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RESPONSE TO SGX-ST'S QUERIES ON 4Q 2015 RESULTS ANNOUNCEMENT

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The board of directors (the "Board") of C&G Environmental Protection Holdings Limited (the "Company") refers to the queries received from the Singapore Exchange Securities Trading Limited (the "SGX-ST") on 14 March 2016 in relation to the Company's 4Q2015 results announcement.

Query 1):

We refer to the Company's FY2015 financial statements announcement ("Results Announcement"). Please provide further information on the following in an announcement to be released via SGXNET. In your announcement, please disclose our questions and your corresponding answers to enable investors to understand the matters raised by the Exchange.

Please provide details on what was the net effect of the acquisition of the EPC Company to the Group.

Company's response:

As announced on 29 May 2016, the Group acquired the entire issued and paid-up capital of a Thailand EPC company, New Sky (Thailand) Company Limited ("NSTH"), at a cash consideration of RMB50 million (equivalent to HKD63.4million). As at the acquisition date, the fair values of the identifiable assets and liabilities of NSTH was approximately HKD40.5million. Accordingly, the Group has recognised goodwill of HK\$22.8 million which was subsequently impaired. For details, please refer to response to Query 6.

Since the date of the acquisition, NSTH has incurred a net loss of HK\$20.6million. During the year, NSTH has completed the construction and equipment procurement and installation for two environmental related projects in Thailand. Below is the financial performance of NSTH.

	HK\$'M
Revenue	99.7
Cost of sales	<u>(118.9)</u>
Gross loss	(19.2)
Other income	0.9
Administrative expense	(2.3)
Net loss for the year	<u><u>(20.6)</u></u>

For further information of the two environmental related projects, please refer to the response of Query 4.

Query 2:

Please provide breakdown of 'Cost of sales' of HK\$308.65 million".

Company's response:

	Year ended 31 December 2015	Year ended 31 December 2014
	HK\$'000	HK\$'000
<b>Cost of sales</b>		
Construction service - BOT construction in progress	186,124	163,259
Construction service - EPC projects	118,885	-
Equipment sales	3,641	1,614
<b>Total</b>	<b>308,650</b>	<b>164,873</b>

The Group has entered into a service concession arrangement with Thailand governmental authorities on Build, Operate and Transfer ("BOT") basis in respect of its waste-to-energy power business. During the year, the BOT project is still in progress and approximately HK\$239.9 million was recognized as the construction services cost which represented the cost of construction and machinery recognized based on the progress of completion.

In May 2015, the Group acquired a Thailand EPC company and the cost of construction services-EPC projects represented that the construction cost related to two projects which were completed during year.

The cost of equipment sales represented the cost of the revenue generated from the sales of environmental protection related to equipment during the year.

Query 3:

Please provide breakdown on the material items and explain the nature of items which accounted for significant increase of 'Administrative expenses' from HK\$45.334 million to HK\$125.237 million.

Company's response:

	FY2015	FY2014	Increase/(Decrease)	
	HK\$'000	HK\$'000	HK\$'000	%
Staff cost	27,182	13,256	13,926	105%
Impairment of Goodwill	22,846	-	22,846	N.M.
Exchange loss	34,063	86	33,977	39508%
Entertainment	4,537	1,819	2,718	149%
Legal & professional fee	5,465	7,137	-1,672	-23%
Travelling	3,820	2,258	1,562	69%
Others	27,324	25,243	2,081	8%
	125,237	49,799	75,438	151%

The administrative expenses rise 151% to HK\$125.2 million in FY2015 from HK\$49.8 million in FY2014. The significant increases in administrative expenses are mainly contributed the increase in staff cost, impairment in goodwill and exchange loss.

The staff cost increased by 105% from HK\$13.2 million in FY2014 to HK\$27.2 million in FY2015. Since the divestment of C&G China by FY2014, the Group planned to expand its business in Southeast Asia by setting up new subsidiary in Shenzhen and branches in Taiwan and recruiting talents in the local market. The total number of management and administrative staff increased from 28 in FY2014 to 48 in Q3 2015. However, as announced on 14 September 2015 and 5 February 2016, the ex-Chairman suffered from a severe stroke and passed away, after the

reassessment of the Group's business development strategy and the global economy conditions, the management decided to focus on the existing businesses.

For the impairment in goodwill, please refer to the response of Query 6.

The Group suffers approximately HK\$34 million exchange loss in FY 2015 (FY2014: HK\$86,000) as a results of the depreciation of Renminbi and Thai Baht during the year.

Query 4:

We note on page 10 of the Results Announcement that the "EPC Company suffers an over budget construction cost to catch up the completion deadline of two Bangkok projects". Please elaborate how much and due to what and why behind completion deadline.

Company's response:

As announced on 14 September 2015, Mr. Lin Yan ("Mr Lin"), the ex-Executive Chairman and Group Chief Executive Officer, was in a coma after suffering a severe stroke in Thailand. This tragedy affected the daily operation and decision making processes, especially on the newly acquired EPC business which was under transitional period at that moment. As a result, the construction processes were delayed and extra cost have been spent to catch up the deadline. Therefore, the Group recorded a post-acquisition gross loss of HK\$19.2million.

Query 5:

We note on page 10 of the Results Announcement of "HK\$25.8 million exchange difference loss in which approximate HK\$10 million is from the dividend paid". Please explain how the dividend paid resulted in such a significant foreign exchange loss of HK\$10 million.

Company's response:

Date of declaration:	Paid SGD per share	Ex rate:	HKD per share	No. of shares	Total SGD:	Total HKD:
21/1/2015	0.04844	5.901353	0.285861539	977,755,355	47,362,469.41	279,502,650.38
3/6/2015	0.0121	5.929818	0.071750804	977,755,355	11,830,839.80	70,154,732.45
						<b>349,657,382.83</b>
		<b>Revised rate</b>				
		5.72999			47,362,469	<b>271,386,476.12</b>
		5.7664			11,830,840	<b>68,221,354.62</b>
						<b>339,607,830.74</b>
					<b>Exchange Difference</b>	<b>10,049,552.09</b>

In January 2015, the Group transferred RMB220 million to SGD46.98 million and booked as HKD277.4 million in the ledger. In February 2015, the Group transfer HK\$2.16 million to SGD 0.375 million and booked as HKD2.1 million. Then this total bank ledger balance HKD279.5 million (HK\$277.4 million + HK\$2.1 million) was paid for SGD 47.3 million dividend. However, the spot exchange rate at as dividend paid date was 5.7299 which is lower than the exchange rate 5.9013 used in the ledger and the effect was HK\$8.1 million. In June 2015, the Group transferred RMB55.4 million which booked as HK\$70.1 million to pay SGD11.8 million dividend. The exchange effect for this transaction is approximately HK\$1.9 million when used the spot exchange rate 5.7664 between SGD and HKD at dividend paid date. The aggregate exchange different was approximately HK\$10 million which reallocated exchange different from dividend paid to administrative expenses.

Query 6:

We note on page 10 of the Results Announcement of impairment loss in goodwill of HK\$22.5 million for the Thailand EPC Company acquired. Please provide the following information:-

- (a) How was impairment of goodwill of HK\$22.8 million determined and how was this valued.

- (b) What caused the goodwill to be so significantly impaired
- (c) How much was the acquisition costs

Company's response:

On 28 May 2016, the Group acquired the entire share capital of NSTH at the consideration of RMB50million (equivalent to HKD63.3million), the fair value of the net identifiable assets and liabilities was HK\$40.5million and a goodwill of HK\$22.8million was recognised.

As at 31 December 2015, NSTH has completed all the external EPC projects and is still in the process to secure new projects, the future cash flows cannot be reliably estimated.

The Group performed the impairment test on goodwill on an annual basis. Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units (CGU) of which goodwill has been allocated. The value-in-use calculation requires the entity to estimate future cash flows to arise from the CGU and a suitable discount rate in order to calculate present value.

Despite NSTH may successfully secure new projects in the future, the timing of awarding the new projects and the future cash flows cannot be reliably estimated as at 31 December 2015, therefore, the goodwill of HK\$22.8million was fully impaired.

Query 7:

We note on page 11 of the Results Announcement of net loss for the discontinued operations for Q42015 of HK\$113.2 million. Please provide the following information:-

- (a) How much did the Company sell the operations for
- (b) Why is the guarantee so significant and was it considered fully paid and is this total provision/write-off more than consideration
- (c) Why is compensation so significant and to disclose how much this amount is calculated

Company's response:

- (a) As disclosed in Clause 3.3 of the Circular dated 14 April 2014, the total consideration for the disposal was RMB1.85 billion which was satisfied in part by cash (RMB1.1 billion) and in part by allotment of the Consideration Shares (RMB0.75 billion) by Grandblue Environment Company Limited ("the Purchaser")

The Group has received the Consideration Shares by the end of FY2014 and the first tranche of the cash consideration of RMB800million was received by 16 January 2015 (please see Note 15 of FY2014 Annual Report). Except for the tranche two cash consideration, the Group has fulfilled the completion conditions and recognized the Share consideration and Tranche one cash consideration in FY 2014.

Since the completion of the disposal on 17 December 2014, the Purchaser owns the control of the disposal group (i.e. C&G China) and be responsible for all the daily operation and management.

In FY 2015, the Group has recognized part of the Tranche two cash consideration of RMB100million. As announced on 25 March 2015, the Group has fulfilled the conditions for completion for Dalian Project and received the gross cash consideration of RMB100 million.

- (b) As disclosed in note 4 in the Circular dated 14 April 2014, announced on 5 January 2015 and disclosed in Note 15 & 34 of FY 2014 Annual Report, the Group has entered into a Clawback Agreement with the Purchaser to provide, inter alia, an undertaking to compensate the Purchaser in the event that the disposal companies fails to meet the profit targets for the years ended/ending 31 December 2014, 2015 and 2016 and certain outstanding commitments and guarantees as agreed prior to closing.

The guarantee was not fully paid yet as the actual shortfall or compensation amount will only be determined after the financial year ended/ending 2015/2016 or upon the completion of the inspection for certain projects as disclosed in note 10 of 4Q2015 results announcement.

Having considered the consideration received in FY2014 and 1Q 2015, the provision for the guarantee is not more than the consideration.

- (c) Please refer to the response of Query 8 and Query 9.

Query 8:

We note on page 11 of the Results Announcement the provision of claw back profit guarantee of HK\$87.524 million. Please provide the following information:-

- (a) Explain what this item is and why so significant
- (b) Who verified this amount and how did the Board of Directors assure itself of this significant expense and provide breakdown and details.

Company's response:

- (a) As disclosed in the Clause 4 of Circular dated 14 April 2014, the Group has entered into a Clawback Agreement with Purchaser to provide, inter alia, an undertaking to compensate the Purchaser in the event that the disposal group (i.e. C&G China) fails to meet the profit targets for the years ended/ending 31 December 2014, 2015 and 2016. The profit targets for FY2015 and FY2016 are RMB105million and RMB163.8million respectively. A provision of clawback profit guarantee of HK\$87.5million was made, which included HK\$15.9million and HK\$71.6million for FY2015 and FY2016 respectively.

In 2015, due to the resistance from the local residents in Langfang, the commencement of operation for Langfang WTE project was delayed which adversely affected the profit of C&G China and its' subsidiaries (i.e. Disposal Group). Therefore, the profit targets cannot be achieved.

The actual profit for the Disposal Group for FY2015 was approximately RMB90.6million. According to the formula as disclosed in the Circular dated 14 April 2014, the Group is required to compensate approximately RMB13.3million (equivalent to HK\$15.9million) to the Purchaser for the shortfall of profit for FY2015.

The profit targets for FY2016 included the profit to be contributed by Dalian WTE project which was expected to commence operation from January 2016. However, due to the delay in the approval processes from different local authorities, the construction is still undergoing. Base on the past experiences, understandings from the Purchaser and actual performance of FY 2015 and having considered the scale of operation will be similar to FY2015, management estimated shortfall of the profit for FY2016 is RMB60million (equivalent to HK\$71.6million).

- (b) Despite the fact that the Group is no longer in the position to manage the Disposal Group, a representative from the Group was appointed to the board of directors of the Purchaser. The representative meets with the management of the Purchaser and attends the board meeting on a regular basis. Further, the Executive Directors of the Group will also have regular meetings with the Purchaser to understand the business performance.

Query 9:

We note on page 11 of the Results Announcement that “the Group has entered into the Asset Transfer Agreement with on 17 December 2014 to indemnify Grandblue if certain commitments and guarantees are not met”. Please provide the following information:-

- (a) Why were these commitments and guarantees not met
- (b) What caused these failures

Company’s response:

As disclosed in Note 31 & 34 of FY2014 Annual Report, the Group has entered into the Asset Transfer Agreement with the Purchaser on 17 December 2014 to indemnify Grandblue if certain commitments and guarantees are not met. In addition, for any excess capital expenditure incurred on Langfang project, it will be borne by the Group.

As at the completion date of the divestment on 17 December 2014, there were some long outstanding receivables in the book and the inspection tests of some of the WTE plants constructed by the Group have not conducted by the local authorities yet. The Group is committed to ensure these plants can pass the inspection test and the receivables can be recovered. If these commitments and guarantees are not met, the Group has to indemnify the Purchaser.

As stated on page 11 of the results announcement, inspection cost and excess capital expenditure of HK\$57.1million was incurred. These costs were incurred and absorbed by the Group in order to ensure the commitments and guarantees can be met.

Query 10:

We note on page 11 of the Results Announcement “addition during the period” of HK\$224.106 million in intangible assets. Please provide breakdown of this additional cost.

Company’s response:

<b>Intangible Assets</b>		
		HK\$'000
Net book value as at 1 January 2015		176,499
Add: Addition during the period		
Construction cost incurred based on percentage of completion		128,445
Equipment cost incurred based on percentage of completion		95,660
Exchange loss		(15,477)
Net book value as at 31 December 2015		<u>385,128</u>

During FY2015, there is total HK\$224.1 million addition in intangible assets in which including approximately HK\$128.4 million and HK\$95.7 million for construction cost and equipment respectively. The addition cost is based on independent valuer with reference to replacement cost and the percentage of completion of the construction project.

Query 11:

We note that the company did not provide the review for FY2015 results and merely discussed 4Q2015. In line with SGX listing rule requirements, discussion should also be on FY2015 results. Please provide a discussion on FY2015 results for paragraph 8 of the Results Announcement.

Company’s response:

- 8.1 Continuing operation
- 8.1.1 Revenue

The revenue from construction services is increasing from HK\$166.5 million in FY2014 to HK\$282.1 million FY2015 largely due to the construction services revenue is recognized according to the percentage of completion for the Thailand WTE project.

The revenue from equipment sales is upward 161% from HK\$2 million in FY 2014 to HK\$5.3 million in FY2015 which represents the revenue from sales of environmental protection related equipment from Shenzhen office.

#### 8.1.2 Gross (loss)/profit

Comparing Gross Profit HK\$3.2 million in FY2014, there is a gross loss HK\$22.8 million in FY2015. The main reason of gross loss is due to the new acquired EPC company which need to complete and deliver two Thailand government project within this year and bear an over budget construction cost to meet the delay schedule.

#### 8.1.4 Administrative expenses

	FY2015	FY2014	Increase/(Decrease)	
	HK\$'000	HK\$'000	HK\$'000	%
Staff cost	27,182	13,256	13,926	105%
Impairment of Goodwill	22,846	-	22,846	N.M.
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For the impairment in goodwill, please refer to the response of Query 6.

The Group suffers approximately HK\$34 million exchange loss in FY 2015 (FY2014: HK\$86,000) as a results of the depreciation of Renminbi and Thai Baht during the year.

#### 8.1.5 Net loss

In FY2015, the net loss of the continuing operations of the Group is HK\$138.6 million which is increased 203% from HK\$45.6 million in FY2014. The main reason is due to the increase 151% in administrative expenses.

BY ORDER OF THE BOARD

Lam Chik Tsan  
Director  
21 March 2016