



中國環保  
China Environment Ltd.

## **CHINA ENVIRONMENT LTD.**

(Registration No.: 200301902W)

Financial Statements And Related Announcement  
For Second Quarter And Six Months Ended  
30 June 2014

UNAUDITED FINANCIAL RESULT ANNOUNCEMENT FOR THE SECOND QUARTER AND SIX MONTHS ENDED 30 JUNE 2014

PART I - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3), HALF-YEAR AND FULL YEAR RESULTS

- 1.(a) An income statement and statement of comprehensive income, or a statement of comprehensive income, for the group, together with a comparative statement for the corresponding period of the immediately preceding financial year.

**CONSOLIDATED INCOME STATEMENT**

	Unaudited 3 months ended		Increase/ (Decrease) %	Unaudited 6 months ended		Increase/ (Decrease) %
	30.06.2014 RMB'000	30.06.2013 RMB'000		30.06.2014 RMB'000	30.06.2013 RMB'000	
<b>Revenue</b>	182,809	90,018	103.1	343,803	150,933	127.8
Cost of sales	(136,365)	(65,619)	107.8	(257,898)	(109,968)	134.5
<b>Gross profit</b>	46,444	24,399	90.4	85,905	40,965	109.7
Other income	968	332	191.6	1,420	1,609	(11.7)
Selling and distribution expenses	(6,395)	(3,069)	108.4	(11,827)	(5,669)	108.6
Administrative expenses	(8,597)	(5,153)	66.8	(20,550)	(8,126)	152.9
Finance costs	(3,664)	(3,935)	(6.9)	(6,104)	(7,275)	(16.1)
<b>Profit before tax</b>	28,756	12,574	128.7	48,844	21,504	127.1
Income tax expense	(4,748)	(2,191)	116.7	(8,680)	(3,975)	118.4
<b>Net profit for the period</b>	24,008	10,383	131.2	40,164	17,529	129.1
Attributable to:						
Owners of the Company	24,002	10,383	131.2	40,158	17,529	129.1
Non-controlling interests	6	-	100.0	6	-	100.0
<b>Net profit for the period</b>	24,008	10,383	131.2	40,164	17,529	129.1

- 1.(a) An income statement and statement of comprehensive income, or a statement of comprehensive income, for the group, together with a comparative statement for the corresponding period of the immediately preceding financial year.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	Unaudited 3 months ended		Increase/ (Decrease) %	Unaudited 6 months ended		Increase/ (Decrease) %
	30.06.2014 RMB'000	30.06.2013 RMB'000		30.06.2014 RMB'000	30.06.2013 RMB'000	
<b>Net profit for the period</b>	24,008	10,383	131.2	40,164	17,529	129.1
Other comprehensive income:						
Currency translation differences arising from consolidation	368	(1,216)	N.M.	1,391	(1,904)	N.M.
<b>Total comprehensive income for the period</b>	<b>24,376</b>	<b>9,167</b>	165.9	<b>41,555</b>	<b>15,625</b>	165.9
Attributable to:						
Owners of the Company	24,370	9,167	165.8	41,549	15,625	165.9
Non-controlling interests	6	-	100.0	6	-	100.0
<b>Total comprehensive income for the period</b>	<b>24,376</b>	<b>9,167</b>	165.9	<b>41,555</b>	<b>15,625</b>	165.9
Profit before tax is arrived at after charging/(crediting):						
Depreciation of property, plant and equipment	243	244	(0.4)	486	493	(1.4)
Amortisation of land use rights	24	24	-	48	48	-
Property, plant and equipment written off	-	118	(100.0)	-	118	(100.0)
Foreign exchange loss/(gain)	629	(1,318)	N.M.	2,013	(1,964)	N.M.
Interest expense	1,880	2,695	(30.2)	3,919	5,080	(22.9)
Interest income	(685)	(172)	298.3	(857)	(1,366)	(37.3)
Share option expense	2,174	-	100.0	4,336	-	100.0

N.M. - Not meaningful

1.(b)(i) **A statement of financial position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year.**

**STATEMENTS OF FINANCIAL POSITION**

	Group		Company	
	As at		As at	
	30.06.2014	31.12.2013	30.06.2014	31.12.2013
	RMB'000	RMB'000	RMB'000	RMB'000
	Unaudited	Audited	Unaudited	Audited
<b>Non-current assets</b>				
Property, plant and equipment	297,026	296,390	-	-
Land use rights	53,594	4,492	-	-
Prepaid land use rights	-	49,150	-	-
Investment in subsidiaries	-	-	714,227	698,668
Investment in associated company	2,450	2,450	-	-
	<u>353,070</u>	<u>352,482</u>	<u>714,227</u>	<u>698,668</u>
<b>Current assets</b>				
Inventories	18,341	20,516	-	-
Trade and bills receivables	679,421	491,520	22	135
Other receivables, deposits and prepayments	51,540	84,148	1,168	171
Loan to subsidiaries	-	-	42,746	95,233
Dividend receivable from a subsidiary	-	-	22,193	21,710
Cash and cash equivalents	126,686	165,343	2,627	12,703
	<u>875,988</u>	<u>761,527</u>	<u>68,756</u>	<u>129,952</u>
<b>Total assets</b>	<u>1,229,058</u>	<u>1,114,009</u>	<u>782,983</u>	<u>828,620</u>
<b>Non-current liability</b>				
Deferred tax liability	5,030	5,030	-	-
<b>Current liabilities</b>				
Trade and bill payables	16,142	28,994	-	-
Other payables and accruals	51,772	46,855	1,389	2,322
Short-term borrowings	254,628	177,928	-	-
Amount due to subsidiaries (non-trade)	-	-	3,004	2,885
Amount due to a director (non-trade)	-	57,821	-	57,821
Amount due to a related party (non-trade)	57,000	-	-	-
Tax payable	4,393	3,679	-	-
	<u>383,935</u>	<u>315,277</u>	<u>4,393</u>	<u>63,028</u>
<b>Total liabilities</b>	<u>388,965</u>	<u>320,307</u>	<u>4,393</u>	<u>63,028</u>
<b>Net assets</b>	<u>840,093</u>	<u>793,702</u>	<u>778,590</u>	<u>765,592</u>
<b>Equity attributable to owners of the Company</b>				
Share capital	352,241	352,241	773,549	773,549
Statutory reserves	85,198	78,081	-	-
Currency translation reserve	5,084	3,693	24,714	7,783
Share option reserve	5,507	1,171	5,507	1,171
Revenue reserve	391,557	358,516	(25,180)	(16,911)
	<u>839,587</u>	<u>793,702</u>	<u>778,590</u>	<u>765,592</u>
<b>Non-controlling interests</b>	506	-	-	-
<b>Total equity</b>	<u>840,093</u>	<u>793,702</u>	<u>778,590</u>	<u>765,592</u>

**1.(b)(ii) Aggregate amount of group's borrowings and debt securities.**

**Amount repayable in one year or less, or on demand**

<b>As at 30.06.2014 (RMB'000)</b>		<b>As at 31.12.2013 (RMB'000)</b>	
Secured	Unsecured	Secured	Unsecured
144,525	110,103	82,825	95,103

**Amount repayable after one year**

<b>As at 30.06..2014 (RMB'000)</b>		<b>As at 31.12.2013 (RMB'000)</b>	
Secured	Unsecured	Secured	Unsecured
-	-	-	-

**Details of any collateral**

**As at 30.06.2014**

As at 30 June 2014, RMB79.5 million of the short-term borrowings was secured by bank deposits of RMB82.4 million. RMB60.0 million of the short-term borrowings was secured by the the Group's land use rights and property title deeds of our Anhui's plant and guaranteed by one of the Company's directors and the subsidiary of the Company. Another RMB5.0 million short-term borrowings was secured by the Group's land use rights in Fujian.

RMB72.1 million of the short-term borrowings were not secured by the Company's assets. These short-term borrowings were guaranteed or secured by:

- RMB30.0 million of the short-term borrowings was guaranteed by one of the Company's directors and secured by the land use rights and leasehold buildings of a related party, Fujian Mintai Environmental Protection Co., Ltd.;
- RMB10.1 million of the short-term borrowings was guaranteed by one of the Company's directors and the subsidiary of the Company;
- RMB27.0 million of the short-term borrowings was guaranteed by one of the Company's directors and his spouse; and
- RMB5.0 million of the short-term borrowings was guaranteed by a credit guarantee company.

The remaining RMB38.0 million of the short-term borrowings was not secured by any other assets or guaranteed by any other parties.

All the securities and guarantees mentioned above were provided free-of-charge to the Group, except for RMB264,000 guarantee charges paid to a credit guarantee company in 6M2014.

**As at 31.12.2013**

As at 31 December 2013, RMB60.1 million of the short-term borrowings was secured by bank deposits of RMB62.4 million. Another RMB22.7 million short-term borrowings was secured by the Group's land use rights and guaranteed by a third party.

RMB45.1 million of the short-term borrowings were not secured by the Company assets. These short-term borrowings were guaranteed or secured by:

- RMB30.0 million of the short-term borrowings was guaranteed by one of the Company's directors and a related party and secured by the land use rights and leasehold buildings of a related party, Fujian Mintai Environmental Protection Co., Ltd.;
- RMB10.1 million of the short-term borrowings was guaranteed by one of the Company's directors and the subsidiary of the Company; and
- RMB5.0 million of the short-term borrowings was guaranteed by a credit guarantee company.

The remaining RMB50.0 million of the short-term borrowings was not secured by any other assets or guaranteed by any other parties.

All the securities and guarantees mentioned above were provided free-of-charge to the Group, except for RMB180,000 guarantee charges paid to a credit guarantee company in FY2013.

1.(c) A statement of cash flows (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Unaudited 3 months ended		Unaudited 6 months ended	
	30.06.2014 RMB'000	30.06.2013 RMB'000	30.06.2014 RMB'000	30.06.2013 RMB'000
<b>Cash flows from operating activities</b>				
Profit before tax	28,756	12,574	48,844	21,504
Adjustment for:-				
Depreciation of property, plant and equipment	243	244	486	493
Amortisation of land use rights	24	24	48	48
Interest expense	1,880	2,695	3,919	5,080
Interest income	(685)	(172)	(857)	(1,366)
Share option expense	2,174	-	4,336	-
Property, plant and equipment written off	-	118	-	118
<b>Operating cash flow before movements in working capital</b>	<b>32,392</b>	<b>15,483</b>	<b>56,776</b>	<b>25,877</b>
Inventories	8,630	13,440	2,175	6,379
Trade and other receivables	(134,542)	(41,877)	(155,082)	(56,829)
Trade and other payables	6,542	26,524	(7,935)	72,267
Currency translation adjustment	393	(1,219)	1,330	(1,894)
<b>Cash (used in)/generated from operations</b>	<b>(86,585)</b>	<b>12,351</b>	<b>(102,736)</b>	<b>45,800</b>
Interest received	685	172	857	1,366
Income tax paid	(3,921)	(1,690)	(8,177)	(5,190)
<b>Net cash (used in)/generated from operating activities</b>	<b>(89,821)</b>	<b>10,833</b>	<b>(110,056)</b>	<b>41,976</b>
<b>Cash flows from investing activities</b>				
Increase in construction work-in-progress	(404)	(10,860)	(1,006)	(12,834)
Purchase of property, plant and equipment	(116)	(2)	(116)	(2)
<b>Net cash used in investing activities</b>	<b>(520)</b>	<b>(10,862)</b>	<b>(1,122)</b>	<b>(12,836)</b>
<b>Cash flows from financing activities</b>				
Bank borrowing proceeds	126,400	121,971	190,400	201,074
Bank borrowing repayments	(41,000)	(78,000)	(113,700)	(152,990)
Contribution from minority interests	500	-	500	-
Advance from a related party	57,000	-	57,000	-
Repayment to a director	-	-	(57,821)	-
Refund of unclaimed cash distribution	-	64	-	64
Increase in deposits restricted-in-use	(18,730)	(41,032)	(8,730)	(59,632)
Interest paid	(1,880)	(2,695)	(3,919)	(5,080)
<b>Net cash generated from/(used in) financing activities</b>	<b>122,290</b>	<b>308</b>	<b>63,730</b>	<b>(16,564)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>31,949</b>	<b>279</b>	<b>(47,448)</b>	<b>12,576</b>
Cash and cash equivalents at beginning of financial period	11,003	39,628	90,316	27,345
Effect of exchange rate changes on cash equivalents	(23)	4	61	(10)
<b>Cash and cash equivalents at end of financial period (Note A)</b>	<b>42,929</b>	<b>39,911</b>	<b>42,929</b>	<b>39,911</b>

- 1.(c) A statement of cash flows (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

**CONSOLIDATED STATEMENT OF CASH FLOWS (CONT'D)**

**Note A:**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following:

	Unaudited 3 months ended		Unaudited 6 months ended	
	30.06.2014	30.06.2013	30.06.2014	30.06.2013
	RMB'000	RMB'000	RMB'000	RMB'000
Cash on hand and at banks	126,686	143,943	126,686	143,943
Less: Deposits restricted-in-use	(83,757)	(104,032)	(83,757)	(104,032)
	<u>42,929</u>	<u>39,911</u>	<u>42,929</u>	<u>39,911</u>

1.(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

**STATEMENTS OF CHANGES IN EQUITY**

Unaudited Group	← Equity attributable to owners of the Company →					Non-controlling		
	Share capital RMB'000	Statutory reserves RMB'000	Currency translation reserve RMB'000	Share option reserve RMB'000	Revenue reserve RMB'000	Total RMB'000	interests RMB'000	Total equity RMB'000
Balance at 1 January 2014	352,241	78,081	3,693	1,171	358,516	793,702	-	793,702
Net profit for the period	-	-	-	-	16,156	16,156	-	16,156
Other comprehensive income, net of tax								
- Currency translation differences arising from consolidation	-	-	1,023	-	-	1,023	-	1,023
Total comprehensive income for the 3 months ended 31 March 2014	-	-	1,023	-	16,156	17,179	-	17,179
Grant of equity-settled share options to employees	-	-	-	2,162	-	2,162	-	2,162
Transfer to statutory reserves	-	3,247	-	-	(3,247)	-	-	-
Balance at 31 March 2014	352,241	81,328	4,716	3,333	371,425	813,043	-	813,043
Net profit for the period	-	-	-	-	24,002	24,002	6	24,008
Other comprehensive income, net of tax								
- Currency translation differences arising from consolidation	-	-	368	-	-	368	-	368
Total comprehensive income for the 3 months ended 30 June 2014	-	-	368	-	24,002	24,370	6	24,376
Grant of equity-settled share options to employees	-	-	-	2,174	-	2,174	-	2,174
Contribution from non-controlling interests	-	-	-	-	-	-	500	500
Transfer to statutory reserves	-	3,870	-	-	(3,870)	-	-	-
Balance at 30 June 2014	352,241	85,198	5,084	5,507	391,557	839,587	506	840,093



1.(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

**STATEMENTS OF CHANGES IN EQUITY (CONT'D)**

Unaudited Group	← Equity attributable to owners of the Company →					Non-controlling interests		Total equity RMB'000
	Share capital RMB'000	Statutory reserves RMB'000	Currency translation reserve RMB'000	Share option reserve RMB'000	Revenue reserve RMB'000	Total RMB'000	RMB'000	
Balance at 1 January 2013	193,052	65,503	6,571	-	296,356	561,482	-	561,482
Net profit for the period	-	-	-	-	7,146	7,146	-	7,146
Other comprehensive loss, net of tax								
- Currency translation differences arising from consolidation	-	-	(688)	-	-	(688)	-	(688)
Total comprehensive (loss)/income for the 3 months ended 31 March 2013	-	-	(688)	-	7,146	6,458	-	6,458
Transfer to statutory reserves	-	1,277	-	-	(1,277)	-	-	-
Balance at 31 March 2013	193,052	66,780	5,883	-	302,225	567,940	-	567,940
Net profit for the period	-	-	-	-	10,383	10,383	-	10,383
Other comprehensive (loss)/income, net of tax								
- Refund of unclaimed cash distribution for more than 6 years	-	-	-	-	64	64	-	64
- Currency translation differences arising from consolidation	-	-	(1,216)	-	-	(1,216)	-	(1,216)
Total comprehensive (loss)/income for the 3 months ended 30 June 2013	-	-	(1,216)	-	10,447	9,231	-	9,231
Transfer to statutory reserves	-	1,677	-	-	(1,677)	-	-	-
Balance at 30 June 2013	193,052	68,457	4,667	-	310,995	577,171	-	577,171

1.(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year

**STATEMENTS OF CHANGES IN EQUITY (CONT'D)**

Unaudited Company	Share capital RMB'000	Currency translation reserve RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total equity RMB'000
Balance at 1 January 2014	773,549	7,783	1,171	(16,911)	765,592
Net loss for the period	-	-	-	(4,026)	(4,026)
Other comprehensive income, net of tax					
- Currency translation differences arising from consolidation	-	12,391	-	-	12,391
Total comprehensive income/(loss) for the 3 months ended 31 March 2014	-	12,391	-	(4,026)	8,365
Grant of equity-settled share options to employees	-	-	2,162	-	2,162
Balance at 31 March 2014	773,549	20,174	3,333	(20,937)	776,119
Net loss for the period	-	-	-	(4,243)	(4,243)
Other comprehensive income, net of tax					
- Currency translation differences arising from consolidation	-	4,540	-	-	4,540
Total comprehensive income/(loss) for the 3 months ended 30 June 2014	-	4,540	-	(4,243)	297
Grant of equity-settled share options to employees	-	-	2,174	-	2,174
Balance at 30 June 2014	773,549	24,714	5,507	(25,180)	778,590
Balance at 1 January 2013	614,360	51,777	-	(10,583)	655,554
Net loss for the period	-	-	-	(1,762)	(1,762)
Other comprehensive loss, net of tax					
- Currency translation differences arising from consolidation	-	(12,303)	-	-	(12,303)
Total comprehensive loss for the 3 months ended 31 March 2013	-	(12,303)	-	(1,762)	(14,065)
Balance at 31 March 2013	614,360	39,474	-	(12,345)	641,489
Net loss for the period	-	-	-	(1,669)	(1,669)
Other comprehensive income, net of tax					
- Refund of unclaimed cash distribution for more than 6 years	-	-	-	64	64
- Currency translation differences arising from consolidation	-	(23,203)	-	-	(23,203)
Total comprehensive income/(loss) for the 3 months ended 30 June 2013	-	(23,203)	-	(1,605)	(24,808)
Balance at 30 June 2013	614,360	16,271	-	(13,950)	616,681

- 1.(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles, as well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

There were no movements in the Company's share capital for the financial period ended 30 June 2014.

- 1.(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.

	Company	
	As at 30.06.2014	As at 31.12.2013
Total number of shares issued	735,520,646	735,520,646

The Company does not have any treasury shares at the end of the current financial period (as at 30 June 2014) and at the end of the immediately preceding year (as at 31 December 2013).

- 1.(d)(iv) A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

Not applicable.

2. Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.

The figures have not been audited or reviewed by the auditors.

3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).

Not applicable.

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.

The Group has applied the same accounting policies and methods of computation in the financial information for the current financial period as those used in the audited financial statements for the financial year ended 31 December 2013, except for the adoption of certain revised Financial Reporting Standards ("FRS") which are effective for the financial period commencing 1 January 2014. The adoption of these FRS has no material impact on the Group's financial statements.

5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.

Please refer to Paragraph 4.

**6. Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.**

	3 months ended		6 months ended	
	30.06.2014	30.06.2013	30.06.2014	30.06.2013
Net profit for the period attributable to owners of the Company (RMB'000)	24,002	10,383	40,158	17,529
(a) EPS based on weighted average number of shares in issue (RMB cents/share)	3.3	1.6	5.5	2.7
(b) EPS based on fully diluted basis (RMB cents/share)	3.3	1.6	5.5	2.7
Weighted average number of shares applicable to earnings per share ('000)	735,521	639,521	735,521	639,521
Weighted average number of shares fully diluted basis ('000)	735,521	639,521	735,521	639,521

Basic earnings per share is calculated by dividing earnings for the period attributable to the owners of the Company by the weighted average number of ordinary shares issued during the financial period under review.

Diluted earnings per share is calculated on the same basis as the basic earnings per share except that the weighted average number of shares issued during the financial period under review is adjusted for the effects of all dilutive potential ordinary shares. The Company has no dilutive potential ordinary shares as at 30 June 2014 and 2013 respectively because 3,500,000 (30 June 2013: Nil) share options granted to employees under the employee share option plan have not been included in the calculation of diluted earnings per share as they are anti-dilutive.

**7. Net asset value (for the issuer and group) per ordinary share based on the total number of issued shares excluding treasury shares of the issuer at the end of the:-**  
**(a) current financial period reported on; and**  
**(b) immediately preceding financial year.**

	Group		Company	
	As at		As at	
	30.06.2014	31.12.2013	30.06.2014	31.12.2013
Net asset value per share (RMB cents) based on issued share capital as at the end of period reported on	<u>114.1</u>	<u>107.9</u>	<u>105.9</u>	<u>104.1</u>
Number of shares used in calculating net asset value per shares ('000)	<u>735,521</u>	<u>735,521</u>	<u>735,521</u>	<u>735,521</u>

8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:-
- (a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and
- (b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.

**Review of Financial Performance**

a) Revenue

The Group achieved a total revenue of RMB182.8 million in the three months ended 30 June 2014 ("2Q2014"), an increase of 103.1% or RMB92.8 million from RMB90.0 million achieved in the three months ended 30 June 2013 ("2Q2013"). In 2Q2014, we completed 11 dust collectors projects as compared to four projects in 2Q2014.

Revenue for six months ended 30 June 2014 ("6M2014") and six months ended 30 June 2013 ("6M2013") were RMB343.8 million and RMB150.9 million respectively. For 6M2014, we completed 24 dust collectors projects and as at 30 June 2014, there were 15 on-going projects. In 6M2013, we completed eight dust collectors projects and as at 30 June 2013, there were seven on-going projects.

The detailed breakdown of revenue of the Group by industry is as follows:

	2Q2014	2Q2013	6M2014	6M2013
	%	%	%	%
Power generation	45.2	33.6	52.3	20.1
Steel and metallurgy	36.8	29.0	30.2	37.8
Chemical	12.2	18.4	8.0	29.3
Paper mill	-	0.1	-	0.1
Others	5.8	18.9	9.5	12.7
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

For 6M2014, 52.3% of our total revenue was from the power generation industry, 30.2% from the steel and metallurgy industry, 8.0% from the chemical industry, and the remaining 9.5% was from other industries.

**Review of Financial Performance (cont'd)**

b) Cost of Sales

Detailed breakdown of cost of sales is as follows:

	2Q2014	2Q2013	6M2014	6M2013
	%	%	%	%
Direct materials	79.1	77.3	80.3	82.5
Direct labour, fabrication and installation fees	18.9	20.2	17.9	14.9
Depreciation and rental charges	0.2	0.5	0.2	0.6
Utilities charges	0.1	0.2	0.2	0.2
Miscellaneous expenses	1.7	1.8	1.4	1.8
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Direct materials which consisted mainly of steel plates, channel and angle steel, discharge electrode and collection electrode systems made up 79.1%, 77.3%, 80.3% and 82.5% of our total cost of sales in 2Q2014, 2Q2013, 6M2014 and 6M2013 respectively. The composition of the cost of sales for 2Q2014 was fairly consistent with that in 2Q2013.

Total cost of sales for 2Q2014 amounted to RMB136.4 million, which was 107.8% or RMB70.8 million higher than RMB65.6 million incurred in 2Q2013 and our gross profit increased 90.4% or RMB22.0 million from 2Q2013 to 2Q2014. As such, the gross profit margin decreased marginally from 27.1% in 2Q2013 to 25.4% in 2Q2014. The decrease in gross profit margin was due to several projects being secured at slightly lower margin because of the market conditions. Nevertheless, the gross profit margin in 2Q2014 was higher than 24.5% secured in 1Q2014.

The Group's revenue increased 127.8% from RMB150.9 million in 6M2013 to RMB343.8 million in 6M2014, while gross profit increased 109.7% from RMB41.0 million in 6M2013 to RMB85.9 million in 6M2014. Gross profit margin decreased marginally from 27.1% in 6M2013 to 25.0% in 6M2014 due to the market conditions.

c) Operating Expenses

Total operating expenses in 2Q2014 which amounted to RMB18.7 million was approximately 53.5% or RMB6.5 million higher than the RMB12.2 million incurred in 2Q2013 whereas the total operating expenses in 6M2014 of RMB38.5 million was approximately 82.6% or RMB17.4 million higher than the RMB21.1 million incurred in 6M2013.

Selling and distribution expenses in 2Q2014 totalled RMB6.4 million, which was 108.4% or RMB3.3 million higher than the RMB3.1 million incurred in 2Q2013. The increase was mainly due to the increase in sales commission of RMB2.1 million, delivery charges of RMB1.0 million, travelling expenses of RMB0.1 million and entertainment expenses of RMB0.1 million, which were in-line with the higher revenue for 2Q2014.

Selling and distribution expenses in 6M2014 totalled RMB11.8 million, which was 108.6% or RMB6.1 million higher than RMB5.7 million in 6M2013. The increase was mainly due to the increase in sales commission of RMB4.5 million, delivery charges of RMB1.2 million, travelling expenses of RMB0.4 million and entertainment expenses of RMB0.3 million, which were in-line with the higher revenue for 6M2014.

Administrative expenses increased by 66.8% or RMB3.4 million from RMB5.2 million in 2Q2013 to RMB8.6 million in 2Q2014. The increase was mainly due to realised and unrealised foreign exchange loss of RMB2.0 million and increase in staff cost of approximately RMB3.0 million (mainly included the amortisation of the employee share option reserve of RMB2.2 million). The increase was offset by the decrease in research and development costs of RMB2.3 million.

**Review of Financial Performance (cont'd)**

c) Operating Expenses (cont'd)

Administrative expenses increased by 152.9% or RMB12.4 million from RMB8.1 million in 6M2013 to RMB20.6 million in 6M2014. The increase was mainly due to realised and unrealised foreign exchange loss of RMB4.0 million, increase in research and development costs of RMB0.8 million, and increase in staff cost of approximately RMB6.3 million (mainly included the amortisation of the employee share option reserve of RMB4.3 million).

Finance costs decreased by 6.9% or RMB0.3 million from 2Q2013 to 2Q2014. Due to lower interest rates, bank interest expense decreased from RMB2.7 million in 2Q2013 to RMB1.9 million in 2Q2014. For 6M2014, the finance costs decreased by 16.1% or RMB1.2 million from 6M2013 to 6M2014. The bank interest expense decreased from RMB5.1 million in 6M2013 to RMB3.9 million in 6M2014.

d) Income tax expense

For 6M2014, the tax expenses was provided at an income tax rate of 15% based on Fujian Dongyuan's 6M2014 profit before tax. The increase in income tax expense of RMB4.7 million was in-line with the increase in profit before tax.

The potential income tax refund for FY2012 income tax filings which is estimated to be RMB5.3 million has yet to be refunded by the PRC tax authority.

e) Net profit for the period

The Group's net profit for 2Q2014 increased by 131.2% or RMB13.6 million from RMB10.4 million in 2Q2013 to RMB24.0 million in 2Q2014. The increase was mainly due to the increase in gross profit of 90.4% or RMB22.0 million and an increase in other income of approximately RMB0.6 million in 2Q2014 as compared to 2Q2013. The increase was offset by the increase in total operating expenses of RMB6.5 million and increase in income tax expenses of RMB2.6 million in 2Q2014.

The Group's net profit increased by 129.1% or RMB22.6 million from RMB17.5 million in 6M2013 to RMB40.2 million in 6M2014. The increase was mainly due to the increase in gross profit of 109.7% or RMB44.9 million. The increase was offset by the decrease in other income of RMB0.2 million, increase in total operating expenses of RMB17.4 million, and higher income tax provision as mentioned in the paragraph above.

**Review of Financial Position**

**Non-Current Assets**

In 6M2014, the Group incurred and paid approximately RMB1.0 million for Fujian's construction work-in-progress. As at 30 June 2014, the amount of construction work-in-progress in Fujian province was approximately MB23.7 million.

The Group has secured the land and property title deeds for the Anhui plant in April 2014.



## Review of Financial Position (cont'd)

### Current Assets

Current assets comprise of inventories, trade and other receivables and cash and bank balances. Total current assets amounted to RMB876.0 million as at 30 June 2014, which was about RMB114.4 million higher than that as at 31 December 2013.

As at 30 June 2014, inventories stood at RMB18.3 million, which was RMB2.2 million lower than RMB20.5 million as at 31 December 2013.

Trade and bills receivables balance amounted to RMB679.4 million as at 30 June 2014, increased by RMB187.9 million from RMB491.5 million as at 31 December 2013. The Group received payments of approximately RMB217.0 million from the customers in 6M2014. The receipts are less than the revenue recognised in 6M2014. Included in the trade receivables were retention monies from completed projects, which amounted to RMB66.7 million (31 December 2013: RMB44.8 million). The Group continues to monitor the collection from the trade receivables closely and does not foresee any recoverability issues to date.

Other receivables, deposits and prepayments amounted to RMB51.5 million as at 30 June 2014, which was RMB32.6 million lower than RMB84.1 million as at 31 December 2013. Included in the other receivables, deposits and prepayments were advances to suppliers for the purchase of raw materials, which amounted to RMB43.3 million as at 31 March 2014 (31 December 2013: RMB31.8 million), tender deposits for projects of RMB2.3 million (31 December 2013: RMB3.9 million), and advance payments to the contractors for the construction of the new plant of RMB1.2 million (31 December 2013: RMB2.1 million).

As at 30 June 2014, the Group has cash and cash equivalents of RMB126.7 million, approximately RMB38.7 million lower than RMB165.3 million as at 31 December 2013. This was due mainly to net cash used in operating activities. Included in the cash and bank balances was an amount of RMB83.8 million (31 December 2013: RMB75.0 million) of deposits restricted-in-use, which was pledged with financial institutions for the issuance of performance guarantee for one dust collector project and security deposit for the short-term borrowings.

### Current Liabilities

Current liabilities comprise trade and bills payables, other payables and accruals, short-term borrowings and tax payable.

Trade and bills payables amounted to RMB16.1 million as at 30 June 2014, which was RMB12.9 million lower than the RMB29.0 million as at 31 December 2013. The decrease was due mainly to the decrease in bills payables of RMB20.0 million from 31 December 2013 to RMB6.0 million as at 30 June 2014.

Other payables and accruals amounted to RMB51.8 million as at 30 June 2014, which was marginally higher by RMB4.9 million than the RMB46.9 million as at 31 December 2013. The increase was mainly due to the increase in sale commission payable of RMB4.2 million from 31 December 2013 to 30 June 2014.

The interest-free loan advanced from the Executive Chairman of the Group of RMB57.8 million has been fully repaid in 1Q2014. Nevertheless, the Executive Chairman has through his related party advanced another RMB57.0 million interest-free loan to the Group again in 2Q2014.

As at 30 June 2014, the Group has short-term borrowings of RMB254.6 million from the banks. Please refer to Paragraph 1(b)(ii) for the details of the collaterals.



### Review of Cash Flows

For 2Q2014, the Group made a pre-tax profit of RMB28.8 million. After adjusting for non-cash flow items, interest expense and interest income, cash flow from operating profits before working capital changes was RMB32.4 million. This was mainly used to fund the increase in trade and other receivables (RMB134.5 million) and payment of income tax expense (RMB3.9 million). It was partially offset by the decrease in inventories (RMB8.6 million), increase in trade and other payables (RMB6.5 million), and receipt of interest income (RMB0.7 million). As a result, the Group had a net cash used in operating activities of RMB89.8 million in 2Q2014.

For 6M2014, the Group made a pre-tax profit of RMB48.8 million. After adjusting for non-cash flow items, interest expense and interest income, cash flow from operating profits before working capital changes was RMB56.8 million. This was mainly used to fund the increase in trade and other receivables (RMB155.1 million), decrease in trade and other payables (RMB7.9 million), and payment of income tax expense (RMB8.2 million). It was partially offset by the decrease in inventories (RMB2.2 million) and receipt of interest income (RMB0.9 million). As a result, the Group had a net cash used in operating activities of RMB110.1 million in 6M2014.

Net cash used in investing activities amounted to RMB0.5 million in 2Q2014. This was mainly due to construction cost of RMB0.4 million incurred for the Fujian's construction work-in-progress.

Net cash used in investing activities amounted to RMB1.1 million in 6M2014. This was mainly due to construction costs of RMB1.0 million incurred for the Fujian's construction work-in-progress.

Net cash generated from financing activities amounted to RMB122.3 million in 2Q2014. This was mainly contributed by the loan proceeds from the banks of RMB126.4 million and amount advanced from a related party amounting to RMB57.0 million. The increase was partially offset by loan repayments of RMB41.0 million, interest paid of RMB1.9 million and increase in deposits restricted-in-use of RMB18.7 million in 2Q2014.

Net cash generated from financing activities amounted to RMB63.7 million in 6M2014. This was mainly contributed by the loan proceeds from the banks of RMB190.4 million and amount advanced from a related party amounting to RMB57.0 million. The increase was partially offset by loan repayments of RMB113.7 million, repayment of amount due to a director of RMB57.8 million, interest paid of RMB3.9 million and increase in deposits restricted-in-use of RMB8.7 million.

The Group had a net increase in cash and cash equivalents of RMB31.9 million for 2Q2014. Cash and cash equivalents (excluding deposits restricted-in-use) stood at RMB42.9 million as at 30 June 2014.

The Group had a net decrease in cash and cash equivalents of RMB47.4 million for 6M2014. Cash and cash equivalents (excluding deposits restricted-in-use) stood at RMB42.9 million as at 30 June 2014.

**9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.**

Not applicable.

**10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.**

The Standing Committee of China's National People's Congress (NPC), the China's top legislature, on Thursday (24 April 2014) voted to adopt revisions to the Environmental Protection Law, which gives heavier punishment to environment-related wrongdoing. The law gives harsher punishments to environmental wrongdoing, and has specific articles and provisions on tackling smog, making citizen's more aware of environmental protection and protecting whistleblowers. The revised law will go into effect from 1 January 2015. The country's Environmental Protection Law has not been revised since it took effect in 1989. The law says a daily-based fine system will be introduced to punish offenders. If an enterprise illegally discharges pollutants and is fined and asked to correct its wrongdoing by authorities, but refuses to make corrections, the enterprise may face a fine which accumulates daily. In the past, enterprises received a one-off fine. In addition, local officials may be demoted or sacked, if they are guilty of misconduct, including covering up environment-related wrongdoing, falsifying data or asking others to falsify data, failing to publicize environmental information which should be made public according to law or failing to give closure orders to enterprises which illegally discharge pollutants (*Source: China Daily, April 2014*).

China will set up a RMB10 billion (approximately US\$1.65 billion) fund to reduce air pollution in the country's largest cities, according to a release from a State Council meeting at which Premier Li Keqiang presided. The Cabinet also announced subsidies, tax changes, energy-efficiency standards and pollution controls aimed at improving environmental quality. Efforts will be focused on haze-prone large cities and particulate matter from 2.5 micrometers, or PM2.5, to 10 micrometers in size to reduce the risk of cardiovascular illnesses. China will reward leaders in efforts to improve energy efficiency and cut emissions, and promote the use of "clean" coal, the State Council said (*Source: Bloomberg, February 2014*).

China's 31 provinces, municipalities and autonomous regions have been set targets to reduce main air pollutants by 5 to 25 percent, in the country's latest effort to combat pollution. Local governments have been ordered to map out detailed plans to ensure the implementation of various anti-pollution methods and to lay down specific goals for each year. Meanwhile, the State Council, or China's Cabinet, is mulling a system to evaluate each provincial-level government's progress, and those failing to reach their goals will be named and shamed (*Source: China Daily, January 2014*).

Given the above measures and the tightening of anti-air pollution laws and policies in China, the Group expects the demand for our products as experienced from 2013 to stay robust, with increased opportunities for us to expand our market presence.

**11. Dividend**

**(a) Current Financial Period Reported On**

Any dividend declared for the current financial period reported on?

No.

**(b) Corresponding Period of the Immediately Preceding Financial Year**

Any dividend declared for the corresponding period of the immediately preceding financial year?

No.

**(c) Date payable**

Not applicable.

**(d) Books closure date**

Not applicable.

**12. If no dividend has been declared/recommended, a statement to that effect.**

No dividend has been declared or recommended for the financial period ended 30 June 2014.

**13. If the Group has obtained a general mandate from shareholders for IPTs, the aggregate value of such transactions as required under Rule 920(1)(a)(ii). If no IPT mandate has been obtained, a statement to that effect.**

No IPT mandate has been obtained from shareholders.

**14. Use of Proceeds**

The Company refers to the net proceeds raised in September 2013 from the placement of 65 million ordinary shares in the share capital of the Company at an issue price of S\$0.2513 per ordinary share (“**First Placement**”).

As at the date of this announcement, the Group has utilised net proceeds from the First Placement of approximately S\$11.9 million as follows:-

	<b>Amount Allocated S\$'000</b>	<b>Amount Utilised S\$'000</b>	<b>Balance S\$'000</b>
1) Support the growth of the Group's business and operations in the PRC, including funding of strategic investments, joint ventures, acquisitions and/or strategic alliances as and when such opportunities arise and are deemed appropriate by the Board	2,000	(500)	1,500
2) Acquire fixed assets for the production purpose	2,000	(299)	1,701
3) General working capital for the purposes:	11,940	(11,940)	-
a) Purchase of raw materials		(10,412)	
b) Staff cost, directors' fee and administrative expenses		(1,089)	
c) Audit, tax and other professional expenses		(304)	
d) Other operating expenses		(135)	
<b>Total</b>	<b>15,940</b>	<b>(11,940)</b>	<b>3,201</b>

The above utilisation of the net proceeds is consistent with the intended use of proceeds disclosed in the Offer Information Statement dated 22 August 2013.

#### 14. Use of Proceeds (cont'd)

The Company also refers to the net proceeds raised in December 2013 from the placement of 31 million ordinary shares in the share capital of the Company at an issue price of S\$0.5500 per ordinary share (“**Second Placement**”).

As at the date of this announcement, the Group has utilised net proceeds from the Second Placement of approximately S\$15.6 million as follows:-

	Amount Allocated S\$'000	Amount Utilised S\$'000	Balance S\$'000
General working capital for the purposes:	16,797	(16,543)	254
a) Purchase of raw materials		(15,500)	
b) Staff cost, directors' fee and administrative expenses		(743)	
c) Audit, tax and other professional expenses		(161)	
d) Other operating expenses		(139)	
<b>Total</b>	<b>16,797</b>	<b>(16,543)</b>	<b>254</b>

The above utilisation of the net proceeds is consistent with the intended use of proceeds disclosed in the Offer Information Statement dated 18 November 2013.



**CHINA ENVIRONMENT LTD.**  
(Registration No.: 200301902W)

**15. Negative confirmation by the Board pursuant to Rule 705(5)**

We, Huang Min and Wu Jida, being two directors of China Environment Ltd. (the “Company”), do hereby confirm on behalf of the directors of the Company that, to the best of our knowledge, nothing has come to the attention of the board of directors of the Company which may render the financial statements for second quarter and six months ended 30 June 2014 to be false or misleading in any material aspect.

On behalf of the Board of Directors

Huang Min  
Executive Chairman

Wu Jida  
Executive Director and CEO

**BY ORDER OF THE BOARD**

**Huang Min**  
**Executive Chairman**  
**13 August 2014**