



CHINA ENVIRONMENT LTD.

(Registration No.: 200301902W)

RESPONSE TO SGX QUERIES ON 4Q 2015 AND FULL YEAR UNAUDITED RESULTS ANNOUNCEMENT MADE ON 29 FEBRUARY 2016

With reference to the 4Q 2015 and full year unaudited results announcement made by the Company on 29 February 2016, 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. We note that the Group recorded an impairment allowance of RMB 135.2 million on trade receivable, and impairment loss of RMB 10.7 million on property, plant and equipment ("PPE") for FY 2015. The Company also represented on page 15 that majority of customers are either state-owned enterprises or government-linked enterprises.

Regulator's Column of 17 November 2015 set out specific requirements for companies recorded significant impairment of fixed assets.

In this regard, please disclose:

(i) details of trade receivables and PPE for which impairment loss / allowance had been provided, reasons for making such impairments;

(ii) disclose what were the actions taken by the Company to recover the debt prior to recording impairment allowance on the trade receivable;

(iii) what kind of control was in place for the board to deliberate on and question the reasonableness of the methodologies used to determine the impairments; and

(iv) whether the board had sought appropriate independent professional advice, and if yes, whether the professionals appointed by the company have the necessary experience and a good track record in advising on impairment issue.

2. Paragraph 6 of the result announcement represented that the EPS based on fully diluted basis is RMB 0.0, please confirm its correctness of computation.

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

Response to SGX-ST Query (1)

i) **Details of Trade and Bills Receivables and PPE**

(a) Trade and Bills Receivables

Aged Band	Gross Trade & Bills Receivables	Impairment Allowance	Net Trade and Bills Receivables
	RMB'000	RMB'000	RMB'000
Not Past Due	354,615	17,723	336,892
Past Due < 90 Days	52,986	-	52,986
Past Due > 90 Days	294,878	107,489	187,389
Retention Sum	110,457	10,000	100,457
Others	50	-	50
Total	812,986	135,212	677,774

Reasons for impairments:

Majority of our revenue were generated from customers in the power generation, steel and metallurgy industries. Accordingly, majority of these customers are either from state-owned enterprises or government-linked enterprises. The payment terms for our customers are similar to most of the construction contracts' payment terms and all projects have different payment milestones.

As our products only form a small part of our customers' overall projects and in accordance to the contract terms, majority of the amounts outstanding (i.e. trade and bill receivables) are not due until our customers are able to perform testing over several phases during the installation process and final commissioning of our products after they have completed their entire projects.

In 2015, China recorded a pronounced deceleration in growth and the growth rate was the weakest in 25 years. As a result, the China government tightened the operations of state-owned or government-linked enterprises and this coupled with the generally tight credit environment in China, most of our customers' projects have been delayed or deferred. This has resulted in longer payment cycle which contributed to the increase in our trade and bills receivables significantly.

The Group reviews and monitors our trade and bills receivables on a periodic basis. For prudence purpose, we have made impairment allowance for projects that have been completed more than one year for certain customers after our discussion with the respective project managers in FY2015.

(b) PPE

Property	Valuation	Carrying Amount	Impairment Made
Fujian Dongyuan Environmental Protection Co., Ltd (FJDY)	RMB'000	RMB'000	RMB'000
- Building	14,354	25,086	10,732
- Land Use Rights	7,056	4,300	-

Reasons for impairments:

The construction of the building was completed in 2015 but FJDY had deferred the renovation and installation of machinery and equipment for this building. This is because the management foresees over production capacity for FJDY in the near term as a result of slow economic growth in China. As such, an impairment is made for the PPE in compliance with Singapore Financial Reporting Standards.

(ii) The project managers for the respective projects had followed up closely with the customers on the payment schedule by phone, mail and personal visit.

(iii) For trade and bills receivables, the management had discussed with respective project managers to understand the overall progression of our customers' projects to determine whether the customers will be able to complete their project on-time or in the near future so as to be able to perform the final commissioning of our products and make payment to us.

The Board had discussed and reviewed the feedback or comments from project managers in relation to the project progression of our customers, the outstanding amounts and outstanding periods for each project, where applicable. The Board also reviews the collection history for each project and the financial performance of the customers, if available.

For PPE, the Board had used the valuation report prepared by independent professional valuer to determine the valuation of the PPE and whether there are impairment for the Company.

(iv) For trade and bills receivables, the board did not seek independent professional advice. For PPE, the Company has engaged Longyan Da Cheng Land and Building Surveyors Co., Ltd (龙岩大成土地房地产评估有限公司) (the "Valuer") to assess the valuation of the property of FJDY. The Valuer is independent of the Company and its subsidiaries. The valuer is recognised and registered with the relevant authority in China. They have been performing asset valuation for various purposes in various areas including Longyan where the PPE is located.

Response to SGX-ST Query (2)

There was a formula error in the computation of the EPS for the 12 months ended 31 December 2015 based on fully diluted basis. The revised number is as follows:

EPS	As Reported	Revised
Fully diluted basis (RMB cents/share)	(0.0)	(12.5)

BY ORDER OF THE BOARD

Huang Min
Executive Chairman
13 March 2016