

HANKORE ENVIRONMENT TECH GROUP LIMITED

Unaudited financial statements for the third quarter ended and nine months ended 31 March 2014

PART I – INFORMATION REQUIRED FOR ANNOUNCEMENTS

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

	Group Quarter ended 31 March			Group Nine months ended 31 March		
	3QFY2014 RMB'000	3QFY2013 RMB'000	Increase/ -Decrease %	FY2014 RMB'000	FY2013 RMB'000	Increase/ -Decrease %
Revenue	125,660	80,375	56%	457,666	227,050	102%
Cost of sales	(69,118)	(40,188)	72%	(262,356)	(120,780)	117%
Gross profit	56,542	40,187	41%	195,310	106,270	84%
Other income	5,469	14,001	-61%	11,159	20,405	-45%
Other operating income	-	-	n.m.	-	20,000	-100%
Administrative expenses	(41,904)	(10,131)	314%	(75,809)	(35,985)	111%
Other operating expenses	(113,673)	(1,464)	7665%	(123,605)	(7,459)	1557%
Operating profit	(93,567)	42,593	n.m.	7,054	103,231	-93%
Interest income	415	32	1197%	1,327	117	1035%
Finance expenses	(17,719)	(10,595)	67%	(49,806)	(33,906)	47%
Profit before tax	(110,871)	32,030	n.m.	(41,424)	69,442	-160%
Income tax	(1,028)	(194)	n.m.	(10,664)	(805)	n.m.
Net profit for the period	(111,899)	31,836	n.m.	(52,088)	68,637	-176%
Other comprehensive income	-	-		-	-	
Total comprehensive income for the period	(111,899)	31,836	n.m.	(52,088)	68,637	-176%
Attributable to:						
Owners of the Company	(111,899)	31,836	n.m.	(52,088)	68,637	-176%
Non-controlling interest	-	-		-	-	
	(111,899)	31,836	n.m.	(52,088)	68,637	-176%

"n.m." denotes "not meaningful"

Note

Profit from operating activities is derived after charging/(crediting) the following items:

Depreciation	743	692	7%	1,702	1,700	0%
Amortisation of intangible assets	4,382	3,290	33%	13,275	9,869	35%
Bank interest expenses	17,719	10,577	68%	49,806	33,359	n.m.
Bank interest income	(414)	(32)	1191%	(1,327)	(117)	1035%
Fair value loss on contingent consideration payable	80,900	-	n.m.	80,900	-	n.m.
Fair value loss on warrants	29,054	-	n.m.	29,054	-	n.m.
Foreign exchange loss/(gain)	(1,912)	88	n.m.	(5,708)	101	n.m.
Loss/(Gain) on disposal of PPE	(141)	242	n.m.	(214)	(16)	n.m.
Write back of impairment of intangible assets	-	-	n.m.	-	(20,000)	-100%

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

	Group		Company	
	31 Mar 14 RMB'000	30 Jun 13 RMB'000	31 Mar 14 RMB'000	30 Jun 13 RMB'000
Non-current Assets				
Property, plant and equipment	9,081	7,829	13	17
Financial receivables	2,235,059	1,972,006	-	-
Intangible assets	246,040	256,864	-	-
Land use rights	36,481	37,996	-	-
Investment in subsidiaries	-	-	286,094	262,409
Other receivables	17,812	17,052	-	-
Goodwill	90,047	90,047	-	-
	<u>2,634,521</u>	<u>2,381,794</u>	<u>286,107</u>	<u>262,426</u>
Current Assets				
Cash and bank balance	183,800	118,111	99,948	252
Trade and other receivables	122,147	85,052	2,102,283	1,910,379
Financial receivables	36,841	34,583	-	-
Inventories	3,377	3,345	-	-
Other current assets	67,042	75,438	409	409
	<u>413,207</u>	<u>316,529</u>	<u>2,202,639</u>	<u>1,911,040</u>
Current Liabilities				
Borrowings	150,794	175,285	-	-
Trade and other payables	259,547	277,633	28,157	9,593
Other financial liabilities	7,832	42,891	7,832	42,891
Provision for income tax	1,022	37	-	-
	<u>419,195</u>	<u>495,846</u>	<u>35,989</u>	<u>52,484</u>
Net current assets/(liabilities)	<u>(5,988)</u>	<u>(179,317)</u>	<u>2,166,650</u>	<u>1,858,556</u>
Non-current Liabilities				
Borrowings	692,700	467,211	233,082	-
Deferred tax liabilities	25,111	25,111	-	-
	<u>717,812</u>	<u>492,322</u>	<u>233,082</u>	<u>-</u>
Net assets	<u>1,910,721</u>	<u>1,710,155</u>	<u>2,219,675</u>	<u>2,120,982</u>
Capital and Reserve				
Share capital	501,203	409,242	501,203	409,242
Share premium	1,362,737	1,221,672	1,362,737	1,221,672
Foreign currency translation reserve	1,977	1,977	-	-
Statutory reserves	62,863	62,785	-	-
Employee share option reserves	19,628	-	19,628	-
Retained earnings	(37,459)	14,708	336,106	490,068
Equity attributable to owners of the Company	<u>1,910,950</u>	<u>1,710,384</u>	<u>2,219,675</u>	<u>2,120,982</u>
Non-controlling interests	(229)	(229)	-	-
	<u>1,910,721</u>	<u>1,710,155</u>	<u>2,219,675</u>	<u>2,120,982</u>

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

Amount payable within one year or less, or on demand

As at 31 Mar 2014 (RMB'000)	
Secured	Unsecured
64,794	86,000

As at 30 Jun 2013 (RMB'000)	
Secured	Unsecured
48,794	126,491

Amount payable after one year

As at 31 Mar 2014 (RMB'000)	
Secured	Unsecured
289,227	403,474

As at 30 Jun 2013 (RMB'000)	
Secured	Unsecured
301,211	166,000

Details of any collaterals

The loans are secured by:-

- 1) Pledging of assets of certain wastewater treatment plants to the relevant financial institutions.
- 2) Guarantees from a former subsidiary, subsidiaries and a third party.

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

	3QFY2014 RMB'000	3QFY2013 RMB'000
Cash flows from operating activities		
Operating profit/(loss)	(110,871)	32,030
Adjustments for:-		
Depreciation of property, plant and equipment	743	692
Amortisation of land use right/intangible asset	4,382	3,290
Loss on disposal of property, plant and equipment	(141)	242
Changes in fair value of other financial liabilities	109,931	-
Employee share option scheme	13,227	
Gain on disposal of assets	-	(12,907)
Exchange (gain) / loss	(1,912)	88
Interest income	(414)	(32)
Interest expenses	17,719	10,577
Operating cash flow before working capital change	32,664	33,980
Change in working capital		
Financial receivables	(70,550)	(26,625)
Inventories	7,877	98
Trade and other receivables	(3,995)	3,584
Other current assets	12,056	(17,143)
Trade and other payables	(21,618)	3,268
Deferred income	-	(1,100)
Cash used in operation	(43,564)	(3,938)
Interest received	414	32
Income tax paid	(187)	(194)
Net cash outflow from operating activities	(43,338)	(4,100)
Cash flow from investing activities		
Purchase of property, plant and equipment	(1,870)	(284)
Proceeds from disposal of assets	711	407
Increase of land use right/intangible assets	-	(243)
Net cash outflow from investing activities	(1,159)	(120)
Cash flow from financing activities		
Proceeds from exercise of warrants	9,329	741
Transaction cost paid	(646)	
Repayment of Bank borrowings	(7,980)	(43,204)
Proceeds from bank borrowings	764	76,120
Interest paid	(17,691)	(10,577)
Net cash inflow/(outflow) from financing activities	(16,224)	23,080
Net increase/(decrease) in cash at bank and on hand	(60,721)	18,860
Cash at bank and on hand at the beginning of the financial period	242,608	37,380
Effect of exchange rate changes on cash and cash equivalents	1,912	-
Cash at bank and on hand at the end of the financial period	183,800	56,240

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 issued and distributions to shareholders, together with a comparative statement for the corresponding period of the immediate preceding financial year.

Group	Share Capital RMB'000	Share Premium RMB'000	Foreign Currency Translation Reserve RMB'000	Statutory Reserve RMB'000	Employee share option reserves RMB'000	(Accumulated losses)/ Retained Profits RMB'000	Non-controlling Interests RMB'000	Total RMB'000
Balance at 31 Dec 2013	483,053	1,227,828	1,977	62,862	6,401	74,442	(229)	1,856,334
Net profit for the period	-	-	-	-	-	(111,899)	-	(111,899)
Exercise of warrants	3,763	29,587	-	-	-	-	-	33,350
Issue of ordinary shares related to acquisition of Tong Yong	14,386	105,322	-	-	-	-	-	119,707
Issue of employee share options	-	-	-	-	13,227	-	-	13,227
Balance at 31 Mar 2014	501,202	1,362,737	1,977	62,862	19,628	(37,458)	(229)	1,910,721
Balance at 31 Dec 2012	380,040	1,171,715	1,977	62,785	-	(47,956)	(229)	1,568,332
Net profit for the period	-	-	-	-	-	31,836	-	31,836
Exercise of warrants	478	936	-	-	-	-	-	1,414
Balance at 31 Mar 2013	380,518	1,172,651	1,977	62,785	-	(16,120)	(229)	1,601,582
Company								
Balance at 31 Dec 2013	483,053	1,227,828	-	-	6,401	476,298	-	2,193,580
Net loss for the year	-	-	-	-	-	(140,190)	-	(140,190)
Exercise of warrants	3,763	29,587	-	-	-	-	-	33,350
Issue of ordinary shares related to acquisition of Tong Yong	14,386	105,322	-	-	-	-	-	119,707
Issue of employee share options	-	-	-	-	13,227	-	-	13,227
Balance at 31 Mar 2014	501,202	1,362,737	-	-	19,628	336,108	-	2,219,675
Balance at 31 Dec 2012	380,040	1,171,715	-	-	-	497,497	-	2,049,252
Net loss for the period	-	-	-	-	-	(1,696)	-	(1,696)
Exercise of warrants	478	936	-	-	-	-	-	1,414
Balance at 31 Mar 2013	380,518	1,172,651	-	-	-	495,801	-	2,048,970

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 at the end of the current financial year reported on and as at the end of the corresponding period of the immediately preceding financial year.

As the 2013 audited net profit of the Jiansu TongYong Environmental Engineering Co., Ltd. exceeds RMB 23 million (as set out in scenario (iii) on page 10 of the Circular), the Tranche 2 Shares (amounting to 180 million Consideration Shares) have been allotted and issued to the Receiving Company on 14 March 2014. The Tranche 2 Shares rank pari passu in all respects with the existing Shares of the Company. Pursuant to the allotment and issuance of the Tranche 2 Shares, the total number of issued Shares of the Company has increased from 4,863,334,075 Shares to 5,043,334,075 Shares. The Tranche 2 Shares represent approximately 3.57% of the enlarged issued and paid-up share capital of the Company.

During the quarter ended 31 March 2014, a total 47,692,402 warrants were exercised by warrant holders for the issue of 47,692,402 new shares at an exercise price of S\$0.04 each, generating a total proceeds of S\$1,907,696. The proceeds were used for the general operation of the Group. Warrants exercised relates to 47,692,402 GD Warrants (warrants issued to Giant Delight Holdings Limited pursuant to the share subscription agreement and second settlement agreement respectively and as approved by the Shareholders on 27 April 2011).

The total number of issued shares of the Company was 5,091,026,477 as at 31 March 2014 (30 June 2013: 4,528,085,477). There were 16,441,796 CB Warrant (warrants issued to former convertible bond holders on 24 April 2010) as at 31 March 2014 (30 June 2013: 16,441,796 CB Warrants) outstanding, which could be exercised to subscribe for a total of 16,441,796 (30 June 2013: 16,441,796) new shares in the Company.

The Company does not have any treasury shares.

1(d)(iii) 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 financial year.

The total number of issued shares excluding treasury shares as at
 31 March 2014: 5,091,026,477
 30 June 2013: 4,528,085,477

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 Company's auditors.

3. **Whether 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 same accounting policies and methods of computations have been applied except as disclosed below.

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.**

The group has adopted the Singapore Financial Reporting Standards ("SFRS") including improvements to SFRS and interpretation of FRS ("INT FRS") that are mandatory for financial years beginning on or after 1 July 2013 where applicable. The application of these standards has no significant impact on the Group.

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

(a) **Basic earnings per share**

	Third Quarter Ended on		Nine Months Ended on	
	31/3/2014	31/3/2013	31/3/2014	31/3/2013
Profit per ordinary share based on Group's profit after taxation (RMB)	(0.023)	0.008	(0.012)	0.016
Weighted average number of ordinary shares in issue	4,903,693,062	4,164,515,490	4,740,188,175	4,162,488,369

(b) **Diluted earnings per share**

	Third Quarter Ended on		Nine Months Ended on	
	31/3/2014	31/3/2013	31/3/2014	31/3/2013
Profit per ordinary share based on Group's profit after taxation (RMB)	(0.023)	0.008	(0.012)	0.016
Weighted average number of ordinary shares outstanding after adjusting for the effects of all dilutive potential ordinary shares	4,920,134,858	4,270,635,746	4,756,629,971	4,268,608,625

7. **Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the (a) current financial period reported on; and (b) immediately preceding financial period**

	Group		Company	
	31 Mar 2014 RMB	30 Jun 2013 RMB	31 Mar 2014 RMB	30 Jun 2013 RMB
Net asset value per ordinary share based on the existing issued share capital as at the respective year	0.38	0.38	0.45	0.47
Number of shares	5,091,026,477	4,528,085,477	5,091,026,477	4,528,085,477

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:-**

any significant factors that effected the turnover, costs, and earnings of the group for the current financial period report on, including (where applicable) seasonal or cyclical factors; and any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.

Overview

The Group's revenue and gross profits increased by 56% and 41% respectively in 3QFY2014 as compared to 3QFY2013. The improved performance was mainly due to the following reasons:

- Increase in work done for new and ongoing projects, being Nanjing Pukou project, Nanjing Liuhe project, Sanmenxia project and Xianyang project.
- With higher construction revenue being achieved, additional finance income was recognised in accordance with INT FRS 112;
- The completion of acquisition for Jiangsu Tongyong Environment Engineering Co., Ltd ("Tongyong") had improved our construction profits and contributed contract revenue and profits to the Group.

The Group has incurred fair value loss amounting to RMB109.93 million, arising from fair value of contingent consideration payable in relation to the acquisition of Tong Yong and warrants. These changes in fair value of contingent consideration payable and warrants that have been materialised during the period were credited as part of the Company's share capital and share premium. There was no impact on cash flow arising from these changes in fair value.

Comparison with 3QFY2013 income statement

Revenue in 3QFY2014 increased by 56% to RMB125.66 million as compared with 3QFY2013. The revenue of the Group consists of construction revenue, discharge fee from water treatment and finance income recognised from service concession arrangement. Construction revenue comprises of revenue from construction of water treatment plant amounting to RMB66.72 million (3QFY2013: RMB27.64 million) and contract revenue earned by Tong Yong of RMB2.93 million (3QFY2013: nil), associated with construction cost incurred of RMB53.11 million (3QFY2013: RMB25.12 million). Revenue from construction of water treatment plant was mainly attributed by the construction work performed in Xianyang, Yangzhou and Nanjing Liuhe plants during this quarter. Contract revenue was raised from engineering, procurement and construction (EPC) services rendered to the third party customers by the Group. Discharge fee income from water and waste water treatment of RMB4.79 million in 3QFY2014 (3QFY2013: RMB3.99 million) and finance income from service concession arrangements of RMB51.20 million (3QFY2013: RMB48.75 million) in accordance with accounting standard INT FRS112. A few supplementary BOT contracts had been signed up with governments in the past 12 months. Consequently, the finance income had been re-calculated accordingly, which resulted higher finance income in 3QFY2014 as compared to 3QFY2013.

Overall gross profit margin was brought down to 45% (3QFY2013: 50%). This is mainly due to a larger portion of construction revenue recognised for 3QFY2014 as compared to 3QFY2013. Construction activities have a lower margin as compared to operation activities in general.

If construction activities were excluded, the revenue, cost and gross profit of plant operation were RMB55.99 million, RMB16 million and RMB39.99 million respectively (3QFY2013: RMB52.74 million, RMB15.06 million and RMB37.68 million respectively). This represented a gross profit margin of 71% (3QFY2013: 71%).

The Group's other income amounted RMB5.47 million (3QFY2013: RMB14 million). Other income mainly related to foreign exchange gains and some one-time unconditional government grants. The higher other income in 3Q2013 is due to a one-time gain amounting to RMB12.91 million recognised from disposal of Suqian plant.

Distribution expenses represented the expenses occurred from tendering contract services.

Administrative expenses increased by 314% to RMB41.90 million (3QFY2013: RMB10.13 million) mainly due to following reasons:

- a) The Group issued employee share option on 15 November 2013 with 1 year vesting period. In accordance with FRS 102 Share-based Payments, the expense amounting RMB13.2 million was recognized during the current financial period as employee benefits;
- b) The Group incurred more travelling expenses, legal and professional fees amounting to RMB11.4 million due to capital market activities and proposed acquisition of all the investment of EB in the environmental water sector. This was in line with the Group's strategic plan for the new future;
- c) Additional staff costs amounting to RMB1.1 million have been recognised due to general salary increment and increase in number of employees;
- d) Administrative expense of Tongyong amounting to RMB1.08 million has been included 3Q2014. No such expense was recognised in Q32013 as Tongyong was only consolidated since May 2013.
- e) Office rental expense has increased by RMB0.8 million as compared with Q32013 due to leasing of new office in Singapore and rental increment of offices in PRC.

The Group's other operating expenses for 3QFY2014 increased by 7665% to RMB113.7 million (3QFY2013: RMB1.46 million). The increment is mainly due to the following reasons:

- a) The Tranche 2 Shares of contingent consideration (amounting to 180 million Consideration Shares) relating to the acquisition of Jiangsu Tongyong Environment Engineering Co., Ltd, have been allotted and issued to the Receiving Company on 14 March 2014. As the share price of the Company has increased from S\$0.044 to S\$0.136 from the date of signing of Sales and Purchase Agreement to the date of issue of Tranche 2 shares, a fair value loss amounting to RMB80.9 million on the contingent consideration has been recognised as other operating expense during the financial period.
- b) A warrant holder has on 19 March 2014, exercised their rights to convert 47,692,402 warrants into 47,692,402 new shares of the Company (the "New Shares"), at the exercise price of S\$0.04 for each New Share. As on the date of exercise, the Company's spot share price is S\$0.143, which is significantly higher than the exercise price of the warrant, as a result, a fair value loss amounting to RMB23 million has been recognised as other operating expense. As at 31 March, 2014, there are 16,441,796 outstanding warrants, which have a maturity date of 23 April 2015. The fair value loss recognised in other operating expense for the outstanding warrants are amounted to RMB6.05 million.

Finance expenses increased by 35% to RMB17.72 million (3QFY2013: RMB10.60 million), of which RMB4.48 million pertained to the additional finance cost by the fixed rate Medium Term Notes ("MTN") which was issued on 1 August 2013.

Depreciation expense increased by RMB0.05 million as compared to 3QFY2013 because of additional assets purchased in the past 12 months. Amortisation charges were 33% more than that of 3QFY2013 due to the increased book value of intangibles to be amortised as compared to 3QFY2013.

Income tax also increased significantly from RMB0.2 million in 3QFY2013 to RMB1.02 million in 3QFY2014, of which RMB0.57 million was contributed by Tongyong.

Profit before tax has turned into loss position as compared to 3QFY2013. A number of non-recurring expenses have been materialised during the financial period, i.e. equity-settled share-based payment (RMB12.3 million), fair loss on contingent liability (RMB80.9 million) and warrant (RMB29.05 million), and professional fees relating to acquisition of EB's investment in water treatment sector (RMB11.4 million). If all these non-recurring expenses were excluded, the Group has generated a normalised after tax profit of RMB21.76 million, a 15% increase from the normalised profit RMB18.93 million in 3Q2013. The normalised profit in 3Q2013 has excluded the one-off gain from disposal of Suqian amounting to RMB12.91 million. Similarly, excluding all one-off items and fair value adjustments for the first nine months, the adjusted net profit for 9-month 2014 jumped 146.2% to RMB88.0 million from those of RMB35.7 million in 9-month 2013.

Statement of Financial Position

Trade and other receivables as at 31 March 2014 included RMB86.19 million trade receivables and RMB35.96 million other receivables (30 June 2013: RMB45.47 million and RMB43.94 million respectively). The increase of RMB43.72 million in trade receivables was mainly attributed to the increase in Tongyong's trade receivables amounting to RMB43.33 million at 31 March 2014. The collection period for trade receivable has increased from 45 days in FY2013 to 63 days in 3Q2014. Due to the nature of business, Tongyong has a longer collection period of trade receivable than water treatment plants. As such, following the acquisition of Tongyong, the average collection period of trade receivable has increased. The decrease in other receivable amounting to RMB7.98 is mainly due to receipt of RMB2.16 million from disposal of Suqian and receipt of deposits placed with third parties amounted to RMB5 million.

Non-current other receivables related to the consideration receivables in more than one year with regards to the disposal of service concession rights of Suqian plants in FY2013. Increase of RMB0.76 million was due to the recognition of interest income using effective interest method.

The decrease in other current assets amounted to RMB8.40 million, which was mainly attributed to the decrease of prepayments made to subcontractors during construction progress.

Financial receivables (including current and non-current) increased by RMB265 million to RMB2,272 million as at 31 March 2014. The increase is mainly attributable to the addition of financial receivables recognised from the construction work of the XianYang, Nanjing Pukou, Nanjing Liuhe and Sanmenxia projects.

The RMB10.82 million decrease in intangible assets mainly related to the amortisation of concession right and amortisation of the patents charged during the financial period.

Goodwill of RMB90.05 million was recognised as a result of acquisition of Jiangsu Tongyong Environment Engineering Co., Ltd.

Total borrowings increased by RMB201 million. The movement mainly comprised of the proceeds from MTN issued in August 2013 amounting to SGD50 million (approximately RMB 250 million), and net repayment made to the bank borrowings and other loans amounting to RMB49 million during the financial period.

Decrease of RMB18.09 million in trade and other payables were mainly due to payments made to subcontractors and suppliers during the period.

Other financial liabilities relates to financial liabilities arising from the outstanding warrants, which are denominated in Singapore dollar. The other financial liabilities as at 30 June 2013 consists of financial liabilities relating to warrants as well as the contingent shares payable. The decrease as compared to the balance as at 30 June 2013 related to the exercise of warrants in the past 6 months and issue and allotted the contingent shares payable in relating to the acquisition of Tongyong during the period. There is no more other financial liability relating to contingent shares payable as at 31 March 2014.

The Group was in a net current liability position of RMB5.99 million as at 31 March 2014 as compared to a net current liability position of RMB179.32 million as at 30 June 2013. The decrease in net current liability position was mainly due to the proceeds from MTN issued during 1QFY2014 amounting to SGD44.39 million, which has a more than one year maturity period as well as additional shares placed to equity investor. Management had assessed the future cash flow on a monthly basis for the next 12 months, in which the Group will have sufficient funds for its operation and repayments of borrowings. Therefore, the Directors are of the view that Group has the financial resources to meet its obligations as and when they fall due.

Statement of Cash Flow

The cash and cash equivalents increased by 56% to RMB183.8 million as at 31 March 2013 as compared to the balance of RMB 118.11 million as at 30 Jun 2013. During the nine months period, the Group has generated a total cash inflow of RMB 142.3 million from its operation before changes in working capital. The cash generated together with the proceeds from issue of MTN and additional shares are used to finance the construction of new and ongoing projects amounting to RMB 262 million and to support the Group's daily operation.

During 3Q2014, the Group had operating cash inflow of RMB32.67 million (3QFY2013: RMB33.98 million) before working capital changes. After working capital changes, the Group had a net cash outflow of RMB43.34 million (3QFY2013: cash outflow of RMB4.1 million) from operating activities. The cash outflow in this quarter was mainly attributed to the net increase in financial receivables of RMB67.65 million arising from the construction of the plants expansion and upgrading work. If such cash flow was excluded, the Group would have a net cash inflow of RMB26.22 million from operating activities. In addition, there was net cash outflow of RMB16.22 million (3QFY2013: inflow of RMB 23.10 million) in financing activities. Repayment of bank loans and interest payments amounting to RMB25.67 million (3QFY2013: RMB53.78 million) were made. Additional funds of RMB10.09 million were raised during 3QFY2014 (3QFY2013: RMB76.12 million) from exercise of warrants and bank borrowings.

Subsequent events

The Company has on 10 April 2014 entered into a third supplemental agreement (the "Third Supplemental Agreement") with Tong Yong and the Vendors whereby it was agreed, inter alia, that the Vendors have unconditionally waived its right to receive the cash payment from the Company. In connection with the foregoing, the Company will not be making an additional cash payment to the Vendors

On 19 April 2014, the Company has obtained Approval-in-principal ("AIP") from the Singapore Exchange Securities Trading Limited ("SGX-ST"), for the listing and quotation of the Consolidated Shares on the Official List of SGX-ST. The AIP is subject to:

- (a) compliance with the SGX-ST's listing requirements; and
- (b) shareholders' approval being obtained for the Proposed Share Consolidation at a special general meeting to be convened.

Subsequently, the Proposed Share Consolidation has been approved by shareholders during special general meeting hold on 15 May 2014.

On 30 April 2014, the Group has agreed with China Everbright Water Investments Limited to extend the Exclusivity Period to 31 May 2014.

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

None.

10. **A commentary at the date of the announcement of the 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 year and the next 12 months.**

During the Third Plenary Session of the 18th Communist Party of China Central Committee, the importance of an ecological civilization system as part of reformation plan has been emphasized again. It also proposed to build up market-based mechanism to attract market capital to invest in ecological environmental protection, and to pursue the environmental pollution control by private institutions or companies. Environmental protection is becoming an important topic in the progression of the urbanization, meanwhile, the urbanization also brings business opportunities for the industry of environmental protection. Many rural towns have developed appropriate water management plan as part of the urbanization process. The Water industry in China has gradually shifted the focus from large and medium – sized cities to small cities and rural towns.

China's ecological environmental industry, as an industry arising from the government's procurement of public services, is affected by both the state planned economy system and market-based mechanism. The industry is now in a transition phase from planned economy system to market-oriented system. The Government allows the private capital to participate in the investment and operation of urban infrastructure through service concession arrangement, and it also encourages the enterprise and social organizations to set up all kinds of business and invest in rural areas. All of these reflect that a market-led environmental protection industry has been growing in an increasing speed.

From the year of 2014, in order to promote energy conservation through economic leverage, both central and local government carried out a relatively stricter policy on environmental protection, and increased the level of supervision on those polluting companies. On 24th March, the Ministry of Finance announced that it would promote the establishment of a system which could enable the compensation and trading of Emission Rights. And it is said that they would like to launch the system as pilot project in major cities, e.g. Suzhou, in 2-3 years. At the same time, the Government raises the water treatment standards and enhances the supervision, so that the industrial technology has to be improved continuously in order to meet the increasingly strict requirements. And these have a positive impact on the Water Industry's upgrade from investment operation to environmental protection services.

The Company has on 30 December 2013 entered into a framework agreement (the "Framework Agreement") with China Everbright Water Investments Limited (the "Vendor", together with the Company, the "Parties"), pursuant to which the Company proposes to acquire (the "Proposed Acquisition") all the investments of the Vendor and China Everbright International Limited ("CEIL") (subject to obtaining all relevant regulatory and third party approvals, waivers and consents) in the environmental water sector (the "Target Assets"). As at 31 March 2014, the due diligent and commercial negotiation are still in process. On 30 April 2014, the Group has announced that the both parties have agreed to extend the period of Exclusivity Period to 31 May 2014.

11. **Dividend**

(a) Current financial period reported on

Nil

(b) Corresponding Period of the immediately Preceding financial year

Not applicable

(c) Date payable

Not applicable

(d) Books closure date

Not applicable

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

Not applicable

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 general mandate has been obtained from the shareholders for the quarter ended 31 March 2014 and 31 March 2013.

PART II – ADDITIONAL INFORMATION REQUIRED FOR FULL YEAR ANNOUNCEMENT
(This part is not applicable to Q1, Q2, Q3 and Half Year Results)

- 14. Segmented revenue and results for business or geographical segments (of the group) in the form presented in the issuer's most recently audited annual financial statements, with comparative information for the immediately preceding year.**

Not applicable.

- 15. In the review of performance, the factors leading to any material changes in contributions to turnover and earnings by the business or geographical segments.**

Not applicable.

- 16. A breakdown of sales**

Not applicable.

- 17. A breakdown of the total annual dividend (in dollar value) for the issuers' latest full year and its previous full year.**

Not applicable.

- 18. Disclosure of person occupying a managerial position in the issuer or any of its principal subsidiaries who is a relative of a director or chief executive office or substantial shareholder of the issuer pursuant to Rule 704(13) in the format below. If there are no such persons, the issuer must make an appropriate negative statement:-**

Not applicable.

- 19. Status on the use of net proceeds raised from share placement and issue of MTN.**

The Company raised approximately SGD44.39 million from the SGD 300 million Multicurrency Medium Term Note Programme established on 24 July 2013 (the "MTN") and approximately SGD14.68 million from the placement of 293,617,000 ordinary shares in the capital of the Company in August 2013 (the "Placement").

Following the announcements made on 17 September 2013 and 4 November 2013 via SGXNet, the status on the use of net proceeds is summarized as follow:-

a) Use of proceeds from the MTN

MTN remaining proceeds	SGD13,327,501
Amount utilised as at date of this announcement for the payment of MTN interests:-	SGD1,910,958
Balance of MTN net proceeds as at date of this announcement	SGD11,416,543

b) Use of proceeds from the Placement

Placement remaining proceeds	SGD 12,919,274
Amount utilised as at date of this announcement for daily working capital of the Company:	SGD 3,981,841
Balance of Placement net proceeds as at date of this announcement	SGD 8,937,433

c) Use of proceeds from the exercise of warrants

Placement remaining proceeds	SGD1,907,696
Amount utilised as at date of this announcement:	-
Balance of Placement net proceeds as at date of this announcement	SGD1,907,696

**CONFIRMATION BY THE BOARD
PURSUANT TO THE RULE 705(4) OF THE LISTING MANUAL**

We, Chen Da Wei and Nie Jian Sheng, do hereby confirm on behalf of the Board of Directors of HanKore Environment Tech Group Limited (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 unaudited financial results for the quarter ended 31 March 2014 to be false and misleading.

BY ORDER OF THE BOARD

Chen Da Wei
Executive Chairman
15 May 2014

Nie Jian Sheng
Chief Executive Officer and Executive Director