



**中國環保**  
China Environment Ltd.

## **CHINA ENVIRONMENT LTD.**

(Registration No.: 200301902W)

Financial Statements And Related Announcement  
For Third Quarter And Nine Months Ended  
30 September 2014



**UNAUDITED FINANCIAL RESULT ANNOUNCEMENT FOR THE THIRD QUARTER AND NINE MONTHS ENDED 30 SEPTEMBER 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 9 months ended		Increase/ (Decrease) %
	30.09.2014 RMB'000	30.09.2013 RMB'000		30.09.2014 RMB'000	30.09.2013 RMB'000	
<b>Revenue</b>	182,975	193,647	(5.5)	526,778	344,580	52.9
Cost of sales	(141,718)	(144,605)	(2.0)	(399,616)	(254,573)	57.0
<b>Gross profit</b>	41,257	49,042	(15.9)	127,162	90,007	41.3
Other income	1,033	688	50.1	2,453	2,297	6.8
Selling and distribution expenses	(5,032)	(5,700)	(11.7)	(16,859)	(11,369)	48.3
Administrative expenses	(6,827)	(10,193)	(33.0)	(27,377)	(18,319)	49.4
Finance costs	(4,662)	(2,856)	63.2	(10,766)	(10,131)	6.3
<b>Profit before tax</b>	25,769	30,981	(16.8)	74,613	52,485	42.2
Income tax expense	(4,914)	(5,654)	(13.1)	(13,594)	(9,629)	41.2
Income tax refund	-	10,119	(100.0)	-	10,119	(100.0)
<b>Net profit for the period</b>	<u>20,855</u>	<u>35,446</u>	(41.2)	<u>61,019</u>	<u>52,975</u>	15.2
Attributable to:						
Owners of the Company	20,926	35,446	(41.0)	61,096	52,975	15.3
Non-controlling interests	(71)	-	100.0	(77)	-	100.0
<b>Net profit for the period</b>	<u>20,855</u>	<u>35,446</u>	(41.2)	<u>61,019</u>	<u>52,975</u>	15.2

- 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 9 months ended		Increase/ (Decrease) %
	30.09.2014 RMB'000	30.09.2013 RMB'000		30.09.2014 RMB'000	30.09.2013 RMB'000	
<b>Net profit for the period</b>	20,855	35,446	(41.2)	61,019	52,975	15.2
Other comprehensive income:						
Currency translation differences arising from consolidation	(1,085)	831	(230.6)	306	(1,073)	N.M
<b>Total comprehensive income for the period</b>	<u>19,770</u>	<u>36,277</u>	(45.5)	<u>61,325</u>	<u>51,902</u>	18.2
Attributable to:						
Owners of the Company	19,841	36,277	(45.3)	61,402	51,902	18.3
Non-controlling interests	(71)	-	100.0	(77)	-	100.0
<b>Total comprehensive income for the period</b>	<u>19,770</u>	<u>36,277</u>	(45.5)	<u>61,325</u>	<u>51,902</u>	18.2
Profit before tax is arrived at after charging/(crediting):						
Depreciation of property, plant and equipment	2,979	238	1,151.7	3,465	731	374.0
Amortisation of land use rights	460	24	1,816.7	508	72	605.6
Property, plant and equipment written off	-	-	-	-	118	(100.0)
Research and development costs	2	6,517	(100.0)	3,785	9,499	(60.2)
Foreign exchange (gain)/loss	(1,506)	266	(666.2)	507	(1,698)	N.M
Interest expense	3,480	2,576	35.1	7,399	7,656	(3.4)
Interest income	(952)	(606)	57.1	(1,809)	(1,972)	(8.3)
Share option expense	2,004	-	100.0	6,340	-	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	
	30.09.2014	31.12.2013	30.09.2014	31.12.2013
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Non-current assets</b>				
Property, plant and equipment	295,500	296,390	86	-
Land use rights	53,135	4,492	-	-
Prepayment for land use rights	-	49,150	-	-
Investment in subsidiaries	-	-	700,176	698,668
Investment in associated company	2,450	2,450	-	-
	<u>351,085</u>	<u>352,482</u>	<u>700,262</u>	<u>698,668</u>
<b>Current assets</b>				
Inventories	20,228	20,516	-	-
Trade and bills receivables	727,545	491,520	17	135
Other receivables, deposits and prepayments	52,604	84,148	1,383	171
Loan to subsidiaries	-	-	41,905	95,233
Dividend receivable from a subsidiary	-	-	21,756	21,710
Cash and cash equivalents	83,852	165,343	817	12,703
	<u>884,229</u>	<u>761,527</u>	<u>65,878</u>	<u>129,952</u>
<b>Total assets</b>	<u>1,235,314</u>	<u>1,114,009</u>	<u>766,140</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	31,860	28,994	-	-
Other payables and accruals	43,227	46,855	1,676	2,322
Short-term borrowings	203,503	177,928	-	-
Amount due to subsidiaries (non-trade)	-	-	2,996	2,885
Amount due to a director (non-trade)	-	57,821	-	57,821
Amount due to related parties (non-trade)	85,272	-	-	-
Tax payable	4,555	3,679	-	-
	<u>368,417</u>	<u>315,277</u>	<u>4,672</u>	<u>63,028</u>
<b>Total liabilities</b>	<u>373,447</u>	<u>320,307</u>	<u>4,672</u>	<u>63,028</u>
<b>Net assets</b>	<u>861,867</u>	<u>793,702</u>	<u>761,468</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	89,439	78,081	-	-
Currency translation reserve	3,999	3,693	9,584	7,783
Share option reserve	7,511	1,171	7,511	1,171
Revenue reserve/ (accumulated losses)	408,254	358,516	(29,176)	(16,911)
	<u>861,444</u>	<u>793,702</u>	<u>761,468</u>	<u>765,592</u>
<b>Non-controlling interests</b>	423	-	-	-
<b>Total equity</b>	<u>861,867</u>	<u>793,702</u>	<u>761,468</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 30.09.2014 (RMB'000)</b>		<b>As at 31.12.2013 (RMB'000)</b>	
Secured	Unsecured	Secured	Unsecured
96,400	107,103	82,825	95,103

**Amount repayable after one year**

<b>As at 30.09.2014 (RMB'000)</b>		<b>As at 31.12.2013 (RMB'000)</b>	
Secured	Unsecured	Secured	Unsecured
-	-	-	-

**Details of any collateral**

**As at 30.09.2014**

As at 30 September 2014, RMB21.4 million of the short-term borrowings was secured by bank deposits of RMB22.0 million. RMB70.0 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 RMB35.0 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 9M2014.

**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 9 months ended	
	30.09.2014 RMB'000	30.09.2013 RMB'000	30.09.2014 RMB'000	30.09.2013 RMB'000
<b>Cash flows from operating activities</b>				
Profit before tax	25,769	30,981	74,613	52,485
Adjustment for:-				
Depreciation of property, plant and equipment	2,979	238	3,465	731
Amortisation of land use rights	460	24	508	72
Interest expense	3,480	2,576	7,399	7,656
Interest income	(952)	(606)	(1,809)	(1,972)
Share option expense	2,004	-	6,340	-
Property, plant and equipment written off	-	-	-	118
<b>Operating cash flow before movements in working capital</b>	<b>33,740</b>	<b>33,213</b>	<b>90,516</b>	<b>59,090</b>
Inventories	(1,887)	(3,304)	288	3,075
Trade and other receivables	(49,181)	(22,344)	(204,263)	(79,173)
Trade and other payables	7,173	(40,056)	(762)	32,211
Currency translation adjustment	(1,026)	958	304	(936)
<b>Cash (used in)/generated from operations</b>	<b>(11,181)</b>	<b>(31,533)</b>	<b>(113,917)</b>	<b>14,267</b>
Interest received	952	606	1,809	1,972
Income tax paid	(4,758)	(1,625)	(12,935)	(6,815)
Income tax refund	-	10,119	-	10,119
<b>Net cash (used in)/generated from operating activities</b>	<b>(14,987)</b>	<b>(22,433)</b>	<b>(125,043)</b>	<b>19,543</b>
<b>Cash flows from investing activities</b>				
Increase in construction work-in-progress	(932)	(67)	(1,938)	(12,901)
Purchase of property, plant and equipment	(522)	-	(638)	(2)
<b>Net cash used in investing activities</b>	<b>(1,454)</b>	<b>(67)</b>	<b>(2,576)</b>	<b>(12,903)</b>
<b>Cash flows from financing activities</b>				
Net proceeds from new shares placement	-	77,066	-	77,066
Bank borrowing proceeds	12,430	20,854	202,830	221,928
Bank borrowing repayments	(63,555)	(59,000)	(177,255)	(211,990)
Contribution from minority interests	-	-	500	-
Advance from related parties	28,272	-	85,272	-
Repayment to a director	-	-	(57,821)	-
Refund of unclaimed cash distribution	-	-	-	64
Increase in deposits restricted-in-use	48,228	12,204	39,498	(47,428)
Interest paid	(3,480)	(2,576)	(7,399)	(7,656)
<b>Net cash generated from financing activities</b>	<b>21,895</b>	<b>48,548</b>	<b>85,625</b>	<b>31,984</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>5,454</b>	<b>26,048</b>	<b>(41,994)</b>	<b>38,624</b>
Cash and cash equivalents at beginning of financial period	42,929	39,911	90,316	27,345
Effect of exchange rate changes on cash and cash equivalents	(61)	(127)	-	(137)
<b>Cash and cash equivalents at end of financial period (Note A)</b>	<b>48,322</b>	<b>65,832</b>	<b>48,322</b>	<b>65,832</b>



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- 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:

	<b>Unaudited</b>		<b>Unaudited</b>	
	<b>3 months ended</b>		<b>9 months ended</b>	
	<b>30.09.2014</b>	<b>30.09.2013</b>	<b>30.09.2014</b>	<b>30.09.2013</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Cash on hand and at banks	83,852	157,660	83,852	157,660
Less: Deposits restricted-in-use	(35,530)	(91,828)	(35,530)	(91,828)
	<u>48,322</u>	<u>65,832</u>	<u>48,322</u>	<u>65,832</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/(loss) for the period	-	-	-	-	40,170	40,170	(6)	40,164
Other comprehensive income, net of tax - Currency translation differences arising from consolidation	-	-	1,391	-	-	1,391	-	1,391
Total comprehensive income for the 6 months ended 30 June 2014	-	-	1,391	-	40,170	41,561	(6)	41,555
Grant of equity-settled share options to employees	-	-	-	4,336	-	4,336	-	4,336
Contribution from non-controlling interests	-	-	-	-	-	-	500	500
Transfer to statutory reserves	-	7,117	-	-	(7,117)	-	-	-
Balance at 30 June 2014	352,241	85,198	5,084	5,507	391,569	839,599	494	840,093
Net profit/(loss) for the period	-	-	-	-	20,926	20,926	(71)	20,855
Other comprehensive (loss)/income, net of tax - Currency translation differences arising from consolidation	-	-	(1,085)	-	-	(1,085)	-	(1,085)
Total comprehensive income for the 3 months ended 30 September 2014	-	-	(1,085)	-	20,926	19,841	(71)	19,770
Grant of equity-settled share options to employees	-	-	-	2,004	-	2,004	-	2,004
Transfer to statutory reserves	-	4,241	-	-	(4,241)	-	-	-
Balance at 30 September 2014	352,241	89,439	3,999	7,511	408,254	861,444	423	861,867



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	-	-	-	-	17,529	17,529	-	17,529
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	-	-	(1,904)	-	-	(1,904)	-	(1,904)
Total comprehensive (loss)/income for the 6 months ended 30 June 2013	-	-	(1,904)	-	17,593	15,689	-	15,689
Transfer to statutory reserves	-	2,954	-	-	(2,954)	-	-	-
Balance at 30 June 2013	193,052	68,457	4,667	-	310,995	577,171	-	577,171
Net profit for the period	-	-	-	-	35,446	35,446	-	35,446
Other comprehensive income, net of tax							-	
- Currency translation differences arising from consolidation	-	-	831	-	-	831	-	831
Total comprehensive income for the 3 months ended 30 September 2013	-	-	831	-	35,446	36,277	-	36,277
Proceeds from new shares placement	78,964	-	-	-	-	78,964	-	78,964
Share issue expenses	(1,898)	-	-	-	-	(1,898)	-	(1,898)
Transfer to statutory reserves	-	4,188	-	-	(4,188)	-	-	-
Balance at 30 September 2013	270,118	72,645	5,498	-	342,253	690,514	-	690,514

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	-	-	-	(8,269)	(8,269)
Other comprehensive income, net of tax					
- Currency translation differences arising from consolidation	-	16,931	-	-	16,931
Total comprehensive income/(loss) for the 6 months ended 30 June 2014	-	16,931	-	(8,269)	8,662
Grant of equity-settled share options to employees	-	-	4,336	-	4,336
Balance at 30 June 2014	773,549	24,714	5,507	(25,180)	778,590
Net loss for the period	-	-	-	(3,996)	(3,996)
Other comprehensive income, net of tax					
- Currency translation differences arising from consolidation	-	(15,130)	-	-	(15,130)
Total comprehensive income/(loss) for the 3 months ended 30 September 2014	-	(15,130)	-	(3,996)	(19,126)
Grant of equity-settled share options to employees	-	-	2,004	-	2,004
Balance at 30 September 2014	773,549	9,584	7,511	(29,176)	761,468
Balance at 1 January 2013	614,360	51,777	-	(10,583)	655,554
Net loss for the period	-	-	-	(3,431)	(3,431)
Other comprehensive income, net of tax					
- Refund of unclaimed cash distribution for more than 6 years	-	-	-	64	64
- Currency translation differences arising from consolidation	-	(35,506)	-	-	(35,506)
Total comprehensive loss for the 6 months ended 30 June 2013	-	(35,506)	-	(3,367)	(38,873)
Balance at 30 June 2013	614,360	16,271	-	(13,950)	616,681
Net loss for the period	-	-	-	(1,574)	(1,574)
Other comprehensive income, net of tax					
- Currency translation differences arising from consolidation	-	2,761	-	-	2,761
Total comprehensive income/(loss) for the 3 months ended 30 September 2013	-	2,761	-	(1,574)	1,187
Proceeds from new shares placement	78,964	-	-	-	78,964
Share issue expenses	(1,898)	-	-	-	(1,898)
Balance at 30 September 2013	691,426	19,032	-	(15,524)	694,934

- 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 September 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 30.09.2014	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 September 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		9 months ended	
	30.09.2014	30.09.2013	30.09.2014	30.09.2013
Net profit for the period attributable to owners of the Company (RMB'000)	20,926	35,446	61,096	52,975
(a) EPS based on weighted average number of shares in issue (RMB cents/share)	2.8	5.5	8.3	8.2
(b) EPS based on fully diluted basis (RMB cents/share)	2.8	5.5	8.3	8.2
Weighted average number of shares applicable to earnings per share ('000)	735,521	645,711	735,521	645,711
Weighted average number of shares fully diluted basis ('000)	735,521	645,711	735,521	645,711

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 September 2014 and 2013 respectively because 3,500,000 (30 September 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	As at	As at
	30.09.2014	31.12.2013	30.09.2014	31.12.2013
Net asset value per share (RMB cents) based on issued share capital as at the end of period reported on	117.1	107.9	103.5	104.1
Number of shares used in calculating net asset value per shares ('000)	735,521	735,521	735,521	735,521

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 RMB183.0 million in the three months ended 30 September 2014 ("3Q2014"), a marginal decrease of 5.5% or RMB10.7 million from RMB193.6 million achieved in the three months ended 30 September 2013 ("3Q2013"). In 3Q2014, we completed 11 dust collectors projects as compared to four projects in 3Q2013. The contract sum per project in 3Q2013 was much larger compared to that in 3Q2014.

Revenue for nine months ended 30 September 2014 ("9M2014") was RMB526.8 million, an increase of 52.9% or RMB182.2 million from RMB344.6 million achieved in nine months ended 30 September 2013 ("9M2013"). For 9M2014, we completed 35 dust collectors projects and as at 30 September 2014, there were 10 on-going projects. In 9M2013, we completed 12 dust collectors projects and as at 30 September 2013, there were 13 on-going projects.

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

	<b>3Q2014</b>	<b>3Q2013</b>	<b>9M2014</b>	<b>9M2013</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Power generation	46.3	70.9	50.2	48.6
Steel and metallurgy	35.2	13.4	31.9	24.1
Chemical	6.0	14.3	7.3	20.8
Cement	3.8	-	1.3	-
Others	8.7	1.4	9.3	6.5
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

For 9M2014, 50.2% of our total revenue was from the power generation industry, 31.9% from the steel and metallurgy industry, 7.3% from the chemical industry, 1.3% from the cement industry and the remaining 9.3% was from other industries.

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

b) Cost of Sales

Detailed breakdown of cost of sales is as follows:

	<b>3Q2014</b>	<b>3Q2013</b>	<b>9M2014</b>	<b>9M2013</b>
	%	%	%	%
Direct materials	80.1	84.7	80.2	83.7
Direct labour, processing and installation fees	17.0	14.6	17.6	14.8
Depreciation and rental charges	1.7	0.2	0.8	0.4
Utilities charges	0.1	0.1	0.1	0.1
Miscellaneous expenses	1.1	0.4	1.3	1.0
	<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 80.1%, 84.7%, 80.2% and 83.7% of our total cost of sales in 3Q2014, 3Q2013, 9M2014 and 9M2013 respectively. The composition of the cost of sales for 3Q2014 and 9M2014 were fairly consistent with that in 3Q2013 and 9M2013.

Total cost of sales for 3Q2014 amounted to RMB141.7 million, which was 2.0% or RMB2.9 million lower than RMB144.6 million incurred in 3Q2013 and our gross profit decreased 15.9% or RMB7.8 million from 3Q2013 to 3Q2014.

The Group's revenue increased 52.9% from RMB344.6 million in 9M2013 to RMB526.8 million in 9M2014, while gross profit increased 41.3% or RMB37.2 million from RMB90.0 million in 9M2013 to RMB127.2 million in 9M2014. Gross profit margin decreased from 26.1% in 9M2013 to 24.1% in 9M2014 due to market conditions.

c) Operating Expenses

Total operating expenses in 3Q2014 which amounted to RMB16.5 million was approximately 11.9% or RMB2.2 million lower than the RMB18.7 million incurred in 3Q2013 whereas the total operating expenses in 9M2014 of RMB55.0 million was approximately 38.1% or RMB15.2 million higher than the RMB39.8 million incurred in 9M2013.

Selling and distribution expenses in 3Q2014 totalled RMB5.0 million, which was 11.7% or RMB0.7 million lower than the RMB5.7 million incurred in 3Q2013. The decrease was mainly due to the decrease in salaries and sales commission of RMB0.4 million, and delivery charges of RMB0.3 million, which were in-line with the lower revenue for 3Q2014.

Selling and distribution expenses in 9M2014 totalled RMB16.9 million, which was 48.3% or RMB5.5 million higher than RMB11.4 million in 9M2013. The increase was mainly due to the increase in sales commission of RMB4.3 million, delivery charges of RMB0.9 million, travelling expenses of RMB0.4 million and entertainment expenses of RMB0.3 million, which were in-line with the higher revenue for 9M2014.

Administrative expenses decreased by 33.0% or RMB3.4 million from RMB10.2 million in 3Q2013 to RMB6.8 million in 3Q2014. The decrease was mainly due to the unrealised foreign exchange gain of RMB1.8 million and decrease in research and development costs of RMB6.5 million. The decrease was partially offset by the increase in staff cost and directors' remuneration of approximately RMB3.3 million (mainly included the amortisation of the employee share option reserve of RMB2.0 million), increase in depreciation and amortisation of RMB0.5 million, travelling expenses of RMB0.1 million and other miscellaneous taxes of RMB0.6 million.

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

#### c) Operating Expenses (cont'd)

Administrative expenses increased by 49.4% or RMB9.1 million from RMB18.3 million in 9M2013 to RMB27.4 million in 9M2014. The increase was mainly due to realised and unrealised foreign exchange loss of RMB2.2 million, increase in staff cost and directors' remuneration of approximately RMB9.7 million (mainly included the amortisation of the employee share option reserve of RMB6.3 million), increase in depreciation and amortisation of RMB0.5 million, and other administrative expenses such as office expenses and miscellaneous taxes of RMB1.1 million. The increase was partially offset by the decrease in research and development costs of RMB5.7 million.

Finance costs increased by 63.2% or RMB1.8 million from 3Q2013 to 3Q2014. The increase was due to higher bank borrowings in 3Q2014 compared to 3Q2013. The bank borrowings as at 30 September 2013 was RMB173.9 million and it increased to RMB203.5 million as at 30 September 2014. For 9M2014, the finance costs increased by 6.3% or RMB0.6 million from 9M2013 to 9M2014.

#### d) Income Tax Expense

The income tax expense for 3Q2014 decreased by 13.1% or RMB0.7 million which was in-line with the decrease in profit before tax in 3Q2014. The income tax expense for 9M2014 increased by 41.2% or RMB4.0 million which was in-line with the increase in profit before tax in 9M2014.

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 3Q2014 decreased by 41.2% or RMB14.5 million from RMB35.4 million in 3Q2013 to RMB20.9 million in 3Q2014. The decrease was mainly due to the decrease in gross profit of 15.9% or RMB7.8 million and the absence of income tax refund of RMB10.1 million which was received in 3Q2013. The decrease was partially offset by the increase in other income of RMB0.3 million, decrease in total operating expenses of RMB2.2 million, and lower income tax provision by RMB0.7 million due to the decrease in profit before tax.

The Group's net profit increased by 15.2% or RMB8.0 million from RMB53.0 million in 9M2013 to RMB61.0 million in 9M2014. The increase was mainly due to the increase in gross profit of 41.3% or RMB37.2 million. The increase was partially offset by the increase in total operating expenses of RMB15.2 million, and higher income tax provision by RMB4.0 million due to increase of profit before tax and the absence of income tax refund of RMB10.1 million received in 3Q2013.

### **Review of Financial Position**

#### Non-Current Assets

In 9M2014, the Group incurred and paid approximately RMB1.9 million for Fujian's construction work-in-progress. As at 30 September 2014, the amount of construction work-in-progress in Fujian province was approximately RMB24.6 million. The increase in property, plant and equipment of RMB2.5 million was offset by depreciation charges of RMB3.5 million.

### Review of Financial Position (cont'd)

#### Current Assets

Current assets comprise of inventories, trade, bill and other receivables and cash and bank balances. Total current assets amounted to RMB884.2 million as at 30 September 2014, which was about RMB122.7 million higher than that as at 31 December 2013.

As at 30 September 2014, inventories stood at RMB20.2 million, which was marginally lower by RMB0.3 million compared to RMB20.5 million as at 31 December 2013.

Trade and bills receivables balance amounted to RMB727.5 million as at 30 September 2014, increased by 48.0% or RMB236.0 million from RMB491.5 million as at 31 December 2013. Included in the trade and bills receivables were bills receivables of RMB3.1 million (31 December 2013: RMB120,000) and retention monies from completed projects, which amounted to RMB86.2 million (31 December 2013: RMB44.8 million). The increase in trade receivables was due to overall slower debt collection as a result of tighter government credit control in PRC. Over the past three years, the Group has had no bad debt or doubtful debt provision. This is the result of the Group's stringent policy in selecting high quality customers. Based on the trade receivables as at 30 September 2014, approximately 50% of our customers are state-owned enterprises or government-linked enterprises and approximately 25% of our customers are public listed companies. Nevertheless, the Group closely monitors the collections from the customers. As at today, the Group does not foresee the need to make any provision for doubtful debts to trade receivables.

Other receivables, deposits and prepayments amounted to RMB52.6 million as at 30 September 2014, which was RMB31.5 million lower than RMB84.1 million as at 31 December 2013. The decrease was mainly due to decrease in advances to suppliers of approximately RMB12.5 million and decrease in advances to project sub-contractor of approximately RMB17.3 million. Included in the other receivables, deposits and prepayments were advances to suppliers, which amounted to RMB19.3 million as at 30 September 2014 (31 December 2013: RMB31.8 million), advances to project sub-contractor of RMB25.8 million (31 December 2013: RMB43.1 million), tender deposits for projects of RMB1.5 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 September 2014, the Group has cash and cash equivalents of RMB83.9 million, approximately RMB81.5 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 RMB35.5 million (31 December 2013: RMB75.0 million) of deposits restricted-in-use, which were pledged with financial institutions for the security deposits for the short-term borrowings and bills payables.

#### 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 RMB31.9 million as at 30 September 2014, which was RMB2.9 million higher than the RMB29.0 million as at 31 December 2013. The increase was mainly due to increase in trade payable of RMB1.8 million and value added tax of RMB1.6 million from 31 December 2013 to 30 September 2014.

Other payables and accruals amounted to RMB43.2 million as at 30 September 2014, which was lower by RMB3.7 million than the RMB46.9 million as at 31 December 2013. The decrease was mainly due to the repayment of third party advance of RMB9.0 million in 9M2014. The decrease was partially offset by the increase in sale commission payable of RMB4.3 million and increase of staff social welfare contribution fund and housing provident fund of RMB1.7 million.

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 parties advanced another RMB85.3 million interest-free loan to the Group again in 9M2014 in order to support the business growth of the Group.

As at 30 September 2014, the Group has short-term borrowings of RMB203.5 million from the banks. Please refer to Paragraph 1(b)(ii) for the details of the collaterals.



### Review of Cash Flows

For 3Q2014, the Group made a pre-tax profit of RMB25.8 million. After adjusting for non-cash flow items, interest expense and interest income, cash flow from operating profits before working capital changes was RMB33.7 million. This was mainly used to fund the increase in inventories (RMB1.9 million), increase in trade and other receivables (RMB49.2 million) and payment of income tax expense (RMB4.8 million). It was partially offset by the increase in trade and other payables (RMB7.2 million) and receipt of interest income (RMB1.0 million). As a result, the Group had a net cash used in operating activities of RMB15.0 million in 3Q2014.

For 9M2014, the Group made a pre-tax profit of RMB74.6 million. After adjusting for non-cash flow items, interest expense and interest income, cash flow from operating profits before working capital changes was RMB90.5 million. This was mainly used to fund the increase in trade and other receivables (RMB204.3 million), decrease in trade and other payables (RMB0.8 million), and payment of income tax expense (RMB12.9 million). It was partially offset by the decrease in inventories (RMB0.3 million) and receipt of interest income (RMB1.8 million). As a result, the Group had a net cash used in operating activities of RMB125.0 million in 9M2014.

Net cash used in investing activities amounted to RMB1.5 million in 3Q2014. This was mainly due to construction cost of RMB0.9 million incurred for the Fujian's construction work-in-progress.

Net cash used in investing activities amounted to RMB2.6 million in 9M2014. This was mainly due to construction costs of RMB1.9 million incurred for the Fujian's construction work-in-progress.

Net cash generated from financing activities amounted to RMB21.9 million in 3Q2014. This was mainly contributed by the loan proceeds from the banks of RMB12.4 million, advances from Executive Chairman's related parties amounting to RMB28.3 million, and decrease in deposits restricted-in-use of RMB48.2 million in 3Q2014. The increase was partially offset by loan repayments of RMB63.6 million and interest paid of RMB3.5 million.

Net cash generated from financing activities amounted to RMB85.6 million in 9M2014. This was mainly contributed by the loan proceeds from the banks of RMB202.8 million, advances from Executive Chairman's related parties amounting to RMB85.3 million, and decrease in deposits restricted-in-use of RMB39.5 million in 9M2014. The increase was partially offset by loan repayments of RMB177.3 million, repayment of amount due to a director of RMB57.8 million, and interest paid of RMB7.4 million.

The Group had a net increase in cash and cash equivalents of RMB5.5 million for 3Q2014. Cash and cash equivalents (excluding deposits restricted-in-use) stood at RMB48.3 million as at 30 September 2014.

The Group had a net decrease in cash and cash equivalents of RMB42.0 million for 9M2014. Cash and cash equivalents (excluding deposits restricted-in-use) stood at RMB48.3 million as at 30 September 2014.

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

The Company has not previously disclosed any forecast or a prospect statement to shareholders.

**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.**

In October 2014, Hebei Provincial Environmental Protection Department announced that more than 2,000 factories will halt or reduce production in north China's Hebei Province, a contributor of pollution in Beijing, to ensure better air quality during the APEC meeting in November 2014. The province will impose production suspension or reduction measures on an estimated 2,386 enterprises as well as the suspension of work at 2,445 construction sites (*Source: Xinhua, October 2014*).

Environmental authorities rolled out new regulations raising the fees charged on companies that exceed their allowable emissions. The new policy also encourages local authorities to formulate stricter control standards to curb pollution. The fees charged to heavy polluters have not been raised in more than a decade. The regulations also encourage economically developed areas to formulate stricter emission standards. So 16 provinces have increased their own standard. In cities like Beijing and Tianjin excessive pollution charges have increased 10 folds (*Source: Xinhua, June 2014*).

With 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. Nevertheless, given the generally tight credit environment, the Group will also focus more on cash collection and securing projects from customers with good credibility.

**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/recommendeded, a statement to that effect.**

No dividend has been declared or recommended for the financial period ended 30 September 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:-

	Amount Allocated S\$'000	Amount Utilised S\$'000	Balance S\$'000
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	(600)	1,400
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>(13,040)</b>	<b>2,900</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:-

	<b>Amount Allocated S\$'000</b>	<b>Amount Utilised S\$'000</b>	<b>Balance S\$'000</b>
General working capital for the purposes:	16,797	(16,797)	-
a) Purchase of raw materials		(15,500)	
b) Staff cost, directors' fee and administrative expenses		(946)	
c) Audit, tax and other professional expenses		(184)	
d) Other operating expenses		(167)	
<b>Total</b>	<b>16,797</b>	<b>(16,797)</b>	<b>-</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.

**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 third quarter and nine months ended 30 September 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**  
**11 November 2014**