

RESPONSE TO SGX-ST'S QUERIES ON 2Q 2016 RESULTS ANNOUNCEMENT

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 6 September 2016 in relation to the Company's 2Q2016 results announcement.

Query 1:

We note on page 3 of the Results Announcement that 'Trade receivables' has increased by 59.8% from HK\$13.32 million to HK\$21.28 million when Revenue declined 65.93%. Please explain why customers are not paying for their purchase.

Company's response:

As per the Note 8.1.1 of 2Q2016 results announcement, there is different kinds of income of trade receivables of FY2015 and FY2016, which was mainly for the construction income and the operate income of generating electricity respectively, it is difficult for comparison.

For the trade receivable of FY2016 was mainly for operate income from Bangkok Metropolitan Administration in Thailand. The construction of the WTE plant was completed and operated in second quarter 2016, and the payment was not yet due as at the period ended.

Query 2:

We note on page 11, paragraph 8.3.2 of the Results Announcement that a fair value loss of HK\$288.2 million was subsequently recognized in other comprehensive income in Q2 2016. Please provide the following information:-

- (a) Details of the investment in Grandblue, the cost, date of investment, percentage, outlook and details of the business and performance.
- (b) For Grandblue how was fair value loss of HK\$288.2 million determined? What is the methodology of valuation and basis? What were the major assumptions used in the valuation that caused the significant HK\$288.2 million loss? Clarify the assumptions where applicable and discount rates used.

Company's response:

- (a) The details about the investment in Grandblue was disclosed in the Circular dated 14 April 2014 and the Annual report of FY 2014 & FY 2015 under the notes of "Available-for-sale financial assets" and "Investment in subsidiaries".

On 29 December 2014, the Grandblue allotted and issued 91,019,417 Consideration Shares at the price of RMB8.24 per share to the company, which represents a shareholding of 11.88% of the share capital of the Grandblue as at 30 June 2016. The outlook and details of Grandblue refer to their website: www.grandblue.cn

- (b) The company adopts the same accounting policy, the methodology of assessing the fair value of the available-for-sale asset (quoted equity security) was disclosed under note 39 of the Annual Report FY 2015 (page 113). As explained in note 8.3.2 of the 2Q2016 announcement, the closing quoted market value of Grandblue's shares dropped from RMB16.05 as at 31 Dec 2015 to RMB12.69 as at 30 Jun 2016, this resulted in a significant fair value loss of HK\$288.2million.

The fair value of the Group's available-for-sale financial assets have been derived using closing quoted market prices on the last market day of the period ended date, discounted by 28%. We use the same audited discounted rate at 31 December 2015 which have been determined by independent qualified professional valuer using the market approach and discounted for lack of marketability due to the Moratorium Period and the Black-Scholes Option Pricing Model.

$91,019,417$ (number of shares) * 0.72 (discounted rate) * $(\text{RMB}16.05 * 1.19405 - \text{RMB}12.69 * 1.16371)$ (market price and exchange rate as at 31 Dec 2015 and 30 June 2016) = HK\$288.2million.

Query 3:

We note on page 12, paragraph 8.3.7 of the Results Announcement that the Group has signed the compensation agreement with the contractor and the amount of RMB96,000,000 (approximately HK\$118.7 million) was fully paid and the ultimate holding company confirmed will undertake the compensation. Please provide the following information:-

- (a) Who is the ultimate holding company referred to?
- (b) As the amount was due since FY2014, why is the amount not paid?
- (c) What are the terms of amounts owing?
- (d) When will amount be paid?
- (e) What is the financial standing of this debtor and its ability to repay the RMB96 million?
- (f) What is the interest payable on amount owing?
- (g) What steps Company has taken to collect the debts?
- (h) What is the Audit Committee's opinion on whether arm's length terms and why?
- (i) How was compensation term of RMB96 million arrived at? What was compensation amount claimed originally?

Company's response:

In 2014, the Group has disposed its entire business in China. The Group has terminated the contracts with a contractor for the construction projects in Xiaogan, Dalian and Guiyang on 2 January 2015 and the compensation amount of RMB96 million was paid to the contractor. To facilitate the conclusion of the disposal of the China businesses to Grandblue, the ultimate holding company, C&G Holdings (Hong Kong) Limited has signed the Letter of Undertaking with the Group and agreed to undertake this compensation. Therefore, the Group has recognized a receivable of RMB96million receivable from the ultimate holding company.

As at 30 June 2016, the Group recorded a receivable from the ultimate holding company of HKD118.7million and a payable to ultimate holding company of HKD63million. The payable balance of HKD63million arose as the Group obtained financial supports from the ultimate holding company to pay the daily operating expenses, bank loan interests, capital expenditure for Thailand WTE project and compensation to Grandblue. On a net position, the net receivable amount was approximately HKD55.7million. Both the receivable and payable balances are interest free and have no fixed term of repayment.

As disclosed in the results announcement and FY 2015 Annual Report, the Group has undertaken to compensate Grandblue for any profit shortfall and excess capital expenditure. There is foreign exchange control in China, the Group has entrusted the ultimate holding company to pay the compensation (denominated in RMB) to Grandblue through its subsidiary in China. As announced on the response of Query 8 of 4Q2015 results, the estimated shortfall for FY2016 is approximately RMB60million due to the delay of the construction of a plant, which is higher than the net

receivable amount, Therefore, the Group has not requested the repayment of the debt from the ultimate holding company as the net receivable balance is lower than the expected profit shortfall amount for FY2016 and to simplify the cross broader remittance application process.

The Audit Committee is aware of the above transactions.

Query 4:

We note on page 13, paragraph 8.3.11 of the Results Announcement that in 2015 the Group has provided the indemnity liability of HK\$87.5 million for the claw back of profit guarantee and in Q2 2016 the Group has settled HK\$15.5 million for the profit shortfall of FY2015. Please provide the following information:-

- (a) What was the reason for the significant shortfall?
- (b) How much was the value of the consideration for the sale of business that was sold and did the total compensation exceed the value of the sale consideration?
- (c) Who was the purchaser that received the compensation?

Company's response:

In relation to the indemnity liability, please refer to the announcement dated 21 March 2016, the response of Query 8 of 4Q2015 results. The total consideration was disclosed under note 10 of FY2015 report (page 70) and the Circular dated 14 April 2014.

- (a) As disclosed in the response of Query 8 of 4Q2015 results, 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 FY2014, FY2015 and FY2016 are RMB68.4 million, RMB 105million and RMB 163.8million respectively. At 4Q2015, 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.

- (b) As disclosed in note 10 of FY2015 report (page 70), the aggregate consideration received for the disposal is the sum of HK\$2.97 billion (RMB2.36 billion), of which, a sum of HK\$1.38 billion (RMB1.1 billion) shall be satisfied by cash and the remaining HK\$1.59 billion (RMB1.26 billion) shall be satisfied by way of an allotment and issue of new shares of par value HK\$1.26 (RMB1) in the share capital of the Purchaser as listed and quoted on the SSE.

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. The Group has recorded and paid HKD107.5million for the compensation of profit shortfall and excess capital expenditure and booked in the account.

- (c) Grandblue Environment Company Limited.

Query 5:

We note on page 13, paragraph 8.3.11 of the Results Announcement that the accruals and other payables increased in HK\$36.8 million and one of the reason is due to the ultimate holding company increased HK\$26.3 million which is mainly due to HK\$15.5 million profit guarantee compensation in the Clawback Agreement with Grandblue and HK\$19.1 million settlement for the cost of equipment on the Bangkok WTE project. Please provide the following information:-

- (a) Provide details how ultimate holding company is related to the Clawback paid relating to Grandblue.
- (b) To explain this transaction of HK\$19.1 million settlement.
- (c) Why is Company paying such significant compensation to its ultimate holding company? To disclose how amount was determined. As this is a compensation to interested person, to disclose what independent valuation was undertaken to verify these amounts, the processes undertaken and the Audit Committee's views. Have Chapter 9 IPT rules been complied with relating to these compensation. To provide specific details of how the compensation values were determined on arms length and independently verified and confirm that the Audit Committee has reviewed that it is fair and not prejudicial to interest of

independent shareholders.

Company's response:

- (a) The ultimate holding company provide the financial support to the Group and pay on behalf of the Group to Grandblue for the indemnity liability which stated in Query 3 and 4. Also it is difficult for inject the funding outside China to pay the compensation.
- (b) As disclosed in (a). It is the cost of equipment on the Bangkok WTE project and is the loan from the ultimate holding company to financial support to the Group to paid on behalf of us.
- (c) As disclosed in (a). It is not the compensation paid to the ultimate holding company but it is ultimate holding company to pay the compensation to Grandblue on behalf of the Group.

Query 6:

We note on page 14, paragraph 10 of the Results Announcement. Please provide the following information:-

- (a) What were clawback profit targets for each of 2014-2016 and what was actual for the respective years? How much is provision made?
- (b) "the Group has undertook to bear any excess capital expenditure to Langfang ...". Bear for whom and reasons? When will project be completed? Provisions made and how much?
- (c) "In Thailand the construction of the WTE plant was completed and operated in the second quarter of 2016." What is orderbook? Quantify and provide details.
- (d) "... the Group is in the process of a restructuring exercise to adopt new strategies...". To provide details.

Company's response:

- (a) The amount of the profit targets was disclosed in announcement dated 21 March 2016, the response of Query 8 of 4Q2015 results and the Circular dated 14 April 2014 (page 24).

Please refer to Query 4a.

- (b) It is a contractual term under the Asset Transfer Agreement entered into with

Grandblue dated 17 Dec 2014. It was disclosed under note 15 of FY2014 Annual Report (Page 91). Further, as disclosed under note 35(b) of FY 2015 Annual Report (page 105), no provision was made as the amount is not certain. The company has disclosed that as contingent liabilities rather than made provision.

In accordance to the Asset Transfer Agreement, the Group has undertaken to the Grandblue to repay any excess capital expenditure incurred to obtain approval from the government for the Langfang project. In 2015, the Group has compensated the Grandblue HK\$92 million for the additional claim on capital expenditure from the Purchaser. No further provision was provided due to the uncertain outcome which is not under the control of the Group.

- (c) The WTE plant was completed and trial run in second quarter 2016. The project has a BOT concessionary period of 20 years with a daily processing capacity of 500 tonnes of municipal waste.
- (d) Please refer to the announcement as at 29 August 2016 for the proposed disposal of the business, assets and principal operating subsidiaries of the company.

By Order of the Board

Lam Chik Tsan
Executive Chairman and Group Chief Executive Officer
9 September 2016