited, a company incorporated in Hong Kong with limited liability and a wholly owned subsidiary of the Company

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

Hong Kong, 21 September 2011

As at the date of this announcement, the executive Directors are Mr. Xu Zhong Ping, Mr. Zhang Fang Hong, Ms. Song Xuan and Mr. Xu Xiao Yang; the non-executive Directors are Mr. Ge Ze Min, Mr. Fong Sai Mo and Mr. Xin Luo Lin; and the independent non-executive Directors are Mr. Wong Kam Wah, Dr. Zhu Nan Wen and Professor Zuo Jiane.

** The English names are only English translation or transliteration of their Chinese official names and are for identification purpose only.*

For the purpose of illustration only, (i) amounts denominated in RMB in this announcement have been translated into HK\$ at the rate of RMB1 = HK\$1.212. Such translation should not be construed as a representation that the amounts quoted could have been or could be or will be converted at the stated rate or at any other rates at all.