



CHINA ENVIRONMENT LTD.
(Registration No.: 200301902W)

REPLY TO SGX QUERY

The Board of Directors (the “**Board**”) of China Environment Ltd. (the “**Company**”, and together with its subsidiaries, collectively the “**Group**”) would like to respond to the following queries raised by the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) on 28 October 2016 and 2 November 2016 (each, a “**SGX Query**”) as follows:

SGX Queries raised on 28 October 2016

It was disclosed that the Company had on 19 October 2016 received Letter of Demand from Landlord and Major Shareholder Huang Min for the payment of overdue rental arrears of RMB 3.2 million. It was disclosed on 25 October 2016 that the “Landlord has locked the premises of Fujian Dongyuan Environmental Protection Co., Ltd.” and “Due to the lock-out, the Company is unable to access the office and all the accounting and financial records that are housed in the premises”.

SGX Query 1

Please advise circumstances leading to the Letter of Demand and background of the rental arrears.

Company’s Response to SGX Query 1

The rental agreement was signed on 5 August 2007 for the Company to rent its office premises and factory space in Longyan City, Fujian from Fujian Mintai Environmental Protection Co Ltd at a monthly fee of RMB 53,250. This amount was subsequently raised to RMB 203,318.40 from 1 January 2015 onwards.

Fujian Mintai Environmental Protection Co Ltd was considered to be an Interested Party as it was owned by the Group's major Shareholder, Mr Huang Min and his spouse,

As both companies shared a common controlling shareholder, there was no attempts to pay the rental arrears, nor there are any claims or requests and insistence for payments from Fujian Mintai Environmental Protection Co Ltd for the rental arrears until the Company receive the letter of demand on 14 October 2016.

SGX Query 2

Please advise as to whether the Company and the Board have taken reasonable care to safeguard all the accounting and financial records that were housed in the premise in view of Letter of Demand.

Company's Response to SGX Query 2

To the best knowledge of the current board and management, the location where such records are kept has been there for several years and continued to be so until when the Company was served a letter of demand and was locked out by the landlord.

The company will be writing to Fujian Mintai to request for a grace period until the company is able to meet the rental demands.

The Company is also planning to move the accounting and financial records to another location.

Meanwhile, the current board understands the accounting and financial records are kept in the secured office of the Accounts department under lock.

SGX Query 3

Please advise the impact of this development on the Company's ability to restate financial statements for FY2013 and FY2014, and prepare financial statements for FY2015.

Company's Response to SGX Query 3

The recent lockout and power supply cut due to rental in arrears have created disruption to the local staff and Singapore management who are trying to prepare for the audit to be done.

In addition, one of our key accounting personnel, who handled all the major bookkeeping functions and coordinating the sales and purchasing contracts had also resigned recently.

Due to the above reasons, we believe the original timeline to restate the financial statements for FY2013 and FY2014 and prepare financial statements for FY2015 may have to be delayed.

SGX Query 4

Please advise whether the operations of Fujian Dongyuan Environmental Protection Co, Ltd has been, and/or will be affected by the lock-out of the premise by the Landlord.

Company's Response to SGX Query 4

Our administration and accounting functions in Longyan City, Fujian are affected by the lock-out of the premises by the Landlord. However, our operations in Anhui Dongyuan Environmental Protection Co Ltd are not affected as the production facility and office in Bengbu City, Anhui are owned by the Company.

SGX Query 5

Please advise what action will the Company take to resolve the Letter of Demand and retrieve all the accounting and financial records that were housed in the premise.

Company's Response to SGX Query 5

We intend to contact Fujian Mintai Environmental Protection Co Ltd to ask for grace period for repayments.

We are also planning to move the documents to another location.

Meanwhile, we are in constant contact with the property management informally so that we are able to gain access to the office to retrieve the accounting and financial records.

SGX Queries raised on 2 November 2016

It was disclosed that (a) the Company's wholly-owned PRC subsidiary, Anhui Dongyuan Environment Protection Co., Ltd ("AHDY") has received a letter of demand dated 19 October 2016 ("First Letter of Demand") from the solicitor of Wuyi Jiufeng Anzhuang Engineering Co. Ltd ("WYJF"), a subcontractor of AHDY, on the alleged outstanding amount of RMB 1.45 million due to WYJF; and (b) the Company's wholly-owned subsidiary, Fujian Dongyuan Environment Protection Co., Ltd ("FJDY") has received a letter of demand dated 24 October 2016 ("Second Letter of Demand") from solicitor of Chen Bing on an alleged amount of RMB 5 million due to him. In the First and Second Letters, the relevant solicitors informed that they shall take litigation actions should the relevant amounts not be paid by 20 November 2016 and 4 November 2016 as prescribed therein respectively

SGX Query 1

Please advise the circumstances leading to the First Letter and Second Letters of Demand and background of the outstanding amounts of RMB1.45 million and RMB 5,000,000 respectively.

Company's Response to SGX Query 1

The first demand letter received is for amount allegedly due to Wuyi Jiufeng Anzhuang for subcontract work done on Anhui DongYuan fabrication projects.

Wuyi Jiufeng Anzhuang has resorted to legal action as they are unwilling to extend further credit term to the Company.

The second demand letter received is from Chen Bing, an employee of the company. He allegedly lent RMB500,000 to the company on 23 September 2015. Our general manager, Ray Ng, had tried to investigate the source of his funds by requesting for the employee Chen Bing's bank statements but has received no satisfactory response.

The loan from Chen Bing appeared to be used to pay off a RMB 5,000,000 loan from Bank of China. However, we are not able to establish the purpose of the Company bank loan of RMB 5,000,000 nor how Chen Bing, a full time employee of the Company drawing less than RMB 4,000 monthly is able to lend the Company RMB 5,000,000 or his motive for lending the Company the said amount.

SGX Query 2

Please provide the Board's assessment of impacts of the First and Second Letters of Demand on the Group's financial performance and operations and the proposed actions.

Company's Response to SGX Query 2

Based on the projected incoming cashflows as against the immediate payment requirements, the two subsidiaries are unable to meet the various demands that have recently surfaced.

In summary, the subsidiaries are likely to be forced in liquidation if the negotiations with the various creditors fail to produce satisfactory results.

BY ORDER OF THE BOARD

China Environment Ltd.

Norman Winata
Executive Chairman
4 November 2016