



**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF CHINA ENVIRONMENT LTD.
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

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 2018, 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 financial year then ended, and a summary of significant accounting policies.

We do not express an opinion on the accompanying financial statements of the Group and the statement of financial position and statement of changes in equity 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 12 May 2020 on the financial statements for the financial year ended 31 December 2017 ("FY 2017") contained a disclaimer of opinion. The basis for disclaimer of opinion on the financial statements for FY 2017 is disclosed in Note 28 to the financial statements.

In view of the matters described on the basis for disclaimer of opinion paragraphs regarding the financial statements for FY 2017, we were unable to determine whether the opening balances as at 1 January 2018 were fairly stated.

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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 2018 are entered into the determination of the financial position of the Group and of the Company as at 31 December 2018 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 2018, 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 2018 - 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 2018.

(3) Going concern and legal actions against the Group

As at 31 December 2018, the Group had a capital deficiency of RMB 117,554,000, accumulated losses of RMB 625,165,000 and its current liabilities exceeded its current assets by RMB 178,117,000. In addition, the Group incurred net losses of RMB 22,989,000 for the financial year ended 31 December 2018.

As at 31 December 2018, the Group had bank balances amounting to RMB 2,253,000 and these were insufficient to meet the financial obligations for its short-term borrowings which amounted to RMB 121,200,000 as at 31 December 2018.



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

Basis for Disclaimer of Opinion (cont'd)

(3) Going concern and legal actions against the Group (cont'd)

As at 31 December 2018, the Company had accumulated losses of RMB 158,722,000 and its current liabilities exceeded its current assets by RMB 29,503,000.

As at 31 December 2018, the Company had bank balances amounting to RMB 2,253,000 and these were insufficient to meet the financial obligations for its short-term borrowings which amounted to RMB 18,472,000 as at 31 December 2018.

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 22.2 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 27, 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.

(4) Deconsolidation of Xiamen Gongyuan Environmental Protection Technology Co., Ltd. (XMGY)

We were unable to satisfy ourselves as to the appropriateness for the deconsolidation of XMGY and the corresponding disclosures required under Singapore Financial Reporting Standards (International). Consequently, we were unable to determine whether the deconsolidation has been adequately dealt with in these financial statements because there were no supporting documents available.



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

Basis for Disclaimer of Opinion (cont'd)

(5) 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 2018 amounted to RMB 728,906,000. The management did not carry out any review of the recoverable amount of these investments in subsidiaries despite indications of impairment.

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 SFRS(I) 10 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.

(6) Property, plant and equipment and land use rights

We were unable to carry out audit procedures for property, plant and equipment amounting to RMB 38,843,000 (Note 10) and land use rights amounting to RMB 21,720,000 (Note 11) as at 31 December 2018. There were no sufficient and appropriate supporting documents for us to ascertain the validity of RMB 38,843,000 and RMB 21,720,000. Consequently, we were unable to satisfy ourselves in respect of the rights and obligations, completeness, existence, and presentation of these items.

(7) Trade and Other Receivables

We were unable to carry out audit procedures for trade receivables amounting to RMB 337,000 (Note 14) and other receivables amounting to RMB 1,704,000 (Note 15) as at 31 December 2018. There were no supporting documents for us to ascertain the validity of RMB 337,000 and RMB 1,704,000 without any substantiating documents. Consequently, we were unable to satisfy ourselves in respect of the rights and obligations, existence, completeness, valuation and allocation, accuracy, and presentation of these amounts.



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

Basis for Disclaimer of Opinion (cont'd)

(8) Bank confirmations on bank borrowings

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, rights and obligations, valuation and allocation, accuracy, and presentation of the Group's PRC bank borrowings, which amounted to RMB 102,728,000 (see Note 19) as at 31 December 2018.

(9) 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, which collectively amounted to RMB 61,255,000 (Notes 17 and 18). Consequently, we were unable to satisfy ourselves in respect of the rights and obligations, completeness, valuation and allocation, existence, and presentation of these items.

(10) Currency transaction reserves

We were unable to obtain sufficient appropriate information and explanations on the opening and closing balances of the currency transaction reserves of the Group and the Company as stated on the statements of financial positions of the Group and the Company; and of the movements during the financial year as stated in the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, and the Company's statement of changes in equity. Consequently, we were unable to satisfy ourselves in respect of existence, completeness, valuation and allocation, occurrence, accuracy, and presentation of these items.

(11) Other reserves

We were unable to obtain sufficient appropriate information and explanations on the opening and closing balances of the other reserves of the Group as stated on the Group's statements of financial position and consolidated statement of changes in equity. Consequently, we were unable to satisfy ourselves in respect of the existence, completeness, valuation, allocation, and presentation of these items.

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

We were unable to satisfy ourselves as to the completeness, accuracy, occurrence, cutoff, and presentation of all items in the consolidated statement of profit or loss and other comprehensive income and the related notes to the financial statements because there were no supporting documents available.



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

Basis for Disclaimer of Opinion (cont'd)

(13) All items in the consolidated statement of cash flows

We were unable to satisfy ourselves as to the cash inflows and cash outflows of all items in the consolidated statement of cash flows and the related notes to the financial statements because there were no supporting documents available. Consequently, we were unable to satisfy ourselves in respect of the occurrence, completeness, accuracy, valuation, and presentation of these items.

(14) 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.

(15) 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 (International), 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.



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

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.

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.

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RT LLP
Public Accountants and
Chartered Accountants

Singapore, 18 February 2021