



中國環保
China Environment Ltd.

CHINA ENVIRONMENT LTD.

(Registration No.: 200301902W)

Financial Statements And Related Announcement
For First Quarter And Three Months Ended
31 March 2014



UNAUDITED FINANCIAL RESULT ANNOUNCEMENT FOR THE FIRST QUARTER AND THREE MONTHS ENDED 31 MARCH 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 STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Unaudited 3 months ended		Increase/ (Decrease)
	31.03.2014 RMB'000	31.03.2013 RMB'000	%
Revenue	160,994	60,915	164.3
Cost of sales	(121,533)	(44,349)	174.0
Gross profit	39,461	16,566	138.2
Other income	452	1,277	(64.6)
Selling and distribution expenses	(5,432)	(2,600)	108.9
Administrative expenses	(11,953)	(2,973)	302.1
Finance costs	(2,440)	(3,340)	(26.9)
Profit before tax	20,088	8,930	124.9
Tax expense	(3,932)	(1,784)	120.4
Net profit for the period	16,156	7,146	126.1
Other comprehensive income:			
Currency translation differences arising from consolidation	1,023	(688)	N.M.
Total comprehensive income for the period attributable to equity holders of the Company	17,179	6,458	166.0

	Unaudited 3 months ended		Increase/ (Decrease)
	31.03.2014 RMB'000	31.03.2013 RMB'000	%
Profit before tax is arrived at after charging/(crediting):			
Depreciation of property, plant and equipment	243	249	(2.4)
Amortisation of land use rights	24	24	-
Foreign exchange loss / (gain)	1,384	(646)	N.M.
Interest expense	2,039	2,385	(14.5)
Interest income	(172)	(1,194)	(85.6)
Share option expense	2,162	-	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	
	31.03.2014	31.12.2013	31.03.2014	31.12.2013
	RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS				
Property, plant and equipment	296,749	296,390	-	-
Land use rights	4,468	4,492	-	-
Prepaid land use rights	49,150	49,150	-	-
Investment in subsidiaries	-	-	710,051	698,668
Investment in associated company	2,450	2,450	-	-
	<u>352,817</u>	<u>352,482</u>	<u>710,051</u>	<u>698,668</u>
CURRENT ASSETS				
Inventories	26,971	20,516	-	-
Trade and bills receivables	562,939	491,520	39	135
Other receivables, deposits and prepayments	33,481	84,148	214	171
Loan to subsidiaries	-	-	43,201	95,233
Dividend receivable from a subsidiary	-	-	22,064	21,710
Cash and cash equivalents	76,031	165,343	5,179	12,703
	<u>699,422</u>	<u>761,527</u>	<u>70,697</u>	<u>129,952</u>
TOTAL ASSETS	<u>1,052,239</u>	<u>1,114,009</u>	<u>780,748</u>	<u>828,620</u>
NON-CURRENT LIABILITY				
Deferred tax liability	5,030	5,030	-	-
	<u>5,030</u>	<u>5,030</u>	<u>-</u>	<u>-</u>
CURRENT LIABILITIES				
Trade and bill payables	9,431	28,994	-	-
Other payables and accruals	51,941	46,855	1,644	2,322
Short-term borrowings	169,228	177,928	-	-
Amount due to subsidiaries (non-trade)	-	-	2,985	2,885
Amount due to a director (non-trade)	-	57,821	-	57,821
Tax payable	3,566	3,679	-	-
	<u>234,166</u>	<u>315,277</u>	<u>4,629</u>	<u>63,028</u>
TOTAL LIABILITIES	<u>239,196</u>	<u>320,307</u>	<u>4,629</u>	<u>63,028</u>
NET ASSETS	<u>813,043</u>	<u>793,702</u>	<u>776,119</u>	<u>765,592</u>
EQUITY				
Share capital	352,241	352,241	773,549	773,549
Statutory reserves	81,328	78,081	-	-
Currency translation reserve	4,716	3,693	20,174	7,783
Share option reserve	3,333	1,171	3,333	1,171
Revenue reserve	371,425	358,516	(20,937)	(16,911)
TOTAL EQUITY	<u>813,043</u>	<u>793,702</u>	<u>776,119</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

As at 31.03.2014 (RMB'000)		As at 31.12.2013 (RMB'000)	
Secured	Unsecured	Secured	Unsecured
65,125	104,103	82,825	95,103

Amount repayable after one year

As at 31.03.2014 (RMB'000)		As at 31.12.2013 (RMB'000)	
Secured	Unsecured	Secured	Unsecured
-	-	-	-

Details of any collateral

As at 31.3.2014

As at 31 March 2014, RMB60.1 million of the short-term borrowings was secured by bank deposits of RMB63.8 million. Another RMB5.0 million short-term borrowings was secured by the Group's land use rights.

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

- a) 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.;
- b) RMB10.1 million of the short-term borrowings was guaranteed by one of the Company's directors and the subsidiary of the Company; and
- c) RMB5.0 million of the short-term borrowings was guaranteed by a credit guarantee company.

The remaining RMB59.0 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.

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:

- a) 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.;
- b) RMB10.1 million of the short-term borrowings was guaranteed by one of the Company's directors and the subsidiary of the Company; and
- c) 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	
	31.03.2014	31.03.2013
	RMB'000	RMB'000
Cash flows from operating activities		
Profit before tax	20,088	8,930
Adjustment for:-		
Depreciation of property, plant and equipment	243	249
Amortisation of land use rights	24	24
Share option expense	2,162	-
Interest expense	2,039	2,385
Interest income	(172)	(1,194)
Operating cash flow before movements in working capital	<u>24,384</u>	<u>10,394</u>
Inventories	(6,455)	(7,061)
Trade and other receivables	(20,540)	(14,952)
Trade and other payables	(14,477)	45,743
Currency translation adjustment	937	(675)
Cash (used in)/generated from operations	<u>(16,151)</u>	<u>33,449</u>
Interest received	172	1,194
Income tax paid	(4,256)	(3,500)
Net cash (used in)/generated from operating activities	<u>(20,235)</u>	<u>31,143</u>
Cash flows from investing activities		
Increase in construction work-in-progress	(602)	(1,974)
Net cash used in investing activities	<u>(602)</u>	<u>(1,974)</u>
Cash flows from financing activities		
Bank borrowing proceeds	64,000	79,103
Bank borrowing repayments	(72,700)	(74,990)
Amount due to a director (non-trade)	(57,821)	-
Decrease/(Increase) in deposits restricted-in-use	10,000	(18,600)
Interest paid	(2,039)	(2,385)
Net cash used in financing activities	<u>(58,560)</u>	<u>(16,872)</u>
Net (decrease)/increase in cash and cash equivalents	(79,397)	12,297
Cash and cash equivalents at beginning of financial period	90,315	27,345
Effect of exchange rate changes on cash equivalents	85	(14)
Cash and cash equivalents at end of financial period (Note A)	<u><u>11,003</u></u>	<u><u>39,628</u></u>
Note A:		
For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following:		
Cash on hand and at banks	76,031	102,628
Less: Deposits restricted-in-use	(65,028)	(63,000)
	<u><u>11,003</u></u>	<u><u>39,628</u></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

Group	Share capital RMB'000	Statutory reserves RMB'000	Currency translation reserve RMB'000	Share option reserve RMB'000	Revenue reserve RMB'000	Total equity RMB'000
Balance at 1 January 2014	352,241	78,081	3,693	1,171	358,516	793,702
Net profit for the period	-	-	-	-	16,156	16,156
Other comprehensive income, net of tax						
- Currency translation differences arising from consolidation	-	-	1,023	-	-	1,023
Total comprehensive income for the 3 months ended March 2014	-	-	1,023	-	16,156	17,179
Grant of equity-settled share options to employees	-	-	-	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
Balance at 1 January 2013	193,052	65,503	6,571	-	296,356	561,482
Net profit for the period	-	-	-	-	7,146	7,146
Other comprehensive loss, net of tax						
- Currency translation differences arising from consolidation	-	-	(688)	-	-	(688)
Total comprehensive (loss)/income for the 3 months ended March 2013	-	-	(688)	-	7,146	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

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)

Company	Share capital RMB'000	Currency translation reserve RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total equity RMB'000
As 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
As 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

- 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 31 March 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 31.03.2014	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 31 March 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.

	Group	
	3 months ended	
	31.03.2014	31.03.2013
Net profit for the period (RMB'000)	16,156	7,146
(a) EPS based on weighted average number of shares in issue (RMB cents/share)	2.2	1.1
(b) EPS based on fully diluted basis (RMB cents/share)	2.2	1.1
Weighted average number of shares applicable to earnings per share	735,520,646	639,520,646
Weighted average number of shares fully diluted basis	735,520,646	639,520,646

Basic earnings per share is calculated by dividing earnings for the period attributable to the equity holders 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 31 March 2014 and 2013 respectively because 3,500,000 (31 March 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	
	31.03.2014	31.12.2013	31.03.2014	31.12.2013
Net asset value per share (RMB cents) based on issued share capital as at the end of period reported on	<u>110.5</u>	<u>107.9</u>	<u>105.5</u>	<u>104.1</u>
Number of shares used in calculating net asset value per share ('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 RMB161.0 million in the three months ended 31 March 2014 ("1Q2014"), an increase of 164.3% or RMB100.1 million from RMB60.9 million achieved in the three months ended 31 March 2013 ("1Q2013"). In 1Q2014, we completed 13 dust collectors projects as compared to four projects in 1Q2013.

There were 15 uncompleted ongoing projects as at 31 March 2014 compared to five uncompleted ongoing projects as at 31 March 2013.

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

	1Q2014	1Q2013
	%	%
Power generation	60.3	0.1
Steel and metallurgy	22.7	50.9
Chemical	3.1	45.3
Paper mill	0.1	-
Others	13.8	3.7
	<u>100.0</u>	<u>100.0</u>

For 1Q2014, 60.3% of our total revenue was from the power generation industry, 22.7% from the steel and metallurgy industry, 3.1% from the chemical industry, and the remaining 13.9% was from other industries.

Review of Financial Performance (cont'd)

b) Cost of Sales

Detailed breakdown of cost of sales is as follows:

	1Q2014	1Q2013
	%	%
Direct materials	81.7	82.4
Direct labour, fabrication and installation fees	16.8	15.1
Depreciation and rental charges	0.3	0.7
Utilities charges	0.2	0.2
Miscellaneous expenses	1.0	1.6
	<u>100.0</u>	<u>100.0</u>

Direct materials which consist mainly of steel plates, channel and angle steel, discharge electrode and collection electrode systems made up 81.7% and 82.4% of our total cost of sales in 1Q2014 and 1Q2013 respectively. The composition of the cost of sales for 1Q2014 was fairly consistent with that in 1Q2013.

Total cost of sales for 1Q2014 amounted to RMB121.5 million, which was 174.0% or RMB77.2 million higher than RMB44.3 million incurred in 1Q2013 and our gross profit increased 138.2% or RMB22.9 million from 1Q2013 to 1Q2014. As such, the gross profit margin decreased marginally from 27.2% in 1Q2013 to 24.5% in 1Q2014. 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 1Q2014 was higher than 21.5% secured in 4Q2013.

c) Operating Expenses

Total operating expenses in 1Q2014 amounted to RMB19.8 million, which was approximately 122.4% or RMB10.9 million higher than the RMB8.9 million incurred in 1Q2013.

Selling and distribution expenses in 1Q2014 totalled RMB5.4 million, which was 108.9% or RMB2.8 million higher than RMB2.6 million in 1Q2013. The increase was mainly due to the increase in sales commission of RMB2.3 million, delivery charges of RMB0.2 million, travelling expenses of RMB0.2 million and entertainment expenses of RMB0.2 million, which were in-line with the higher revenue for 1Q2014.

Administrative expenses increased by RMB9.0 million or 302.1% from RMB3.0 million in 1Q2013 to RMB12.0 million in 1Q2014. The increase was mainly due to realised and unrealised foreign exchange loss of RMB2.0 million, increase in research and development costs of RMB3.1 million, increase in staff cost of approximately RMB3.3 million (mainly included the amortisation of the employee share option reserve of RMB2.2 million).

Finance costs decreased by 26.9% or RMB0.9 million from 1Q2013 to 1Q2014. Due to lower interest rates, bank interest expense and bank charges decreased from RMB3.3 million in 1Q2013 to RMB2.4 million in 1Q2014.

d) Tax expense

For 1Q2014, the tax expenses was provided at an income tax rate of 15% based on Fujian Dongyuan's 1Q2014 profit before tax. The increase in income tax expense of RMB2.1 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.

Review of Financial Performance (cont'd)

e) Net profit for the period

The Group's net profit increased by 126.1% or RMB9.1 million from RMB7.1 million in 1Q2013 to RMB16.2 million in 1Q2014. The increase was mainly due to the increase in gross profit of 138.2% or RMB22.9 million. The increase was offset by the decrease in other income of RMB0.8 million, increase in total operating expenses by RMB10.9 million, and higher income tax provision as mentioned in the paragraph above.

Review of Financial Position

Non-Current Assets

In 1Q2014, the Group incurred and paid approximately RMB0.6 million for Fujian's construction work-in-progress. As at 31 March 2014, the balances of construction work-in-progress in Anhui province and Fujian province were approximately RMB269.0 million and RMB23.3 million respectively.

The construction work-in-progress refers to the construction of new production plant in Anhui province (mainly consisting of fabrication factories, warehouse, canteen and office building, road and other auxiliary facilities) and Fujian province (mainly consisting of fabrication factory, electrical control equipment assembly plant and office building). The newly completed production plant in Anhui will significantly increase the Group's production capacity targeted to capture the potential customers located in the central and northern regions of the PRC. The close proximity to these customers will also enable the Group to better serve their needs. The Group has secured land and property title deeds for the Anhui plant in April 2014.

Current Assets

Current assets comprise of inventories, trade and other receivables and cash and bank balances. Total current assets amounted to RMB699.4 million as at 31 March 2014, which was about RMB62.1 million lower than that as at 31 December 2013.

As at 31 March 2014, inventories stood at RMB27.0 million, which was RMB6.5 million higher than RMB20.5 million as at 31 December 2013. The higher amount of inventories was mainly due to the increase in the number of ongoing projects as at 31 March 2014.

Trade and bills receivables balance amounted to RMB562.9 million as at 31 March 2014, increased by RMB71.4 million from RMB491.5 million as at 31 December 2013. The Group received payments of approximately RMB118.0 million from the customers in 1Q2014. The receipts are less than the revenue recognised in 1Q2014. Included in the trade receivables were retention monies from completed projects, which amounted to RMB54.7 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 RMB33.5 million as at 31 March 2014, which was RMB50.7 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 RMB21.6 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 plants of RMB3.0 million (31 December 2013: RMB2.1 million).

As at 31 March 2014, the Group has cash and cash equivalents of RMB76.0 million, approximately RMB89.3 million lower than RMB165.3 million as at 31 December 2013. This was due mainly to net cash used in operating activities and financing activities. Included in the cash and bank balances was an amount of RMB65.0 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 collect project and security deposit for the short-term borrowings.

Review of Financial Position (cont'd)

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 RMB9.4 million as at 31 March 2014, which was RMB19.6 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 31 March 2014. The Group has no bill payable as at 31 March 2014.

Other payables and accruals amounted to RMB51.9 million as at 31 March 2014, which was marginally higher by RMB5.1 million than the RMB46.9 million as at 31 December 2013. The increase was mainly due to the increase in sale commission payable of RMB3.8 million from 31 December 2013 to 31 March 2014.

The interest-free loan advanced from the Executive Chairman of the Group of RMB57.8 million has been fully repaid in 1Q2014.

As at 31 March 2014, the Group has short-term borrowings of RMB169.2 million from the banks. Please refer to Paragraph 1(b)(ii) for the details of the collaterals.

Review of Cash Flows

For 1Q2014, the Group made a pre-tax profit of RMB20.1 million. After adjusting for non-cash flow items, interest expense and interest income, cash flow from operating profits before working capital changes was RMB24.4 million. This was mainly used to fund the increase in trade and other receivables (RMB20.5 million), increase in inventories (RMB6.5 million), decrease in trade and other payables (RMB14.5 million), and payment of income tax expense (RMB4.3 million). It was marginally offset by the receipt of interest income (RMB0.2 million). As a result, the Group had a net cash used in operating activities of RMB20.2 million in 1Q2014.

Net cash used in investing activities amounted to RMB0.6 million in 1Q2014. This was related to the construction cost incurred for the Fujian's construction work-in-progress.

Net cash used in financing activities amounted to RMB58.6 million in 1Q2014. The decrease was mainly due to bank borrowing repayments of RMB72.7 million, repayment of amount due to a director of RMB57.8 million and interest paid of RMB2.0 million. The decrease was partially offset by bank borrowing proceeds of RMB64.0 million and decrease in deposits restricted-in-use of RMB10.0 million.

The Group had a net decrease in cash and cash equivalents of RMB79.4 million for 1Q2014. Cash and cash equivalents (excluding deposits restricted-in-use) stood at RMB11.0 million as at 31 March 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.

China will toughen its environmental protection laws to target polluters, according to a high-level policy report released on 9 March 2014, paving the way for possibly unlimited penalties for polluting and the suspension or shutdown of polluters. The revised law would hold "polluters accountable for the damage they cause and having them compensate for it", said the report, delivered by Zhang Dejiang, who sits on the seven-member Politburo Standing Committee as one of the country's most powerful politicians. The amendments to China's 1989 environmental law would expand the environment ministry's powers significantly and allow regulators to suspend and shut down repeat offenders. (Source: Reuters, March 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/recommendeded, a statement to that effect.

No dividend has been declared or recommended for the financial period ended 31 March 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	(69)	1,931
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)	
Total	15,940	(11,940)	3,431

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.

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	(15,838)	959
a) Purchase of raw materials		(15,500)	
b) Staff cost, directors' fee and administrative expenses		(247)	
c) Audit, tax and other professional expenses		(27)	
d) Other operating expenses		(64)	
Total	16,797	(15,838)	959

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 first quarter and three months ended 31 March 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
23 April 2014