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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)

**SUBSCRIPTION AND SETTLEMENT
AGREEMENT – ISSUE OF SHARES UNDER
GENERAL MANDATE**

SUBSCRIPTION AND SETTLEMENT AGREEMENT

On 4 October 2021 (after trading hours), the Company entered into the Subscription and Settlement Agreement with the Subscriber, pursuant to which the Company conditionally agrees to issue and the Subscriber conditionally agrees to subscribe for 36,500,000 Subscription Shares at the Issue Price of HK\$0.50 per Subscription Share. The Subscriber shall pay the subscription price at completion by setting off against the Payables to be Settled due by the Group to the Subscriber and the Company shall allot and issue the Subscription Shares to Subscriber as full and final settlement of the Payables to be Settled of the Group.

The Issue Price of HK\$0.50 per Subscription Share represents:

- i. a premium of approximately 96.08% to the closing price of HK\$0.255 per Share as quoted on the Stock Exchange on the date of the Subscription and Settlement Agreement; and
- ii. a premium of approximately 68.92% to the average closing price of approximately HK\$0.296 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Subscription and Settlement Agreement.

The Subscription Shares, which shall rank pari passu in all respect with the existing Shares, will be allotted and issued under the General Mandate. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares. As at the date of this announcement, the Company has not allotted and issued any Shares pursuant to the General Mandate and the General Mandate is sufficient for the allotment and issue of all the Subscription Shares. As such, no further shareholders' approval is required for the allotment and issue of the Subscription Shares.

Completion of the Subscription is subject to the fulfillment of the conditions precedent under the Subscription and Settlement Agreement. As the Subscriptions may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

SUBSCRIPTION AND SETTLEMENT AGREEMENT

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The Details of Amount Owning to the Subscriber

In January 2019, when the Company was in shortage of cash due to the Misappropriation Incident (as defined below), Mr. Xu Jingping, the Chairman of the Company, introduced his former classmate, the Subscriber to the Company, in the hope that he would offer the Company with immediate cash to continue its operations and avoid liquidation.

At the relevant time, Leon Li was the sole director of Pacific Fertility Institutes (HK) Holdings Company Limited (a then indirect non-wholly owned subsidiary of the Company) and Xu Xiao Yang was the chief executive officer and director of the Company. Both of whom were removed from their respective roles in the Group due to their involvement in the suspected misappropriation of the Group's funds (the "Misappropriation Incident"). Please refer to the announcements of the Company dated 17 January 2019, 5 March 2019, 23 June 2019 and 2 July 2019 for further details.

As at the date of the Subscription and Settlement Agreement, the principle amount of the Convertible Bond and other outstanding payables owed by the Group to the Subscriber (or a entity controlled by the Subscriber) were US\$ 7 million and approximately HK\$48.9 million, respectively. The details of the HK\$48.9 million other outstanding payables owed by the Group to the Subscriber as at 30 September 2021 were as follows:

Nature of borrowing	Interest rate	Drawdown date or months	Drawdown amount (equivalent to HK\$)	Maturity Date	Original Currency	Balance as at 30 September 2021:		
						Principal amount (equivalent to HK\$)	Interest	Total amount
Overdue interest from Convertible Bonds	0%	Since Jan 2019	13,115,967	N/A	US\$	13,115,967	-	13,115,967
Loan	12%	29/3/2019	800,000	30/9/2022	HK\$	800,000	258,542	1,058,542
Loan	12%	23/9/2019	17,058,147	31/12/2022	HK\$	18,058,147	4,204,593	22,262,740
		31/3/2021	1,000,000	31/12/ 2022	HK\$			
Loan	15%	27/1/2021	4,564,937	31/1/ 2024	RMB	4,579,760	464,877	5,044,637
Overdue car finance lease monthly payments	0%	Mar to Sep 2021	1,265,460	N/A	RMB	1,265,460	-	1,265,460
Interest free loan	0%	Feb 2019	1,160,000	N/A	HK\$	1,160,000	-	1,160,000
Interest free loan	0%	Apr 2020	1,446,240	N/A	RMB	1,446,240	-	1,446,240
		Jun to Sep 2021	3,470,976	N/A	RMB	3,470,976	-	3,470,976
		Oct 2020	108,468	N/A	RMB	108,468	-	108,468
TOTAL						44,005,018	4,928,012	48,933,030

Since the Group has insufficient cash flow and with reference to the current cash level of the Group and the expected cash flow income for the coming months, the Group is unable to settle the outstanding payables by cash, in particular, the interest portion which had been overdue already, as they fall due or upon they fall due. Therefore, upon arm's length negotiation, the Company and the Subscriber agreed that i) the overdue interest from Convertible Bonds amounting to HK\$13,115,967, ii) all the outstanding interest from loans amounting to HK\$4,928,012, and iii) the principle amount of HK\$206,021 of the interest free HK\$ loan (hereinafter collectively known as "Payables to be Settled"), shall be settled by the Subscription Shares.

The Subscriber shall pay his subscription money at the completion of the Subscriptions by setting off against the Payables to be Settled owing by the Group and the Company shall allot and issue the Subscription Shares to Subscriber as full and final settlement of the Payables to be Settled. Upon completion of the Subscriptions, and the allotment and issue of the Subscription Shares, the repayment obligations of the Group for the outstanding payables in relation to the amount of Payables to be Settled shall be fully discharged. Subscriber agree to waive all its rights absolutely against the Group for any claim whatsoever in relation to the Payables to be Settled.

The principal terms of the Subscription and Settlement Agreement:

Date:	4 October 2021
Parties:	(i) the Company as issuer (ii) the Subscriber as subscriber
Subscription Shares:	36,500,000 Shares
Issue price:	HK\$0.5 each
Consideration payable:	HK\$18,250,000

Information of the Subscriber

The Subscriber is also the only holder of the Convertible Bond issued by the Company. As such, the Company also previously entered into agreements with the Subscriber relating to Convertible Bonds issued by the Company. For more details thereof, please refer to the announcements of the Company dated 19 July 2021 and 27 September 2021 and the circular issued by the Company dated 8 September 2021.

To the best of the knowledge, information and belief of the Directors having made all reasonable inquiries, as at the date of this announcement, the Subscriber is an Independent Third Party to the Company.

Subscription Shares

The 36,500,000 Subscription Shares represent (i) approximately 20% of the existing issued share capital of the Company as at the date of this announcement; and (ii) approximately 16.67% of the issued share capital of the Company as enlarged by the allotment and issue of all the Subscription Shares.

The total consideration of the Subscription Shares is HK\$18,250,000.

Issue Price

The Issue Price of HK\$0.50 per Subscription Share represents: (i) a premium of approximately 96.08% to the closing price of HK\$0.255 per Share as quoted on the Stock Exchange on the date of the Subscription and Settlement Agreement; and (ii) a premium of approximately 68.92% to the average closing price of approximately HK\$0.296 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Subscription and Settlement Agreement.

The Issue Price was arrived after arm's length negotiation between the Company and the Subscriber with reference to the market condition, the prevailing market price and the par value of the Shares. The Directors consider that the Issue Price and the terms of the Subscription and Settlement Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

General Mandate to issue the Subscription Shares

The Subscription Shares will be allotted and issued pursuant to the General Mandate. The maximum number of Shares that can be issued under the General Mandate is 36,503,587 Shares. As at the date of this announcement, the Company has not allotted and issued any Shares pursuant to the General Mandate and the General Mandate is sufficient for the allotment and issue of all the Subscription Shares. As such, the issue of the Subscription Shares is not subject to further Shareholders' approval. The General Mandate will be utilised as to approximately 99.99% upon the allotment and issue of all the Subscription Shares.

Conditions of the Subscription and Settlement Agreement

Completion of the Subscription is conditional upon the listing of and permission to deal in the Subscription Shares on the Main Board being granted by the Stock Exchange (whether such grant is conditional or not). If the condition as set out in the above is not fulfilled on or before 31 October 2021, the obligations and liabilities of Subscriber and the Company under the Subscription and Settlement Agreement shall cease and terminate, and the Subscriber and the Company shall be released from all rights and obligations save for any antecedent breach thereof.

Completion

The Subscription and Settlement Agreement shall complete within three (3) Business Days after the day on which the conditions set out above are fulfilled (or such other date as may be agreed between the parties to the respective Subscription and Settlement Agreement in writing).

Ranking and application for listing

The Subscription Shares will be issued under the General Mandate and will rank pari passu in all respects among themselves and with the existing Shares in issue on the date of completion of the Subscriptions. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

EQUITY FUND RAISING ACTIVITIES OF THE COMPANY DURING THE PAST 12 MONTHS

There has not been any other equity fund raising exercise made by the Company in the 12 months immediately preceding the date of this announcement.

CHANGES TO THE SHAREHOLDING STRUCTURE

The shareholding structures of the Company immediately before and immediately after completion of the Subscription are set out as follows:

Shareholders	Capacity / Nature of Interest	Immediately before completion of the Subscription		Immediately after completion of the Subscription		Immediately after completion of the Subscription and full conversion of the Convertible Bond	
		No. of shares	% of shareholding (approximately)	No. of shares	% of shareholding (approximately)	No. of shares	% of shareholding (approximately)
Xu Zhongping (Note 1)	Interest held by a controlled corporation	50,725,000	27.79	50,725,000	23.16	50,725,000	15.46
	Beneficial owner	2,204,921	1.21	2,204,921	1.01	2,204,921	0.67
Yang Baodong (Note 2)	Beneficial owner	39,600	0.02	39,600	0.02	39,600	0.01
Hu Yueyue (Note 3)	Beneficial owner	400,000	0.22	400,000	0.18	400,000	0.12
Public		129,148,417	70.76	129,148,417	58.97	129,148,417	39.35
Zhang Zihong	Beneficial owner						
		-	-	36,500,000	16.67	145,700,000	44.39
		182,517,938	100.00	219,017,938	100.00	328,217,938	100.00

Notes:

- These 50,725,000 existing Shares were held under the name of Gentle International Holdings Limited ("Gentle"). Classy Jade Limited owns 60% of the issued share capital of Gentle. Mr. Xu Zhongping ("Mr. Xu ZP"), an executive Director, is the sole shareholder of Classy Jade Limited. Mr. Xu ZP was therefore deemed to be interested in the said 50,725,000 existing Shares held by Gentle under Part XV of the SFO.
- Mr. Yang Baodong is an executive Director.
- Ms. Hu Yueyue is an executive Director.
- Certain figures may not add up due to rounding.

As of today, none of the Convertible Bonds were converted. In light of the fact that the Subscriber will become the Company's controlling shareholder upon full conversion of the Convertible Bonds, the Company confirms that (i) the Subscription will have no impact on its existing business; and (ii) it has no plan to dispose of and/or downsize its existing businesses and introduce new businesses.

REASONS FOR THE SUBSCRIPTION AND USE OF PROCEEDS

As of today, the Company does not have adequate cash to repay the Payables to be Settled. The Subscription and Settlement Agreement in effect allows the Company to settle the overdue amount without deploying its cash reserves and to provide flexibility to the Company's working capital management and avoid potential liquidity issue. The Subscription and Settlement Agreement was arrived at after arm's length negotiations between the Company and the Subscriber.

The Directors are of the view that the settlement of the Payables to be Settled by way of Subscriptions would not result in significant cash outflow of the Company while reducing the indebtedness of the Company. Accordingly, the Directors consider the terms of the Subscription and Settlement Agreement is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

DEFINITION

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

“AGM”	the annual general meeting of the Company held on 26 May 2021
“Board”	the Board of the Directors
“Business Day(s)”	any day (other than a Saturday or Sunday or public holiday or a day on which a typhoon signal no. 8 or above or black rainstorm signal is hoisted in Hong Kong between 9:00 a.m. and 5:00 p.m.) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
“Company”	China Environmental Technology Holdings Limited (Stock Code: 646), a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to this term under the Listing Rules
“Convertible Bonds”	the convertible bonds in the principal amount of US\$7,000,000 (equivalent to HK\$54.6 million) issued by the Company on 15 January 2018
“Director(s)”	director(s) of the Company
“General Mandate”	the general mandate granted to the Directors pursuant to an ordinary resolution of the Company passed at the AGM to allot, issue and deal with new Shares not exceeding 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of the AGM, pursuant to which a maximum of 36,503,587 new Shares may fall to be allotted and issued as at the date of this announcement
“Group”	the Company and its subsidiaries (from time to time)
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	party who is independent of, and not connected with the Directors, chief executive or substantial shareholders of each of the Company, its subsidiaries and their respective associates, in accordance with the Listing Rules
“Issue Price”	HK\$0.50 per Subscription Shares
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“Main Board”	the Main Board stock market operated by the Stock Exchange
“Payables to be Settled”	HK\$18,250,000, the aggregate amount of i) the overdue interest from Convertible Bonds amounting to HK\$13,115,967, ii) all the outstanding interest from loans amounting to HK\$4,928,012, and iii) the principle amount of HK\$206,021 of the interest free HK\$ loan; all of which are payable by the Group to the Subscriber
“RMB”	Reminbi, the lawful currency of the People’s Republic of China
“Share(s)”	ordinary share(s) of HK\$0.5 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Subscriber”	<p>Mr. Zhang Zihong, an Independent Third Party and the only holder of the Convertible Bonds.</p> <p>Mr. Zhang Zihong, obtained a Bachelor of Laws from Peking University in 1984. Mr. Zhang taught in China University of Political Science and Law for the period from 1984 to 1986. He then worked in a state-owned financial institution from 1987 to 1991. Since 1992, Mr. Zhang started his own businesses, mainly in property development sector. Mr. Zhang was an executive director of Dadi International Group Limited (stock code 08130) (formerly known as Zhi Cheng Holdings Limited), which was listed on GEM of The Stock Exchange of Hong Kong Limited, from 3 April 2018 to 22 March 2019.</p>
“Subscription and Settlement Agreement”	the conditional subscription and settlement agreement dated 4 October 2021 and entered into between the Company and Subscriber in relation to the Subscription
“Subscription Shares”	36,500,000 new Shares to be subscribed by Subscriber pursuant to the Subscription and Settlement Agreements
“Subscription”	the issuance of the Subscription Shares
“subsidiary(ies)”	subsidiary(ies) of the Company
“substantial shareholder”	has the meaning ascribed thereto under the Listing Rules
“US\$”	United States dollar(s), the lawful currency of the United States of America
“%”	per cent

Completion of the Subscriptions is subject to the fulfillment of the conditions precedent under the Subscription and Settlement Agreements. As the Subscriptions may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

By order of the Board
China Environmental Technology Holdings Limited
Xu Jinping
Chairman

Hong Kong, 4 October 2021

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