

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF  
CHINA ENVIRONMENT LTD.  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**Report on the Audit of the Financial Statements**

*Disclaimer of Opinion*

We were engaged to audit the accompanying financial statements of China Environment Ltd. (the "Company") and its subsidiaries (the "Group") which comprise the statements of financial position of the Group and the Company as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group and the statement of changes in equity of the Company for the year then ended, and a summary of significant accounting policies.

We do not express an opinion on the accompanying financial statements of the Company. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

*Basis for Disclaimer of Opinion*

(1) Opening balances

Our independent auditor's report dated 14 February 2020 on the financial statements for the financial year ended 31 December 2016 ("FY 2016") contained a disclaimer of opinion. The basis for disclaimer of opinion on the financial statements for FY 2016 is disclosed in Note 30 to the financial statements.

In view of the matters described on the basis for disclaimer of opinion paragraphs regarding the financial statements for FY 2016, we were unable to determine whether the opening balances as at 1 January 2017 were fairly stated.

**RT LLP**  
Chartered Accountants  
UEN : T08LL0811J

**RT ASEAN Pte Ltd**  
Head Office  
UEN : 201537050N

**RT Advisory Pte Ltd**  
UEN : 201510979W

**RT Links Pte Ltd**  
UEN : 201542866E

**RT Academy Pte Ltd**  
UEN : 201527798R

**RT International Advisory Pte Ltd**  
UEN : 201726206W

+65 62260080  
+65 62263345  
info@rtasean.com

1 Raffles Place, #17-02, One Raffles Place, Singapore 048616

RT Group : [www.rt-ca.com](http://www.rt-ca.com) RT ASEAN : [www.rtasean.com](http://www.rtasean.com)

Founding Member of **RT ASEAN** and Independent Member of BKR International

Singapore Australia Cambodia China India Indonesia South Korea Laos  
Malaysia Myanmar Taiwan Thailand Vietnam UK

 **Financial**  **Digital**  **Legal**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF  
CHINA ENVIRONMENT LTD.  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

---

**Report on the Audit of the Financial Statements (cont'd)**

*Basis for Disclaimer of Opinion (cont'd)*

(1) Opening balances (cont'd)

Since the opening balances as at 1 January 2017 are entered into the determination of the financial position of the Group and of the Company as at 31 December 2017 and of the financial performance, changes in equity and cash flows of the Group and changes in equity of the Company for the financial year ended 31 December 2017, we were unable to determine whether adjustments, if any, might have been found to be necessary in respect of the Group's and the Company's financial statements for the financial year ended 31 December 2017 - in view of brought forward implications of the prior year balances.

Accordingly, our opinion on the current financial year's financial statements of the Group and the Company is also modified because of the implications and possible effects of these matters that might bear on the comparability and/or lack of comparability of the current year's figures and the corresponding figures.

(2) Partial loss of Accounting Books, Records and Supporting Documents and Reconstruction of Accounts

As stated in Note 12, there were missing accounting records with respect to the Company's subsidiary, Fujian Dongyuan Environmental Protection Co., (FJDY). We understand based on the Company's announcement in the Singapore Exchange dated 18 August 2017, the Company was denied access to the office premises of FJDY. We were not able to determine or provided with the reasons for access being denied. Subsequently, on being allowed access, the Company reported that information and documents were missing and it had sought legal advice. We are not aware of any outcome of this legal advice. The absence of vital source information placed a severe limitation of scope in the conduct of our work, which resulted in we being unable to perform the necessary audit procedures for various transactions and balances as enumerated below. Consequently, we were not able to satisfy ourselves as to the appropriateness, completeness and accuracy of the financial statements of FJDY for the financial year ended 31 December 2017.

(3) Bank confirmations

Due to the coronavirus pandemic, we were unable to travel to the People's Republic of China ("PRC") to carry out our audit procedures to obtain sufficient appropriate audit evidence to satisfy ourselves as to the existence, completeness and accuracy of the PRC bank balances, which amounted to RMB 85,000 (see Note 17), as well as the PRC bank borrowings, which amounted to RMB 111,669,000 (see Note 20) as at 31 December 2017.

(4) Investments in Subsidiaries and Associated Company

As stated in Note 12 to the financial statements, the Company's carrying amount of its investments in its four subsidiaries as at 31 December 2017 amounted to approximately RMB 705 million. The management did not carry out any review of the recoverable amount of these investments in subsidiaries despite indications of impairment.



**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF  
CHINA ENVIRONMENT LTD.  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

---

**Report on the Audit of the Financial Statements (cont'd)**

*Basis for Disclaimer of Opinion (cont'd)*

(4) Investments in Subsidiaries and Associated Company (cont'd)

Consequently, we were unable to obtain sufficient appropriate audit evidence to determine the appropriateness of the carrying amounts of these investments in the subsidiaries.

For investment in the Group's associated company, Beijing Gongdao Environmental Protection Technology Co., Ltd ("BGDEPT"), in the absence of the management's ability to ascertain whether it had control (as defined in FRS 110 Consolidated Financial Statements) or otherwise over BGDEPT, we were unable to determine whether the classification of BGDEPT as an associated company instead of a subsidiary despite the Group having an 83% equity interest, is appropriate.

Furthermore, we were unable to obtain the necessary accounting records and information from management of BGDEPT for the assessment of the recoverable amount of the associated company. Consequently, we were unable to obtain sufficient appropriate audit evidence or to carry out alternative audit procedures to determine the appropriateness of the carrying amount of the Group's investment in BGDEPT.

(5) Trade Payables, Other Payables and Accruals

We were unable to obtain sufficient and appropriate supporting documents, information and explanations on the "trade payables, other payables and accruals". Consequently, we were unable to satisfy ourselves in respect of the rights and obligations, completeness, existence and valuation of these items.

(6) Trade and Other Receivables

We were not able to carry out audit procedures for trade receivables amounting to RMB 2,098,000 and other receivables amounting to RMB 1,958,000. These amounts are part of the trade receivables of RMB 3,298,000 (Note 15) and other receivables of RMB 1,958,000 (Note 16) as at 31 December 2017. There were no supporting documents for us to ascertain the validity of RMB 2,098,000 and RMB 1,958,000 without any substantiating documents. Consequently, we were unable to satisfy ourselves in respect of the rights, obligations, existence and accuracy of these amounts.

(7) All items in the consolidated statement of profit or loss and other comprehensive income

We were unable to satisfy ourselves as to the appropriateness, completeness and accuracy of all items in the consolidated statement of profit or loss and other comprehensive income because there were no supporting documents available.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF  
CHINA ENVIRONMENT LTD.  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

---

**Report on the Audit of the Financial Statements (cont'd)**

*Basis for Disclaimer of Opinion (cont'd)*

(8) Going concern and legal actions against the Group

As at 31 December 2017, the Group had a capital deficiency of RMB 92,350,000, accumulated losses of RMB 602,176,000 and its current liabilities exceeded its current assets by RMB 174,610,000. In addition, the Group incurred net losses of RMB 17,710,000 and recorded net operating cash outflows of RMB 355,000 for the financial year ended 31 December 2017.

As at 31 December 2017, the Group had bank balances amounting to RMB 303,000 and these were insufficient to meet the financial obligations for its short-term borrowings which amounted to RMB 128,617,000 as at 31 December 2017.

As at 31 December 2017, the Company had accumulated losses of RMB 158,726,000 and its current liabilities exceeded its current assets by RMB 28,170,000. In addition, the Company incurred net losses of RMB 4,077,000 for the financial year ended 31 December 2017.

As at 31 December 2017, the Company had bank balances amounting to RMB 169,000 and these were insufficient to meet the financial obligations for its short-term borrowings which amounted to RMB 16,948,000 as at 31 December 2017.

The following banks took legal action against the PRC subsidiaries during the financial year:

- (i) Bank of China Longyan against FJDY for a sum of RMB 55.0 million; and
- (ii) Zhongxin bank against FJDY for a sum of approximately RMB 36.7 million

The outcome of these legal actions are disclosed in Notes 10 and 11.

Apart from the above legal suits and those disclosed in Note 29, the management has represented that there are no new or on-going legal suits against the Group. However, we were unable to complete our audit procedures to satisfy ourselves as to whether there are any new or on-going legal suits against the Group. Accordingly, we were unable to determine whether all the legal actions have been dealt with in these financial statements with respect to disclosures, presentation and adjusting significant events.

The above events and conditions have created a material uncertainty with respect to the Group's and the Company's cash flow management that may cast significant doubt on the Group's and the Company's ability to continue as going concerns. As disclosed in Note 2(a) to the financial statements, the directors have prepared the financial statements on a going concern basis. Based on the limited information about the Group made available to us, we were unable to perform alternative procedures to determine the appropriateness of the use of the going concern assumption.



**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF  
CHINA ENVIRONMENT LTD.  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

---

**Report on the Audit of the Financial Statements (cont'd)**

*Basis for Disclaimer of Opinion (cont'd)*

(9) Events Occurring After the Reporting Period

We were unable to perform and complete all our audit procedures for events occurring after the reporting period. Consequently, we were unable to determine whether all events occurring after the reporting period have been adequately dealt with in these financial statements with respect to disclosures, presentation and adjusting subsequent events.

(10) Significant Events During the Reporting Period

We were unable to complete all our audit procedures for the significant events, occurring during the financial year. Accordingly, we were unable to determine whether all significant events during the year have been adequately dealt with in these financial statements with respect to disclosures, presentation and adjusting significant events.

***Responsibilities of Management and Directors for the Financial Statements***

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so. The directors' responsibilities include overseeing the Group's financial reporting process.

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with Singapore Standards on Auditing. Because of the matters described in the Basis for Disclaimer of Opinion paragraphs, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF  
CHINA ENVIRONMENT LTD.  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

---

**Report on the Audit of the Financial Statements (cont'd)**

***Auditor's Responsibilities for the Audit of the Financial Statements (cont'd)***

We are independent of the Group in accordance with the *Accounting and Corporate Regulatory Authority (ACRA) Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code.

***Report on Other Legal and Regulatory Requirements***

In our opinion, in view of the significance of the matters referred to in the *Basis for Disclaimer of Opinion* section of our report, we do not express an opinion on whether the accounting and other records required by the Act to be kept by the Company and by the subsidiary corporation incorporated in Singapore of which we are the auditors, have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Mr Ravinthran Arumugam.



**RT LLP**  
Public Accountants and  
Chartered Accountants

Singapore, 12 May 2020