

C&G ENVIRONMENTAL PROTECTION HOLDINGS LIMITED  
 Incorporated in Bermuda  
 (Registered Number: 35842)

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RESPONSE TO SGX-ST'S QUERIES ON 3Q 2016 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 23 November 2016 in relation to the Company's 3Q2016 results announcement.

Query 1:

We note on page 3 of the Results Announcement that 'Trade receivables' has increased by 168.4% from HK\$13.32 million to HK\$35.75 million. Please provide breakdown of 'Trade receivables' and aging schedule.

Company's response:

The aging schedule of these trade receivables are as follows:

	0-90 days	91-180 days	Over 180 days	Total
Company	HK'000	HK'000	HK'000	HK'000
C&G Green Energy (Shenzhen) Company Limited	7,302	9,619	225	17,146
C&G Environmental Protection (Thailand) Company Limited	18,498	106	-	18,604
<b>Total</b>	<b>25,800</b>	<b>9,725</b>	<b>225</b>	<b>35,750</b>

Trades receivables of C&G Green Energy (Shenzhen) Company Limited are mainly for the sales of environmental related equipment (such as the sludge dewatering system), and trades receivables of C&G Environmental Protection (Thailand) Company Limited are mainly for operation services which comprised electricity tariff and waste handling fee from Bangkok Metropolitan Administration in Thailand.

Query 2:

We note on page 3 of the Results Announcement that 'Prepayments' has increased by 833.5% from HK\$714,000 to HK\$6.665 million. Please provide breakdown of 'Prepayments' and the underlying transaction.

Company's response:

The breakdown of prepayments is as follows:

	HK'000
C&G Green Energy (Shenzhen) Company Limited:	
Paid in advanced for purchase environmental related equipment	5,858
C&G Environmental Protection (Thailand) Company Limited:	
Prepayment for operation	807
	6,665

Query 3:

We refer to page 12 of the Results Announcement on “Loss on disposal of subsidiaries of HK\$47.3 million”. Please provide the following information:-

- (a) Explain why the disposal of subsidiaries loss amount to a significant HK\$47.3 million.
- (b) Explain why are assets of HK\$31.6 million sold for HK\$2 million cash.
- (c) Elaborate on the assessment by tax authority that eventually resulted in the penalties/taxes of HK\$15.1 million. Why is amount so significant?

Company’s response:

- (a) The loss HK\$47.3million are calculated at the loss on disposal of subsidiary is 32.2million and the compensation of HK\$15.1million was paid to Grandblue under the term of the Acquisition Agreement.
- (b) The subsidiaries were disposed at a loss as all the EPC projects on hand were completed in 2015 and have not secured any new projects since then. The subsidiaries are required to provide warranty for the completed projects for a period of time which would be a cost to the Group in the future if the subsidiaries had not been sold.

Further, as announced on 14 September 2015, the Company’s former Executive Chairman and Group Chief Executive Officer, Mr Lin Yan, was in a coma after suffering from a severe stroke and had passed away on 4 February 2016. Due to the lack of the management team which has the requisite expertise, experience and connections to secure and carry out EPC projects, the Board is of the view that it is in the best interests of Company to dispose of this Thailand subsidiary even the agreement would get loss to cut off the future deficit situation.

- (c) This was an actual amount of tax benefit clawback which were determined by PRC local tax authority. Under the PRC tax rules, if the company is charged to any environmental penalties, the company will not be entitled to the certain tax benefits for 3 years. Despite the fact that the tax benefits was granted in the past, in Q3 2016, a tax authority has clawback the historical tax benefit which was granted to a subsidiary of C&G China. Pursuant to the Acquisition Agreement entered into with Grandblue on 29 January 2014, C&G HK has undertaken to compensate Grandblue for any future financial losses arise as a

result of the historical issues or penalties before the completion of the disposal of C&G China. As a result, the Group has compensated Grandblue on the clawback amount. The compensation of HK\$15.1million was paid to Grandblue

Query 4:

We refer to page 12 of the Results Announcement on “Available-for-sale financial assets”. Elaborate on performance of Grandblue and the reasons why fair value loss amount to a significant HK\$128.3 million.

Company’s response:

The performance of Grandblue refer to their website: [www.grandblue.cn](http://www.grandblue.cn).

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) \*  $(\text{RMB}16.05 * 1.19405 - \text{RMB}14.80 * 1.16265)$  (market price and exchange rate as at 31 Dec 2015 and 30 September 2016) = HK\$128.3million.

Please also refer the response of Query 2 of 2Q2016 results.

Query 5:

We note on page 13 of the Results Announcement on “Amount due from ultimate holding company” and note 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) What is the financial standing of this debtor and its ability to repay the RMB96 million?
- (c) When is compensation payable to Company.

Company's response:

As disclosed in the Query 3 in Response to SGX of Q2 2016, the Group has disposed its entire business in China in 2014. 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 September 2016, the Group recorded a receivable from the ultimate holding company of HKD103.5million. 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.

Subsequent to Q3 2016, the significant amount was settled by the ultimate holding company for repay the bank loan and the remaining amount is expected to be settled by prior to the Completion of the Proposed Disposals.

Query 6:

We note on page 14 of the Results Announcement on "Accruals and other payables" and note 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) Provide details of clawback of profit guarantee for what purpose
- (b) Reason for shortfall
- (c) Will the balance unutilised indemnity amount of RMB72 million be extinguished upon the settlement of HK\$15.5 million?

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 and the response of Query 4

of 2Q2016 results.

- (a) As disclosed in the response of Query 8 of 4Q2015 results, the Group has entered into a Clawback Agreement with Grandblue 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.
- (b) 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.
- (c) No, the unutilised indemnity amount of RMB72 million will not be extinguished, as this was the provision made for the estimated shortfall for FY2016 which will only be determined after the financial year ending of FY2016, while the payment of HKD15.5million represented the shortfall for FY2015.

By Order of the Board

Lam Chik Tsan

Executive Chairman and Group Chief Executive Officer

24 November 2016