



CHINA ENVIRONMENT LTD.

(Registration No.: 200301902W)

REPLY TO SGX QUERY REGARDING LOAN FACILITIES AGREEMENT FROM FIRSTLINK INVESTMENTS CORPORATION LIMITED

The Board of Directors of China Environment Ltd. (the “Company”) would like to respond to the following queries raised by The Singapore Exchange Securities Trading Limited (“SGX-ST”) dated 22 June 2016 (“SGX Query”) pertaining to the announcement made by the Company on 20 June 2016 as follows:

SGX Query 1:

As disclosed in paragraph 2.2, the term of the Loan shall commence on the 1st loan drawdown date which was 21 March 2016 and expires six months from the 1st loan drawdown date. Paragraph 1 states that the Company had on 20 June 2016 entered into a loan facility agreement with Firstlink investments corporation Limited (“Firstlink”).

Please (i) clarify the dates of disbursements of loan by Firstlink; and (ii) reconcile the aforementioned dates.

Company’s Response:

The facility arrangement was provided by Firstlink to the Company’s wholly-owned subsidiary Fujian Dongyuan Environment Protection Co., Ltd. and RMB4 million was disbursed on 21 March 2016 to repay overdue banking facilities. Subsequently, more facility was required, and additional RMB4 million was then disbursed to Anhui Dongyuan Environment Protection Co., Ltd. as working capital and payment of overdue interest on bank loan. As further facilities were required, Firstlink requested to enter into Loan Facilities Agreement at the Company’s level on 20 June 2016.

SGX Query 2:

Please provide the profile information on Firstlink and background on how Firstlink has been introduced to the Company.

Company's Response:

Firstlink is an investment holding company, a public unlisted company incorporated in Singapore. The principal activities of Firstlink are investment in public quoted securities and private equities.

Mr. Norman Winata, the Chairman of the Company approached Firstlink somewhere in March 2016 when the Company needed financial assistance for the repayment of bank loan and working capital purposes at the Company's subsidiaries level and Firstlink acceded to the Company's request.

SGX Query 3:

Please confirm as to whether there is any relationship (including business relationship) between Firstlink, the Company, its directors, and controlling shareholders.

Company's Response:

The Company is occupying the same office space with Firstlink with effect from 1 May 2016, currently the Company procures general secretarial and administrative services from Firstlink with a monthly fee of S\$5,000. Save for Mr. Er Kwong Wah, the Independent Director of the Company, who is also the Independent Director of Firstlink, there is no other relationship between Firstlink, the Company, its directors and controlling shareholders. On grounds of conflict of interest, Mr. Er has abstained from all discussions, deliberation and approvals pertaining to transactions between Firstlink and the Company.

SGX Query 4:

As disclosed in paragraph 2.2, the Company shall pay a redemption premium on the loan commencing from each of the loan drawdown date which is 2% per month ("Redemption Premium"). The Redemption Premium shall accrue on the outstanding principal amount of the loan and be calculated on the basis of a 365-day basis, accruing day to day based on the actual number of days elapsed during the period commencing on the drawdown date and ending on the relevant Redemption Premium payment date.

Please advise (i) what is the nominal interest rate; (ii) what is the difference between the Redemption Premium and the nominal interest rate; (iii) what will be the effective yearly interest rate of the loan; and (iv) the comparison of the effective yearly interest rate of the loan with the prevailing benchmark interest rates of the market where the Company operates in.

Company's Response:

- (i). There is no nominal interest rate as per the Loan Facilities Agreement
- (ii). There is no difference between the Redemption Premium and the nominal interest rate except for different term is used
- (iii). No effective yearly interest rate, it was structured based on redemption premium basis
- (iv). The redemption premium is 12% over the tenor of the loan period or 24% per annum as compared to approximately 6% per annum with the prevailing benchmark interest rates of the market

SGX Query 5:

Paragraph 2.2 states that subject to approval by SGX-ST, the shareholders of the Company or relevant authorities, where applicable, during the loan term, Firstlink have the option either to:

Purchase up to S\$3 million worth of convertible warrants to be issued by the Company and should Firstlink exercises this option, the said Loan (i.e. up to RMB10 million and up to S\$500,000.00) will be formed partial payment of the convertible warrants which is convertible into ordinary shares of the Company. The conversion price of the warrants shall be the average of the last dealt prices of the Company's shares as shown in the daily financial news published by the SGX-ST for the five (5) consecutive market days ; or

Purchase the assets under the Charge (i.e. Land Use Rights and Building of AHDY) for an amount of RMB100 million.

In this regard, please:

- (i) *the key terms of the convertible warrants;*

Company's Response:

There is no specific key terms of the convertible warrants other than the conversion price of the warrants shall be the average of the last dealt prices of the Company's shares as shown in the daily financial news published by the SGX-ST for the five (5) consecutive market days.

- (ii) *specify whether the issuance of the convertible warrants will be subject to prior approval from the shareholders or any other regulatory approvals;*

Company's Response:

Yes, will be subject to prior approval from the shareholders or any other regulatory approvals depending on the respective Rules and Regulations for the issuance of such convertible warrants. ie. Market capitalization of the Company at the time of issuance etc.

- (iii) *specify what is the maximum dilution effect ascertained under Listing Rule 832(1);*

Company's Response:

The maximum dilution effect depends on the market capitalization of the Company at the time of issuance.

For illustration purposes, based on the closing market share price as of 22 June 2016 of S\$0.038 per share, the maximum dilution effect (assuming Firstlink exercises the entire S\$3 million) is illustrated as follow:

			Remark
Existing no. of shares in issued	:	843,020,646	
Market price/conversion price (S\$)	:	0.038	
Market capitalization (S\$)	:	32,035,000	
Amount of convertible warrants (S\$)	:	3,000,000	
No of shares to be issued pursuant to the convertible warrants	:	78,947,000	Note 1
Enlarged no. of shares in issued	:	921,967,646	

Note 1: Represents approximately 9.36% and 8.56% of the Existing no. of shares in issued and Enlarge no. of shares in issued respectively.

- (iv) *advise as to how the Company will be complying with the listing requirements under Chapter 8 of the Listing Manual in respect of the convertible warrant;*

Company's Response:

Pursuant to the general mandate which was granted by shareholders of the Company ("Shareholders") by way of an ordinary resolution at the annual general meeting of the Company held on 28 April 2015 (the "General Mandate"). The General Mandate authorised the Directors to allot and issue new Shares not exceeding 20% or 161,604,129 shares of the total number of issued Shares (excluding treasury shares) at the time of passing by Shareholders of the General Mandate, in the case where shares are issued other than on a pro-rata basis to existing Shareholders.

The Company had on 16 November 2015 issued 35,000,000 placement shares and the remaining shares available for issue is 126,604,129 shares under the General Mandate. In the event any issuance exceeding 20% of the total number of issued Shares, the Company will comply with the Listing Manual requirements under Chapter 8.

- (v) *confirm whether the target of asset purchasing option is either 100% of the issued shares of AHDY, or the land use rights and building of AHDY;*

Company's Response:

The target of asset purchasing option is 100% of the issued shares of AHDY which owns the land use rights and building of AHDY.

- (vi) *advise the basis of the consideration of RMB 100 million for the purchase of the assets under the Charge; and*

Company's Response:

The asset under charged is currently mortgaged to Bank of China for RMB55 million banking facilities granted to a wholly-owned subsidiary of the Company. The valuation of the asset under charged is RMB164.83 million (based on third party professional valuer reports dated 15 September 2015). Due to the continuous slowdown in the People's Republic of China's economic environment as well as the plant is only 30% utilized and has no rental income on the excess space from third party, Firstlink has agreed on the valuation of RMB100 million.

- (vii) *advise as to how the Company will be complying with Chapter 10 of the Listing Manual, including and not limited to Rule 1019, in respect of the option to purchase the asset under the charge for an amount of RM100 million.*

Company's Response:

Pursuant to Chapter 10 of the Listing Manual, in the event Firstlink exercises its option to purchase the asset under charged, the Company will be complying with the necessary requirements including but not limited to seeking approval from Shareholders, SGX-ST or the relevant authorities, where applicable as well as making the necessary announcement via SGXNet.

By Order of the Board

Norman Winata
Executive Chairman

24 June 2016