



## CHINA ENVIRONMENT LTD.

(Registration No.: 200301902W)

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### RESPONSE TO SGX QUERIES ON ANNOUNCEMENTS MADE ON 9 OCTOBER 2015 AND 12 OCTOBER 2015 AND 13 NOVEMBER 2015

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With reference to the announcements made by the Company on 9 October 2015, 12 October 2015 and 13 November 2015. The Board of Directors of China Environment Ltd. (the "Company") wishes to provide further information by elaborating on matters raised by the Singapore Securities Exchange Trading Limited (the "SGX-ST").

#### **SGX-ST's Queries:**

1. The Company disclosed on 9 October 2015 that a wholly owned subsidiary, Fujian Dongyuan Co., Ltd ("FJDY") has received a repayment reminder letter from the solicitors of Citic Bank Fen Co Ltd Long Yang Branch (the "CITIC ") in relation to two bank loans comprising an principal amount of RMB 43,559,002.07 and accrued interest of RMB 617,827.13 from CITIC. Upon receipt of the Reminder Letter, the management of the Group ("Management") had been in negotiations with CITIC to extend the Repayment Date beyond 30 September 2015.

On 8 October 2015, CITIC notified the Management that the Repayment Date would not be extended, and accordingly, the Outstanding Loans remain due and owing. The Management will continue to negotiate with CITIC on the repayment terms of the Outstanding Loans.

The Company further disclosed on 12 October 2015 in relation to a Proposed Placement that 48% of net proceeds of S\$ 3.1 million from the placement, which is estimated to be S\$ 1.5 million, will be used to partially repay the aforesaid Outstanding Loans from CITIC. As the repayment of S\$ 1.5 million account for a relatively small proportion of the Outstanding Loan, please assist in the following:

- i) Please disclose whether the aforesaid partial repayment of S\$ 1.5 million has been made; and
- ii) Please disclose the current status of the negotiations between the Company and CITIC as required by Listing Rule 704(32); and
- iii) Please disclose whether the Company has made immediate announcement when such funds are materially disbursed and whether such a use is in accordance with the stated use and in accordance with the percentage allocated in the announcement; and

iv) Please disclose whether there is any material deviation from the stated use of proceeds, and whether the issuer has announced the reasons for such deviation as required by Listing Rule 704(30).

2. The Company represented on page 15 that “Trade and bills receivables balance amount to RMB 775.1 million as at 30 September 2015, **increased by RMB 115.0 million** from RMB 660.1 million as at 31 December 2014.” It is also noted in the financial position statements that “Other receivables, deposits and prepayment” **decreased by RMB 121.86 million** from RMB 167.434 million as at 31 December 2014 to RMB 45.569 million as at 30 September 2015.

With regard to the above, please assist in the following:

i) Provide an explanation for the variances in the “Trade and bills receivables balance” and “Other receivables, deposits and prepayment”, and reconcile these variances to the changes in the relevant items as reflected in the cash flow statements;

ii) Provide details and breakdown of Trade and bill receivable balance of RMB 775.1 million as at 30 September 2015 and the Board’s opinion on the recoverability of such Trade and bill receivable as well as the basis of such opinion;

iii) Provide information on the credit terms extended to customers;

iv) Confirm if the amount owing from the customers are still current or past due;

v) For debts that are past due, provide the Board’s confirmation if any provision for the doubtful debt has been made and the basis of the Board’s decision;

vi) What is the amount of the provision of doubtful debts as at 30 September 2015? Provide the Board’s opinion on the adequacy of the provision of doubtful debts.

3. Paragraph 1.(b)(ii) states that “RMB70.5 million of the short-term borrowings were not secured by the Company’s assets. These short-term borrowings were guaranteed or secured by:

a) RMB27.0 million of the short-term borrowings was guaranteed by one of the Company’s directors and secured by the land use rights and leasehold buildings of a related party, Fujian Mintai Environmental Protection Co., Ltd.; and

b) RMB43.5 million of the short-term borrowings was guaranteed by one of the Company’s directors and his spouse. All the securities and guarantees mentioned above were provided free-of-charge to the Group.”

In this regard, please assist in the following:

i) Confirm if the Company and /or its subsidiaries have provided any guarantee for loans owing

by companies outside the Group. If yes, please provide details of the borrowings amount, guarantor and the guaranteed amount; and

ii) Disclose the relationship between the Company, directors and/ or substantial shareholders of the Company and abovementioned Fujian Mintai Environmental Protection Co., Ltd.

4. According to Paragraph 1(c), there is a decrease of RMB 13.5 million in deposit restricted –in- use, please disclose the nature of this deposit restricted-in-use and the reasons.

#### **Company's responses to SGX-ST's Queries:**

##### **Response to SGX-ST Query (1)**

- i) The Company has transferred S\$1.5 million to FJDY on 20 November 2015. The aforesaid repayment has not been made as FJDY is still in the midst of performing exchange settlement before the fund could be withdrawn and be repaid to CITIC.
- ii) The outstanding amounts due to CITIC is approximately RMB44 million. The Loans are guaranteed personally by Mr Huang Min, the Executive Chairman of the Group, and his spouse.

FJDY has just negotiated with CITIC to make repayment of approximately RMB14 million to CITIC. The balance of RMB30 million will be refinanced and secured by FJDY's and Anhui Dongyuan Environmental Protection Co., Ltd's (AHDY) assets. AHDY is a wholly owned subsidiary of FJDY. CITIC is currently in the midst of processing the refinancing documents.

The repayment of RMB14 million will come from the RMB6.75 million placement proceed (approximately S\$1.5 million), RMB6.75 million (approximately S\$1.5 million) unsecured loan to be borrowed from an affiliate company and the remaining RMB0.5 million from FJDY's working capital.

The affiliate company is wholly owned by the daughter of Mr Huang Min.

- iii) The Company received the placement proceed from OCBC Securities Pte Ltd, the placement agent of the latest private placement on 16 November 2015. As the proceed has not been used so far since the date of receipt, the Company has not made any announcement. The Company will make immediate announcement when the placement proceed has been materially disbursed and will announce whether such a use is in accordance with the stated use and in accordance with the percentage allocated in the announcement.

- iv) There is no material deviation from the stated use of proceeds. If there is any deviation from the stated use of proceeds, the Company will announce the reasons for such deviation as required by Listing Rule 704(30).

## Response to SGX-ST Query (2)

### i) (a) Trade and Bills Receivables

	30 September 2015	31 December 2014	Variance
	RMB'000	RMB'000	RMB'000
<b>Trade receivables</b>			
<b>-Billed</b>	561,673	495,984	65,689
<b>-Unbilled</b>	193,992	144,721	49,271
<b>-Due from customers on construction contract</b>	19,102	16,033	3,069
	774,767	656,738	118,029
<b>Bill receivables</b>	350	3,395	-3,045
	775,117	660,133	114,984

Trade and bills receivables balance amounted to RMB775.1 million as at 30 September 2015, increased by RMB115.0 million from RMB660.1 million as at 31 December 2014. Included in the trade and bills receivables were bills receivables of RMB0.4 million (31 December 2014: RMB3.4 million) and retention monies from completed projects, which amounted to RMB97.5 million (31 December 2014: RMB82.4 million).

The increase in trade receivables was due to overall slower debt collection as a result of tighter government credit control in PRC. This has resulted in a slowdown of a lot of our customers' projects such as those from power generation, iron and steel mills and chemical plants. As our products only form a small part of our customers' overall projects, a majority of the amounts outstanding are not past due until our customers are able to perform testing over several phases during the installation process and final commissioning of our products.

**(b) Other Receivables, Deposits and Prepayments**

	30 September 2015	31 December 2014	Variance
	RMB'000	RMB'000	RMB'000
<b>Advances to a sub-contractor</b>	-	127,382	-127,382
<b>Advance payments to suppliers</b>	31,321	26,959	4,362
<b>Other receivables</b>	14,033	12,906	1,127
<b>Deposits</b>	175	174	1
<b>Prepayments</b>	40	13	27
	<u>45,569</u>	<u>167,434</u>	<u>-121,865</u>

Other receivables, deposits and prepayments amounted to RMB45.6 million as at 30 September 2015, which was RMB121.9 million lower than RMB167.4 million as at 31 December 2014. The decrease was mainly due to the repayment of short-term non-interest bearing advances of approximately RMB82.2 million (included in advances to a sub-contractor) to the Group by a sub-contractor and the completion of sub-contracted projects of approximately RMB45.2 million where advances were previously paid to the sub-contractors.

Included in the other receivables, deposits and prepayments were advance payment to suppliers for the purchase of raw materials, which amounted to RMB31.3 million as at 30 September 2015 (31 December 2014: RMB27.0 million). There was also a reclassification of tax receivables included in other receivables of approximately RMB0.5 million in 30 September 2015 that was previously recorded and netted in tax payable in 31 December 2014.

Movement in statement of cash flows in the unaudited 9 months ended 30 September 2015 for trade and other receivables:

	RMB'000
<b>Increase in trade and bills receivables</b>	-114,984
<b>Decrease in other receivables, deposits and prepayments</b>	121,865
<b>Reclassification of tax receivables from tax payables</b>	476
<b>As per statement of cash flows in the unaudited 9 months ended 30 September 2015 - Trade and other receivables</b>	7,357

- ii) Please refer to 2(i)(a) for the detailed breakdown of trade and bills receivables.

The Board is of the opinion that as at 30 September 2015, there is no recoverability issues for the outstanding trade and bills receivables as majority of our customers are either state-owned enterprises or government-linked enterprises or public listed

companies. Nevertheless, the Group continues to monitor the collection from the trade receivables closely.

- iii) The payment terms are similar to construction contracts payment terms. The payment terms do not reflect the work performed. Each contract has different payment terms and depends on the contract negotiation between the Company and its customers. For illustration, a contact payment milestones could be (1) 10% upon signing of contract; (2) 20% upon delivery of raw materials to production plant; (3) 20% upon delivery of the main equipment to customer's site; (4) 10% upon delivery of other materials to customer's site; (5) 30% upon the fully installed equipment operating normally for one-month; (6) 10% retention sum for one year of warranty period.
- iv) The Group confirms the amount owing from customers are either current or past due.

The age analysis of trade and bills receivables is as follows:

<b>Past Due (Trade Receivables)</b>	<b>RMB'000</b>
Past due less than 30 days	28,125
Past due 30 days to 60 days	12,096
Past due 61 days to 90 days	9,130
Past due more than 90 days	296,389
<b>Total</b>	<b>345,740</b>
<b>Not Past Due (Trade Receivables)</b>	<b>429,027</b>
<b>Bills Receivables</b>	<b>350</b>
<b>Total Trade and Bills Receivables</b>	<b>775,117</b>

- v) So far there is no provision of doubtful debts made for debts that are past due. At each reporting date, the Board assesses whether there is any need to make any provision for doubtful debts.

The Board will take into account various factors in deciding whether to make any provisions or not. These factors are such as incidents of default or delinquency in payments, whether there are any disputes, whether the debtors are facing significant financial difficulties, the probability that the debtor will enter bankruptcy or financial reorganisation, and any other factors that give the Board indication that the debtors may not be able to settle its outstanding to the Company.

- vi) There is no provision of doubtful debts for the unaudited financial results as at 30 September 2015. The Board will review the trade and bill receivables again during the financial year end.

### **Response to SGX-ST Query (3)**

- i) The Group confirms that the Company and /or its subsidiaries did not provide any guarantee for loans owing by companies outside the Group.
  
- ii) Fujian Mintai Environmental Protection Co., Ltd (“FMPE”) is wholly owned by Mr Huang Min and his spouse. Mr Huang Min is the Executive Chairman and substantial shareholder of the Company. No other directors or substantial shareholders have any other relationship with FMPE.

### **Response to SGX-ST Query (4)**

The deposits restricted-in-use act as security deposit placed in a financial institution in China for short-term borrowing obtained from an offshore bank and bills payables with financial institutions in China both entered by the Company’s subsidiaries. The decrease of RMB13.5 million in deposit restricted-in-used was mainly due to the payment of a bill payable in July 2015 that was due.

### **BY ORDER OF THE BOARD**

Huang Min  
Executive Chairman  
27 November 2015