



CHINA ENVIRONMENT LTD.

(Registration No.: 200301902W)

ISSUES RAISED BY AUDITORS AND UPDATE ON CITIC BANK LOAN

The Board refers to the announcement released by the Company on 4 December 2015 in relation to the above matter (all defined terms in the said announcement shall continue to have the same meanings herein), and would like to elaborate on the following:

- a. The Auditors had during the course of their ongoing interim FY2015 audit of our subsidiary Fujian Dongyuan Environmental Protection Co., Ltd. ("FJDY") identified certain sales invoices issued by FJDY (amounting to approximately RMB200 million, which is 80.6% of the Group's total revenue for the 9 months ended 30 September 2015) which could not be verified with the Fujian Taxation Bureau website <http://www.fj-n-tax.gov.cn/>. The management confirmed that all relevant taxes that ought to be paid have been paid to the tax authority as of to-date.
- b. The Audit Committee had requested the Company's management to revert with the explanations to allow both the Audit Committee and the Auditors to determine if any changes in the scope of the audit will be required.
- c. The management had provided their preliminary explanations to the Audit Committee and the Auditors, and the Auditors will be verifying the explanations and will determine if (i) any further information is required from the management, and/or (ii) any increase in the scope of audit is necessary or otherwise. The Auditors' verification process is expected to take at least 4 weeks. The Board will make further announcements once there has been progress in the Auditors' review.
- d. Notwithstanding the above issues raised by the Auditors, and on the assumption that the outstanding loan with CITIC bank is resolved and that the management explanations are verified by the auditors, the Board is of the view that the Group is still viable as a going concern, for the following reasons:
 - (i) The Company has raised proceeds from its recently completed private placement in November 2015;
 - (ii) The Group currently has sufficient operational cash flow to meet its working capital purposes;
 - (iii) The present bank facilities and the working capital available to the Group is sufficient to

- meet its present requirements;
- (iv) Pursuant to the general mandate granted by its shareholders on 28 April 2015, the Company has the option to procure further funding by way of placements for up to a further 15.67% (on a non pro rata basis) or 45.67% (on a pro rata basis) of its issued share capital (as at 28 April 2015), after taking into account the recent placement on a non pro rata basis to investors for 35,000,000 new ordinary shares in the capital of the Company. The Company may also consider other forms of fund raising such as the issuance of debt securities; and
 - (v) The Group's total assets value is significantly higher than the Group's total liabilities.
- e. Update on CITIC bank loan repayment – The negotiation with CITIC in regards to the partial loan repayment of approximately RMB14 million bank loan and conversion of remaining RMB30 million bank loan from unencumbered to a new mortgage loan are on track. FJDY is expected to receive the approval from CITIC within two weeks.
- f. The Board further confirms that sufficient information has been disclosed by the Company to enable trading to continue on an informed basis, and the Board will update the shareholders in due course in regard to this matter.
- g. Based on current developments and for the reasons stated herein, the Board is of the opinion that a trading suspension is not required. However, all shareholders and potential investors should exercise caution when dealing with the Company's securities as the Company's securities may be suspended in the event that the Company is unable to continue as a going concern or if its state of affairs is unclear.

By Order of the Board

Huang Min
Executive Chairman

7 December 2015