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SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED

(Incorporated in the Republic of Singapore on 2 October 2001)
Company Registration Number 200106480Z

RELEASE OF PRICEWATERHOUSECOOPERS REPORT

1. The Independent Directors of the Company, Mr Goh Chee Wee and Dr Wong Chiang Yin, refer to the announcement released on 27 November 2009 by the Executive Directors of the Company (the "**27 November 2009 Announcement**").
2. The Independent Directors' responses to the allegations made by the Executive Directors in the 27 November 2009 Announcement have already been set out in the announcements made by the Independent Directors on 13 November 2009 and 23 November 2009 and in any event, the Independent Directors consider these allegations as being baseless. The Independent Directors see no merit in repeating their earlier responses.
3. The Independent Directors have, in their capacity as the Audit Committee of the Company, received a report issued by PricewaterhouseCoopers ("**PwC**") concerning the Company's affairs, in particular, the recent significant cash transactions of the Company ("**PwC Report**"). The PwC Report raises matters of grave and immediate concern.
4. The Independent Directors set out below a summary of the key findings contained in the PwC Report for the attention of the Company's shareholders.

Executive summary of PwC findings to date

- (A) Payment for alleged purchase of Denox raw materials
5. Based on documents provided to PwC by the management of the Company's subsidiaries in the People's Republic of China ("**PRC Management**"), China Energy Environment Holdings ("**China Energy**"), one of the Company's wholly-owned subsidiaries, made a payment of approximately **JPY 920 million (approx. SGD 14 million or approx. RMB 66 million)** on 22 May 2009 allegedly to a Japanese company known as JGC Catalysts and Chemicals ("**JGCCC**").
6. The PRC Management informed PwC that the Xiamen International Bank ("**XIB**") account from which the **JPY 920 million** was purportedly paid



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required only a single signatory – Mr Sun Jiangrong, the Chairman and Chief Executive Officer ("CEO") of the Company.

7. The PRC Management informed PwC that this payment was made by China Energy on behalf of another wholly-owned subsidiary of the Company, Fujian Thumb Environmental Facilities Co Ltd ("**Thumb Facilities**"), for the purchase of Denox raw materials from JGCCC. The PRC Management provided PwC with a copy of the purchase contract which was purportedly signed by the authorised signatories of Thumb Facilities and JGCCC ("**Purchase Contract**").
8. The PRC Management informed PwC that no raw materials relating to the Purchase Contract had been received as at 26 August 2009. Neither was there any acknowledgement by JGCCC of the **JPY 920 million** it received from China Energy, nor any document retained by China Energy evidencing the payment to JGCCC.
9. After PwC approached JGCCC to enquire into the alleged transaction, JGCCC replied on 15 September 2009 to say that it had not entered into the Purchase Contract and that it had not received any payment of **JPY 920 million** from China Energy. JGCCC also informed PwC that there was no employee in JGCCC bearing the name of the alleged JGCCC representative who signed the alleged Purchase Contract.
10. PwC had previously requested the PRC Management to provide them with the necessary authorisation letter to allow them to liaise directly and independently with the bank from which the payment of **JPY 920 million** had been purportedly made so that PwC could, amongst other things, verify the bank documents as part of PwC's bank confirmation exercise. The PRC Management refused to provide such an authorisation letter and instead claimed that they (the PRC Management) had already provided an authorisation letter to the relevant personnel in the bank directly to expedite PwC's bank confirmation exercise. No other explanation was provided by the PRC Management for refusing to provide PwC with the requested authorisation letter.
11. Subsequently, the PRC Management arranged for PwC to visit the XIB Quanzhou representative office, although the bank document provided to



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PwC by the PRC Management suggests that the bank account from the which the payment of approximately **JPY 920 million** had purportedly been made was with XIB, Xiamen Branch. The PRC Management also accompanied PwC on their visit to the XIB Quanzhou representative office.

12. On arriving at the XIB Quanzhou representative office:
 - a. PwC discovered that a specific bank officer had been pre-arranged to meet with them and this officer already had bank statements and documents prepared for PwC to examine. PwC was unable to verify the information contained in these statements and documents with the bank's IT systems;
 - b. The officer refused to provide his name to PwC or answer any of PwC's questions relating to his identity or the statements and documents provided;
 - c. There appeared to be only three staff in the entire representative office at the time of PwC's visit - the "branch manager" (as he introduced himself), the receptionist and the officer who assisted PwC; and
 - d. The "branch manager" was not willing to answer any of PwC's questions relating to China Energy's bank account with XIB and subsequently forced PwC off the premises, pulling down the roller-shutter.
13. Despite PwC's repeated requests to the PRC Management and the Company's CEO, neither the PRC Management nor the Company CEO agreed to provide or provided PwC with the necessary authorisation letter to obtain information directly and independently from XIB.
14. PwC did not see any formal approval by the Company's Board for the payment of **JPY 920 million** although the Independent Directors had instructed the Executive Directors on 11 May 2009 that all payments above SGD 500,000 had to be properly authorised. PwC understands also that the Independent Directors were only informed of the **JPY 920 million** payment after it had been made.



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- (B) Payments for investments in waste power projects
15. Based on the bank documents provided to PwC by the PRC Management, Fujian Fuda Desai Environmental Protection Co Ltd ("**Desai**"), a wholly owned subsidiary of the Company, paid a total of approximately **RMB 230 million (approx. SGD 50 million)** to various parties from 1 January 2009 to 30 June 2009 to invest in four separate waste power plant projects. These payments were made from Desai's bank account with Bank of Communications, Fuzhou branch.
 16. PwC understands that any payments from the Bank of Communications require approvals in the form of two seals on the relevant bank instructions before the payments can be processed. The PRC Management informed PwC that one of these two seals was held by the Accountant of Desai and the other by a member of the PRC Management. However, the PRC Management also informed PwC that the CEO is the Legal Representative of Desai and that all payments require his prior approval.
 17. Based on the documents provided to PwC and their discussions with the PRC Management, PwC understands that these waste power plant projects involved:
 - a. Obtaining rights from rubbish dumpsite operators to harvest methane gas from the rubbish dumpsites ("**Dumpsite Rights**"); and
 - b. Constructing plant facilities on the dumpsite to extract, purify and convert the harvested methane gas into electricity for sale.
 18. Based on PwC's review, the **payments post-11 May 2009** amounted to approximately **RMB 190 million (approx. SGD 41 million)**. These payments appear to have been made without the prior formal approval of the Company's Board and despite the Independent Directors' instruction that all major payments (above SGD 500,000) had to be properly authorised. PwC further understands that the Independent Directors only came to be aware of these payments in the course of PwC's review.
 19. Based on the documents provided to PwC by the PRC Management, Desai does not appear to have commissioned a full and independent financial due diligence exercise before entering into these investments. The PRC



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Management was also not able to provide PwC with detailed plans of the total projected costs of these investments, or whether the Company and its subsidiaries have sufficient funds to complete the projects. PwC also did not come across any evidence that a legal due diligence exercise had been carried out by Desai or the PRC Management.

20. Although monies had been paid by Desai for the acquisition of the Dumpsite Rights, PwC did not see any documents indicating that the legal and beneficial ownership of such Dumpsite Rights had been transferred to Desai.
21. According to the documents provided to PwC by the PRC Management, it appears that the construction for certain projects was supposed to have been completed by April/May 2009. However, the PRC Management informed PwC that no significant work had been carried out on any of the projects as at 26 August 2009. This is despite the significant outflow of funds from Desai, purportedly for the acquisition of the Dumpsite Rights and to construct the plant facilities.
22. Further, there does not appear to have been any formal supplier tender process undertaken for these projects. PwC discovered that the power generator contracts and subcontracting work contracts for these projects had purportedly been awarded to contractors with asset sizes and operation levels significantly lower than the stipulated contract sums. PwC was not provided with any documents or analysis to support the basis of selection of these contractors.
23. In this regard, the PRC Management informed PwC that the power generators had not been delivered as at 26 August 2009, although 70% of the contract sums had been paid some months ago. PwC was also unable to locate any documentary acknowledgements of receipt of such payments from the sub-contractors.
24. PwC attempted to independently verify the bank documents which were provided to them by the PRC Management by visiting Bank of Communications, Fuzhou branch. During both their visits, PwC was accompanied by members of the PRC Management.
25. On arriving at Bank of Communications, Fuzhou branch:



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- a. PwC discovered that a specific bank officer had been pre-arranged to meet with them. This officer's name card identified him as a personal banking relationship manager, and not a corporate banking relationship manager;
 - b. The bank officer did not provide PwC with the bank statements and documents immediately, but only provided them with these documents on the following day; and
 - c. The bank officer refused to allow PwC permission to approach other bank staff to confirm that the documents provided to PwC had indeed been printed from the bank's IT system.
26. Accordingly, PwC is unable to determine whether the payments made by Desai were indeed paid to the rightful parties, as represented by the PRC Management, and in accordance with the various contracts which had been provided to PwC.
27. Despite PwC's subsequent request, the PRC Management refused to provide PwC with the necessary authorisation letter to enable PwC to perform a fresh confirmation exercise with Bank of Communication.

(C) Other findings

28. Thumb Facilities made instalment payments between **1st January 2009 and 30th June 2009** amounting to **RMB 46.50 million (approx. SGD 10 million)** to purchase "fixed assets" for the Denox Catalysts Manufacturing Plant.
29. On both the site visits by PwC, PwC was unable to inspect up close the fixed assets. As a result, PwC could not conclusively determine if the fixed assets indicated to them by the technical personnel were indeed the Denox "fixed assets". PwC were not provided with any documentation or analysis to suggest why certain of the purchase contracts for fixed assets were awarded to a contractor with asset size and operation level that is significantly lower than the stipulated contract sum. PwC were not able to review any competitive tenders. PwC are therefore unable to comment on the reasonableness of the costs of the Denox "fixed assets" purchased.



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30. Fujian Weidong EPT Co Ltd, a wholly-owned subsidiary of the Company, made two interest free loans amounting to **RMB 50 million (approx. SGD 10 million) and RMB 5 million (approx. SGD 1 million)** respectively to two parties that do not appear to be related to the Company.

31. PwC did not come across any documentation evidencing that the Company's Board had been informed of or approved these loans.

(D) Caveats by PwC

32. PwC qualified its findings to date by stating that where findings, conclusions or inferences (adverse or otherwise) had been drawn against persons and/or entities, such findings, conclusions or inferences were not made known to the persons and/or entities implicated, and such persons and/or entities have therefore not had the opportunity to comment on and address these findings, conclusions or inferences.

33. PwC explained that such an opportunity had not been given to the persons/entities implicated because:

a. They (PwC) had been hampered in the performance of their work and were unable to complete their work as they were not able to independently obtain bank statements from a number of banks in a manner that was satisfactory to them. Further, despite repeated requests, **the CEO**, who is the authorised signatory for the accounts in the relevant banks, **declined to provide PwC with the necessary authorisation letters** to obtain the bank statements directly and independently from the banks. Given the **lack of forthright cooperation on the part of the PRC Management and CEO**, PwC is of the view that the value of undertaking the further step of distributing its findings to the relevant persons is limited.; and

b. The authorities in several countries have been informed of PwC's findings and PwC understands that investigations by those authorities are still on-going.

34. PwC further commented in its letter setting out the findings to date that its findings are primarily based on the results of the work it carried out in accordance with the scope as set out in its engagement letters with the



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Company. The findings, drawn primarily on interviews and review of documents, are based on information made available to PwC up to 15 September 2009. New information, if they come to light, may have a bearing on the findings to date. PwC has also not commented on, reviewed or assessed the validity/enforceability of documents provided to them.

35. The Independent Directors are extremely concerned with the findings contained in the PwC Report. The Independent Directors note in this regard that the findings in the PwC Report call into question the conduct of the Executive Directors, and in particular the conduct of Mr Sun Jiangrong, the Chairman and CEO of the Company.
36. The Independent Directors will take all necessary and available steps to safeguard the Company's assets in light of PwC's findings and keep the Company's stakeholders apprised of all material developments in this regard.

Company's money in the People's Republic of China

37. The Executive Directors had, in their announcements on 18 and 27 November 2009, assured the Independent Directors and the shareholders of the Company that they were willing and prepared to transfer the Company's cash reserves amounting to approximately **SGD 14 million** from XIB to the Company's Singapore account with HSBC ("**Singapore Account**") on certain conditions.
38. To avoid further debate on this issue, the Independent Directors have agreed to these conditions. In the circumstances, the Independent Directors fully expect the Executive Directors to remit the **SGD 14 million** from XIB to the Company's Singapore Account without any further delay.
39. The Independent Directors also note that Mr Sun Jiangrong had assured Mr David Gerald, the President of the Securities Investor Association (Singapore), that a sum of **SGD 40 million** is being held on behalf of the Company in the People's Republic of China. In their latest announcement on 3 December 2009, the Executive Directors appear to have changed their position with regards to what Mr Sun Jiangrong had told Mr David Gerald. In particular, the Executive Directors said:

"The EDs can confirm that the Group has at least RMB70 million [approx. SGD 14 million] in its various bank accounts in the People's Republic of China ("PRC"). The EDs are not able at this time to confirm the exact amount of cash in RMB and the details of the bank accounts in which these RMB funds are deposited.



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The EDs wish to clarify that when the Chairman mentioned the sum of S\$40 million in his unscheduled telephone conversation with Mr David Gerald of SIAS, he spoke without reference to specific records and meant to refer to an estimated aggregate amount which included trade and other receivables."

40. The Independent Directors are surprised and troubled by the Executive Directors' abrupt change in position and urge the Executive Directors to immediately inform the Company and its shareholders of the exact amount of cash held by the Company and its subsidiaries in the People's Republic of China (with all relevant documentary proof) and, in any event, remit these monies immediately to the Company's Singapore Account.
41. Finally, in view of the serious findings contained in the PwC Report which call into question the conduct of the Executive Directors, and the sudden shift in the Executive Directors' position, the Independent Directors repeat and reiterate their earlier request that the Executive Directors resign immediately from all positions in the Board and the Company.

This announcement is made by the Independent Directors of the Company.

The Independent Directors are also the sole members of the Audit Committee of the Company. Mr Goh Chee Wee is the Audit Committee Chairman and Dr Wong Chiang Yin is presently the only other member of the Audit Committee.