
REPLY TO QUERY REGARDING THE THIRD QUARTER 2014 RESULTS ANNOUNCEMENTS

The Board of Directors of SIIC Environment Holdings Ltd. (the “**Company**”, and together with its subsidiaries, collectively the “**Group**”) would like to respond to the queries from the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) dated 24 November 2014, regarding the third quarter 2014 results announcements announced on 12 November 2014 (the “**Announcement**”). The Company sets out below its responses to the queries of the SGX-ST:

SGX-ST’s Query 1:

In the Company’s Announcement, the Company disclosed that “Finance income” includes “financial income from service concession arrangements”.

Please provide details on this financial income from service concession arrangements.

Company’s Response:

The Group through its subsidiaries engages in the businesses of waste water treatment and water supply in the PRC (the “**operator**”) and has entered into a number of service concession arrangements with certain governmental authorities or their agencies in the PRC on a Build-Operate-Transfer (“**BOT**”) or a Transfer-Operate-Transfer (“**TOT**”) basis in respect of its businesses. These service concession arrangements generally involve the Group as an operator to (i) construct waste water treatment and water supply plants for those arrangements on a BOT basis; (ii) pay a specific amount for those arrangements on a TOT basis; or (iii) operate and maintain the waste water treatment and water supply plants at a specified level of serviceability on behalf of the relevant governmental authorities for certain service concession periods, and the Group will be paid for its services over the relevant periods of the service concession arrangements at prices stipulated through pricing mechanism.

In accordance with INT FRS 112 *Service Concession Arrangements*, the Group recognises the consideration received or receivable as a financial asset to the extent that it has an unconditional right to receive cash or another financial asset from or at the direction of the grantor for the construction services rendered and or the consideration paid and payable by the Group for the right to manage and operate the infrastructure for public service. The Group has an unconditional right to receive cash if the grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if the payment is contingent on the Group ensuring that the infrastructure meets specified quality of efficiency requirements. As at 30 September 2014, the Group recorded receivables under service concession arrangements amounting to RMB3,597.1 million.



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In accordance with FRS 39, the receivables under service concession arrangements are measured at amortised cost using the effective interest method. The financial income from service concession arrangements pertain to the financial income recognised in relation to these receivables under service concession arrangements, using the effective interest method. Such financial income is accrued on a time basis, by reference to the principal outstanding and at the applicable effective interest rate, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

SGX-ST's Query 2:

In paragraph 8 of the Announcement, the Company disclosed that "the Group was awarded a BOT wastewater project with a designed capacity of 40,000 tons/day in Dalian, Liaoning province and two wastewater treatment projects with a total designed capacity of 100,000 tons/day in Yinchuan city respectively".

Please provide details on when these projects will be operational and how they will impact the Company.

Company's Response:

The construction of the BOT wastewater project in Dalian, Liaoning province is expected to begin by early 2015 and is estimated to commence operation by 2017.

The two wastewater projects in Yinchuan city are:

- (a) Yinchuan Fifth Wastewater Treatment Project (银川第五污水处理项目) – this project has been in operation since 2011 and has a design capacity of 50,000 tons/day; and
- (b) Riverfront District Wastewater Treatment Project (滨河新区污水处理项目) – construction of this wastewater treatment plant is expected to begin by early 2015, and estimated to commence operation by 2016. The design capacity of this project is 50,000 tons/day as well.

The above is not expected to have a material impact on the net tangible assets per share and earnings per share of the Company and the Group for the financial year ending 31 December 2014.



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SGX-ST's Query 3:

In paragraph 8 of the Announcement, the Company stated that the acquisition of a 100% equity interest in Dongguan Shijie and Dongguan Fenggang "will allow the Group to strengthen its presence in Guangdong province, one of its core markets in Southern China".

Please provide an outlook of Dongguan Shijie and Dongguan Fenggang in the next reporting period and the next 12 months.

Company's Response:

Both Dongguan Shijie and Dongguan Fenggang have been in operation since 2009. Dongguan Shijie has a design capacity of 60,000 tons/day and Dongguan Fenggang has a design capacity of 50,000 tons/day.

The acquisition of Dongguan Shijie and Dongguan Fenggang ("**Acquisition**") is an opportunity for the Group to acquire a profitable business in the same industry and is in line with the Group's ordinary course of business, with a view to expand the Group's existing business in the Guangdong province. The Acquisition increases the Group's existing wastewater treatment projects in the Guangdong province from 8 to 10, and the total design capacity of 1,370,000 tons/day to 1,480,000 tons/day.

By Order of the Board

Feng Jun
Executive Director
26 November 2014