



**中國環保**  
China Environment Ltd.

## **CHINA ENVIRONMENT LTD.**

(Registration No.: 200301902W)

Financial Statements And Related Announcement  
For Third Quarter And Nine Months Ended  
30 September 2015

**UNAUDITED FINANCIAL RESULT ANNOUNCEMENT FOR THE THIRD QUARTER AND NINE MONTHS ENDED 30 SEPTEMBER 2015**

**PART I - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3), HALF-YEAR AND FULL YEAR RESULTS**

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

**CONSOLIDATED INCOME STATEMENT**

	Unaudited 3 months ended		Increase/ (Decrease) %	Unaudited 9 months ended		Increase/ (Decrease) %
	30.09.2015 RMB'000	30.09.2014 RMB'000		30.09.2015 RMB'000	30.09.2014 RMB'000	
<b>Revenue</b>	89,336	182,975	(51.2)	248,201	526,778	(52.9)
Cost of sales	(60,336)	(141,718)	(57.4)	(182,105)	(399,616)	(54.4)
<b>Gross profit</b>	29,000	41,257	(29.7)	66,096	127,162	(48.0)
Other income	572	1,033	(44.6)	1,116	2,453	(54.5)
Selling and distribution expenses	(2,818)	(5,032)	(44.0)	(7,993)	(16,859)	(52.6)
Administrative expenses	(6,090)	(6,827)	(10.8)	(21,011)	(27,377)	(23.3)
Finance costs	(2,749)	(4,662)	(41.0)	(9,472)	(10,766)	(12.0)
<b>Profit before tax</b>	17,915	25,769	(30.5)	28,736	74,613	(61.5)
Tax expense	(2,176)	(4,914)	(55.7)	(139)	(13,594)	(99.0)
<b>Net profit for the period</b>	15,739	20,855	(24.5)	28,597	61,019	(53.1)
Attributable to:						
Owners of the Company	15,774	20,926	(24.6)	28,782	61,096	(52.9)
Non-controlling interests	(35)	(71)	(50.7)	(185)	(77)	140.3
<b>Net profit for the period</b>	15,739	20,855	(24.5)	28,597	61,019	(53.1)

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

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	Unaudited		Increase/ (Decrease)	Unaudited		Increase/ (Decrease)
	3 months ended			9 months ended		
	30.09.2015 RMB'000	30.09.2014 RMB'000	%	30.09.2015 RMB'000	30.09.2014 RMB'000	%
<b>Net profit for the period</b>	15,739	20,855	(24.5)	28,597	61,019	(53.1)
Other comprehensive income:						
Currency translation differences						
arising from consolidation	(904)	(1,085)	(16.7)	(2,211)	306	(8225)
<b>Total comprehensive income for the period</b>	<u>14,835</u>	<u>19,770</u>	(25.0)	<u>26,386</u>	<u>61,325</u>	(57.0)
Attributable to:						
Owners of the Company	14,870	19,841	(25.1)	26,571	61,402	(56.7)
Non-controlling interests	(35)	(71)	(50.7)	(185)	(77)	140.3
<b>Total comprehensive income for the period</b>	<u>14,835</u>	<u>19,770</u>	(25.0)	<u>26,386</u>	<u>61,325</u>	(57.0)
Profit before tax is arrived at after charging/(crediting):						
Depreciation of property, plant and equipment	1,797	2,979	(39.7)	5,409	3,465	56.1
Amortisation of land use rights	285	460	(38.0)	856	508	68.5
Research and development costs	89	2	4,350.0	355	3,785	(90.6)
Foreign exchange (gain)/loss	(932)	(1,506)	(38.1)	(2,382)	507	(569.8)
Interest expense	2,731	3,480	(21.5)	9,221	7,399	24.6
Interest income	(458)	(952)	(51.9)	(544)	(1,809)	(69.9)
Share option expense	-	2,004	(100.0)	-	6,340	(100.0)

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

**STATEMENTS OF FINANCIAL POSITION**

	Group		Company	
	As at		As at	
	30.09.2015	31.12.2014	30.09.2015	31.12.2014
	RMB'000	RMB'000	RMB'000	RMB'000
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	288,769	294,028	60	86
Land use rights	51,993	52,849	-	-
Investment in subsidiaries	-	-	672,237	673,467
Investment in associated company	2,450	2,450	-	-
	<u>343,212</u>	<u>349,327</u>	<u>672,297</u>	<u>673,553</u>
<b>CURRENT ASSETS</b>				
Inventories	12,316	12,449	-	-
Trade and bills receivables	775,117	660,133	14	27
Project work-in-progress	-	106	-	-
Other receivables, deposits and prepayments	45,569	167,434	159	135
Loan to subsidiaries	-	-	38,635	41,627
Dividend receivable from a subsidiary	-	-	20,059	20,927
Cash and cash equivalents	79,787	48,306	442	230
	<u>912,789</u>	<u>888,428</u>	<u>59,309</u>	<u>62,946</u>
<b>TOTAL ASSETS</b>	<u>1,256,001</u>	<u>1,237,755</u>	<u>731,606</u>	<u>736,499</u>
<b>NON-CURRENT LIABILITY</b>				
Deferred tax liability	-	5,030	-	-
<b>CURRENT LIABILITIES</b>				
Trade and bill payables	29,844	52,501	-	-
Other payables and accruals	72,542	44,855	2,454	2,787
Short-term borrowings	180,457	169,904	-	-
Amount due to subsidiaries (non-trade)	-	-	2,963	2,927
Amount due to a director (non-trade)	312	325	312	325
Amount due to related parties (non-trade)	31,817	86,597	-	-
Tax payable	1,947	210	-	-
	<u>316,919</u>	<u>354,392</u>	<u>5,729</u>	<u>6,039</u>
<b>TOTAL LIABILITIES</b>	<u>316,919</u>	<u>359,422</u>	<u>5,729</u>	<u>6,039</u>
<b>NET ASSETS</b>	<u>939,082</u>	<u>878,333</u>	<u>725,877</u>	<u>730,460</u>
<b>EQUITY</b>				
Share capital	386,604	352,241	807,912	773,549
Statutory reserves	96,515	91,352	-	-
Currency translation reserve	(268)	1,943	(50,385)	(19,142)
Share option reserve	8,128	8,128	8,128	8,128
Revenue reserve	438,424	414,805	(39,778)	(32,075)
	<u>929,403</u>	<u>868,469</u>	<u>725,877</u>	<u>730,460</u>
<b>Non-controlling interests</b>	<u>9,679</u>	<u>9,864</u>	<u>-</u>	<u>-</u>
<b>TOTAL EQUITY</b>	<u>939,082</u>	<u>878,333</u>	<u>725,877</u>	<u>730,460</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 30.09.2015 (RMB'000)		As at 31.12.2014 (RMB'000)	
Secured	Unsecured	Secured	Unsecured
109,941	70,516	75,000	94,904

**Amount repayable after one year**

As at 30.09.2015 (RMB'000)		As at 31.12.2014 (RMB'000)	
Secured	Unsecured	Secured	Unsecured
-	-	-	-

**Details of any collateral**

**As at 30.09.2015**

As at 30 September 2015, RMB60.0 million of the short-term borrowings was secured by the Group's land use rights and property title deeds of our Anhui's plant and guaranteed by one of the Company's directors, his spouse, and the subsidiary of the Company. Another RMB49.9 million short-term borrowings was secured by bank deposits of RMB52.8 million.

RMB70.5 million of the short-term borrowings were not secured by the Company's assets. These short-term borrowings were guaranteed or secured by:

- RMB27.0 million of the short-term borrowings was guaranteed by one of the Company's directors and secured by the land use rights and leasehold buildings of a related party, Fujian Mintai Environmental Protection Co., Ltd.; and
- RMB43.5 million of the short-term borrowings was guaranteed by one of the Company's directors and his spouse.

All the securities and guarantees mentioned above were provided free-of-charge to the Group.

**As at 31.12.2014**

As at 31 December 2014, RMB70.0 million of the short-term borrowings was secured by the the Group's land use rights and property title deeds of our Anhui plant and guaranteed by one of the Company's directors, his spouse and the subsidiary of the Company. Another RMB5.0 million short-term borrowings was secured by the Group's land use rights in Fujian.

RMB94.9 million of the short-term borrowings were not secured by the Company's assets. These short-term borrowings were guaranteed or secured by:

- RMB30.0 million of the short-term borrowings was guaranteed by one of the Company's directors and secured by the land use rights and leasehold buildings of a related party, Fujian Mintai Environmental Protection Co., Ltd.;
- RMB9.9 million of the short-term borrowings was guaranteed by one of the Company's directors and the subsidiary of the Company;
- RMB50.0 million of the short-term borrowings was guaranteed by one of the Company's directors and his spouse; and
- RMB5.0 million of the short-term borrowings was guaranteed by a credit guarantee company.

All the securities and guarantees mentioned above were provided free-of-charge to the Group, except for RMB264,000 guarantee charges paid to a credit guarantee company in FY2014.

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

**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Unaudited 3 months ended		Unaudited 9 months ended	
	30.09.2015 RMB'000	30.09.2014 RMB'000	30.09.2015 RMB'000	30.09.2014 RMB'000
<b>Cash flows from operating activities</b>				
Profit before tax	17,915	25,769	28,736	74,613
Adjustment for:-				
Depreciation of property, plant and equipment	1,797	2,979	5,409	3,465
Amortisation of land use rights	285	460	856	508
Share option expense	-	2,004	-	6,340
Interest expense	2,731	3,480	9,221	7,399
Interest income	(458)	(952)	(544)	(1,809)
<b>Operating cash flow before movements in working capital</b>	<b>22,270</b>	<b>33,740</b>	<b>43,678</b>	<b>90,516</b>
Inventories	(3,114)	(1,887)	133	288
Project work-in-progress	598	-	106	-
Trade and other receivables	(9,218)	(49,181)	7,357	(204,263)
Trade and other payables	(17,667)	7,173	5,030	(762)
Currency translation adjustment	(922)	(1,026)	(2,198)	304
<b>Cash (used in)/generated from operations</b>	<b>(8,053)</b>	<b>(11,181)</b>	<b>54,106</b>	<b>(113,917)</b>
Interest received	458	952	544	1,809
Income tax paid	(3,029)	(4,758)	(3,911)	(12,935)
Income tax refund	4	-	4	-
<b>Net cash (used in) / generated from operating activities</b>	<b>(10,620)</b>	<b>(14,987)</b>	<b>50,743</b>	<b>(125,043)</b>
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment	(63)	(522)	(65)	(638)
Increase in construction work-in-progress	-	(932)	(89)	(1,938)
<b>Net cash used in investing activities</b>	<b>(63)</b>	<b>(1,454)</b>	<b>(154)</b>	<b>(2,576)</b>
<b>Cash flows from financing activities</b>				
Net proceeds from new shares placement	-	-	34,362	-
Proceeds from borrowings	60,000	12,430	151,941	202,830
Repayment of borrowings	(66,391)	(63,555)	(141,388)	(177,255)
Repayment of advances from a director (non-trade)	-	-	-	(57,821)
Advances from related parties (non-trade)	10,800	28,272	12,220	85,272
Repayment of advances from related parties (non-trade)	(9,200)	-	(67,000)	-
Contribution from minority interests	-	-	-	500
Decrease/(increase) in deposits restricted-in-use	13,500	48,228	(36,388)	39,498
Interest paid	(2,731)	(3,480)	(9,221)	(7,399)
<b>Net cash generated from / (used in) financing activities</b>	<b>5,978</b>	<b>21,895</b>	<b>(55,474)</b>	<b>85,625</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>(4,705)</b>	<b>5,454</b>	<b>(4,885)</b>	<b>(41,994)</b>
Cash and cash equivalents at beginning of financial period	8,590	42,929	8,806	90,316
Effect of exchange rate changes on cash equivalents	13	(61)	(23)	-
<b>Cash and cash equivalents at end of financial period (Note A)</b>	<b>3,898</b>	<b>48,322</b>	<b>3,898</b>	<b>48,322</b>



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

**CONSOLIDATED STATEMENT OF CASH FLOWS (CONT'D)**

**Note A:**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following:

	Unaudited		Unaudited	
	3 months ended		9 months ended	
	30.09.2015	30.09.2014	30.09.2015	30.09.2014
	RMB'000	RMB'000	RMB'000	RMB'000
Cash on hand and at banks	79,787	83,852	79,787	83,852
Less: Deposits restricted-in-use	(75,889)	(35,530)	(75,889)	(35,530)
	<u>3,898</u>	<u>48,322</u>	<u>3,898</u>	<u>48,322</u>

1.(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

**STATEMENTS OF CHANGES IN EQUITY**

Unaudited Group	← Equity attributable to owners of the Company →						Total	Non- controlling interests	Total equity
	Share capital	Statutory reserves	Currency translation reserve	Share option reserve	Revenue reserve				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Balance at 1 January 2015	352,241	91,352	1,943	8,128	414,805	868,469	9,864	878,333	
Net profit/(loss) for the period	-	-	-	-	13,008	13,008	(150)	12,858	
Other comprehensive loss, net of tax - Currency translation differences arising from consolidation	-	-	(1,307)	-	-	(1,307)	-	(1,307)	
Total comprehensive (loss)/income for the 6 months ended 30 June 2015	-	-	(1,307)	-	13,008	11,701	(150)	11,551	
Proceeds from new shares placement	34,645	-	-	-	-	34,645	-	34,645	
Share issue expenses	(282)	-	-	-	-	(282)	-	(282)	
Transfer to statutory reserves	-	2,264	-	-	(2,264)	-	-	-	
Balance at 30 June 2015	386,604	93,616	636	8,128	425,549	914,533	9,714	924,247	
Net profit/(loss) for the period	-	-	-	-	15,774	15,774	(35)	15,739	
Other comprehensive loss, net of tax - Currency translation differences arising from consolidation	-	-	(904)	-	-	(904)	-	(904)	
Total comprehensive (loss)/income for the 3 months ended September 2015	-	-	(904)	-	15,774	14,870	(35)	14,835	
Transfer to statutory reserves	-	2,899	-	-	(2,899)	-	-	-	
<b>Balance at 30 September 2015</b>	<b>386,604</b>	<b>96,515</b>	<b>(268)</b>	<b>8,128</b>	<b>438,424</b>	<b>929,403</b>	<b>9,679</b>	<b>939,082</b>	



1.(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

**STATEMENTS OF CHANGES IN EQUITY (CONT'D)**

Unaudited Group	← Equity attributable to owners of the Company →					Revenue reserve	Total	Non-controlling interests	Total equity
	Share capital	Statutory reserves	Currency translation reserve	Share option reserve					
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2014	352,241	78,081	3,693	1,171	358,516	793,702	-	793,702	
Net profit/(loss) for the period	-	-	-	-	40,170	40,170	(6)	40,164	
Other comprehensive income, net of tax									
- Currency translation differences arising from consolidation	-	-	1,391	-	-	1,391	-	1,391	
Total comprehensive income/(loss) for the 6 months ended 30 June 2014	-	-	1,391	-	40,170	41,561	(6)	41,555	
Grant of equity-settled share options to employees	-	-	-	4,336	-	4,363	-	4,336	
Contribution from non-controlling interests	-	-	-	-	-	-	500	500	
Transfer to statutory reserves	-	7,117	-	-	(7,117)	-	-	-	
Balance at 30 June 2014	352,241	85,198	5,084	5,507	391,569	839,599	494	840,093	
Net profit for the period	-	-	-	-	20,926	20,926	(71)	20,855	
Other comprehensive loss, net of tax									
- Currency translation differences arising from consolidation	-	-	(1,085)	-	-	(1,085)	-	(1,085)	
Total comprehensive (loss)/income for the 3 months ended 30 September 2014	-	-	(1,085)	-	20,926	19,841	(71)	19,770	
Grant of equity-settled share options to employees	-	-	-	2,004	-	2,004	-	2,004	
Transfer to statutory reserves	-	4,241	-	-	(4,241)	-	-	-	
Balance at 30 September 2014	352,241	89,439	3,999	7,511	408,254	861,444	423	861,867	

1.(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year

**STATEMENTS OF CHANGES IN EQUITY (CONT'D)**

Company	Share	Currency	Share	Accumulated	Total
	capital	translation	option		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2015	773,549	(19,142)	8,128	(32,075)	730,460
Net loss for the period	-	-	-	(5,843)	(5,843)
Other comprehensive loss, net of tax					
- Currency translation differences arising from consolidation	-	(19,558)	-	-	(19,558)
Total comprehensive loss for the 6 months ended 30 June 2015	-	(19,558)	-	(5,843)	(25,401)
Proceeds from new shares placement	34,645	-	-	-	34,645
Share issue expenses	(282)	-	-	-	(282)
Grant of equity-settled share options to employees	-	-	-	-	-
Balance at 30 June 2015	807,912	(38,700)	8,128	(37,918)	739,422
Other comprehensive loss, net of tax					
- Currency translation differences arising from consolidation	-	(11,685)	-	(1,860)	(1,860)
Total comprehensive loss for the 3 months ended 30 September 2015	-	(11,685)	-	(1,860)	(13,545)
<b>Balance at 30 September 2015</b>	<b>807,912</b>	<b>(50,385)</b>	<b>8,128</b>	<b>(39,778)</b>	<b>725,877</b>
As at 1 January 2014	773,549	7,783	1,171	(16,911)	765,592
Net loss for the period	-	-	-	(8,269)	(8,269)
Other comprehensive profit, net of tax					
- Currency translation differences arising from consolidation	-	16,931	-	-	16,931
Total comprehensive profit/(loss) for the 6 months ended 30 June 2014	-	16,931	-	(8,269)	8,662
Grant of equity-settled share options to employees	-	-	4,336	-	4,336
Balance at 30 June 2014	773,549	24,714	5,507	(25,180)	778,590
Net loss for the period	-	-	-	(3,996)	(3,996)
Other comprehensive income, net of tax					
- Currency translation differences arising from consolidation	-	(15,130)	-	-	(15,130)
Total comprehensive loss for the 3 months ended 30 September 2014	-	(15,130)	-	(3,996)	(19,126)
Grant of equity-settled share options to employees	-	-	2,004	-	2,004
Balance at 30 September 2014	773,549	9,584	7,511	(29,176)	761,468

- 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.**

	Number of Shares	Share Capital RMB'000
As at 1 January 2015	735,520,646	773,549
Issue of new shares pursuant to share placement **	72,500,000	34,645
Share issue expenses	-	(282)
<b>As at 30 September 2015</b>	<b>808,020,646</b>	<b>807,912</b>

\*\* 72.5 million new ordinary shares issued at S\$0.104 per share on 7 January 2015

- 1.(d)(iii) **To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.**

	Company As at 30.09.2015	As at 31.12.2014
Total number of shares issued	808,020,646	735,520,646

The Company does not have any treasury shares at the end of the current financial period (as at 30 September 2015) and at the end of the immediately preceding year (as at 31 December 2014).

- 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 2014, except for the adoption of certain revised Financial Reporting Standards ("FRS") which are effective for the financial period commencing 1 January 2015. 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		Group 9 months ended	
	30.09.2015	30.09.2014	30.09.2015	30.09.2014
Profit attributable to the shareholders for the period (RMB'000)	15,774	20,926	28,782	61,096
(a) EPS based on weighted average number of shares in use (RMB cents/share)	1.96	2.85	3.57	8.31
(b) EPS based on fully diluted basis (RMB cents/share)	1.80	2.85	3.28	8.31
Weighted average number of shares applicable to earnings per share	806,427,239	735,520,646	806,427,239	735,520,646
Weighted average number of shares fully diluted basis	877,333,833	735,520,646	877,333,833	735,520,646

Basic earnings per share is calculated by dividing earnings for the period attributable to the owners of the Company by the weighted average number of ordinary shares issued during the financial period under review.

Diluted earnings per share is calculated on the same basis as the basic earnings per share except that the weighted average number of shares issued during the financial period under review is adjusted for the effects of all dilutive potential ordinary shares (i.e. 72.5 million unlisted warrants which have been allotted to the subscriber on 7 January 2015). The Group has 3.5 million (30 September 2014: 3.5 million) 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 As At		Company As At	
	30.09.2015	31.12.2014	30.09.2015	31.12.2014
Net asset value per share (RMB cents) based on issued share capital as at the end of period reported on	115.0	118.1	89.8	99.3
Number of shares used in calculating net asset value per share ('000)	808,021	735,521	808,021	735,521

8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:-
- (a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and
- (b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.

**Review of Financial Performance**

a) Revenue

The Group achieved a total revenue of RMB89.3 million in the three months ended 30 September 2015 ("3Q2015"), a decrease of 51.2% or RMB93.7 million from RMB183.0 million achieved in the three months ended 30 September 2014 ("3Q2014"). In 3Q2015, we completed 10 dust collectors projects as compared to 11 projects in 3Q2014. The contract sum per project in 3Q2014 was much larger compared to that in 3Q2015.

Revenue for nine months ended 30 September 2015 ("9M2015") and nine months ended 30 September 2014 ("9M2014") were RMB248.2 million and RMB526.8 million respectively. For 9M2015, we completed 12 dust collectors projects and as at 30 September 2015, there were 9 on-going projects. In 9M2014, we completed 35 dust collectors projects and as at 30 September 2014, there were 10 on-going projects.

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

	<b>3Q2015</b>	<b>3Q2014</b>	<b>9M2015</b>	<b>9M2014</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Power generation	71.1	46.3	76.8	50.2
Steel and metallurgy	14.6	35.2	13.4	31.9
Cement	5.3	3.8	4.8	1.3
Chemical	-	6.0	-	7.3
Others	9.0	8.7	5.0	9.3
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

For 9M2015, 76.8% of our total revenue was from the power generation industry, 13.4% from the steel and metallurgy industry, 4.8% from the cement industry, and the remaining 5.0% was from other industries.

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

b) Cost of Sales

Detailed breakdown of cost of sales is as follows:

	3Q2015	3Q2014	9M2015	9M2014
	%	%	%	%
Direct materials	83.8	80.1	84.2	80.2
Direct labour, fabrication and installation fees	14.1	17.0	12.9	17.6
Depreciation and rental charges	0.5	1.7	1.1	0.8
Utilities charges	0.2	0.1	0.2	0.1
Miscellaneous expenses	1.4	1.1	1.6	1.3
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Direct materials which consisted mainly of steel plates, channel and angle steel, discharge electrode and collection electrode systems made up 83.8%, 80.1%, 84.2% and 80.2% of our total cost of sales in 3Q2015, 3Q2014, 9M2015 and 9M2014 respectively.

Total cost of sales for 3Q2015 amounted to RMB60.3 million, which was 57.4% or RMB81.4 million lower than RMB141.7 million incurred in 3Q2014. Gross profit for 3Q2015 amounted to RMB29.0 million, decreased by RMB12.3 million as compared to 3Q2014. The decrease in cost of sales and gross profit were in-line with the decrease in revenue. Gross profit margin increased from 22.5% in 3Q2014 to 32.5% in 3Q2015. The increase in gross profit margin was due mainly to the Group having completed more higher margin projects in 3Q2015.

The Group's revenue decreased 52.9% from RMB526.8 million in 9M2014 to RMB248.2 million in 9M2015, while gross profit decreased 48.0% from RMB127.2 million in 9M2014 to RMB66.1 million in 9M2015. The decrease in the Group's revenue was in-line with management's effort in securing projects from customers with good creditability only. The decrease in gross profit was in-line with the decrease in revenue. Gross profit margin increased marginally from 24.1% in 9M2014 to 26.6% in 9M2015 as the Group had secured a few dust collectors projects with higher profit margin as compared to that in 9M2014.

c) Operating Expenses

Total operating expenses in 3Q2015 which amounted to RMB11.7 million was approximately 29.1% or RMB4.8 million lower than the RMB16.5 million incurred in 3Q2014 whereas the total operating expenses in 9M2015 of RMB38.5 million was approximately 30.0% or RMB16.5 million lower than the RMB55.0 million incurred in 9M2014.

Selling and distribution expenses in 3Q2015 totalled RMB2.8 million, which was 44.0% or RMB2.2 million lower than the RMB5.0 million incurred in 3Q2014. The decrease was mainly due to the decrease in sales commission of RMB2.4 million partially offset by a slight increase in travelling expenses of RMB0.1 million and entertainment expenses of RMB0.1 million. The decreased were in line with the lower revenue for 3Q2015.

Selling and distribution expenses in 9M2015 totalled RMB8.0 million, which was 52.6% or RMB8.9 million lower than RMB16.9 million in 9M2014. The decrease was mainly due to the decrease in sales commission of RMB6.7 million, delivery charges of RMB1.8 million, travelling expenses of RMB0.2 million and entertainment expenses of RMB0.2 million, which were in-line with the lower revenue for 9M2015.

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

d) Operating Expenses (cont'd)

Administrative expenses decreased by 10.8% or RMB0.7 million from RMB6.8 million in 3Q2014 to RMB6.1 million in 3Q2015. The decrease was mainly due to lower staff costs of RMB0.3 million and no amortisation of the employee share option reserve in 3Q2015 (3Q2014: RMB2.2 million). The decrease was partially offset by the increase in amortisation of land use right and depreciation charges of RMB1.3 million and realised and unrealised foreign exchange loss of RMB0.6 million.

Administrative expenses decreased by 23.3% or RMB6.4 million from RMB27.4 million in 9M2014 to RMB21.0 million in 9M2015. The decrease was mainly due to the decrease in staff costs of RMB0.3 million, realised and unrealised foreign exchange loss of RMB2.9 million, research and development costs of RMB3.4 million, investors relation expenses of RMB0.2 million, office expenses of RMB0.2 million, stamp duties of RMB0.3 million and amortisation of the employee share option reserve of RMB6.5 million. The decrease was partially offset by the increase in amortisation of land use right and depreciation charges of RMB3.9 million, property and land use right taxes of RMB3.6 million.

Finance costs decreased by 41.0% or RMB1.9 million from 3Q2014 to 3Q2015. The decrease was mainly due to decrease in bank charges of RMB1.2 million and bank interest expense of RMB0.7 million compared to 3Q2014 as the average bank interest rate for 3Q2015 was lower than that in 3Q2014. For 9M2015, the finance costs decreased by 12.0% or RMB1.3 million from 9M2014 to 9M2015 due to decrease in bank charges of RMB3.1 million in 9M2015. The decrease was partially offset by an increase in bank interest expense of RMB1.8 million as compared to 9M2014.

e) Income tax expense

For 3Q2015 and 9M2015, the tax expenses were provided at an income tax rate of 15% based on our wholly owned subsidiary, Fujian Dongyuan's 3Q2015 and 9M2015 profit before tax. Included in 9M2015, was the reversal of an over provision of deferred tax expense in prior years of approximately RMB5.0 million.

f) Net profit for the period

The Group's net profit for 3Q2015 decreased by 24.6% or RMB5.1 million from RMB20.9 million in 3Q2014 to RMB15.8 million in 3Q2015. The decrease was mainly due to the decrease in gross profit by 29.7% or RMB12.3 million, decrease in other income by 44.6% or RMB0.5 million partially offset by the decrease in selling and distribution expenses of 44.0% or RMB2.2 million, a decrease in administrative expenses by 10.8% or RMB0.7 million, a decrease in finance costs by 41.0% or RMB1.9 million and income tax expense of 55.7% or RMB2.7 million.

The Group's net profit for 9M2015 decreased by 56.7% or RMB34.8 million from RMB61.4 million in 9M2014 to RMB26.6 million in 9M2015. The decrease was mainly due to the decrease in gross profit by 48.0% or RMB61.1 million and decrease in other income of RMB1.3 million partially offset by the decrease in total operating expenses of RMB16.5 million and income tax expense of RMB13.5 million.



## **Review of Financial Position**

### Non-Current Assets

The decrease in property, plant and equipment and land use rights of RMB6.1 million as at 30 September 2015 as compared to 31 December 2014 was due mainly to the amortisation and depreciation charges incurred during the periods.

### Current Assets

Current assets mainly comprise of inventories, trade and bills receivables, other receivables, deposits and prepayment, project work-in-progress and cash and bank balances. Total current assets amounted to RMB912.8 million as at 30 September 2015, which was approximately RMB24.4 million higher than that as at 31 December 2014.

As at 30 September 2015, inventories stood at RMB12.3 million, which was approximately RMB0.1 million lower than RMB12.5 million as at 31 December 2014.

Trade and bills receivables balance amounted to RMB775.1 million as at 30 September 2015, increased by RMB115.0 million from RMB660.1 million as at 31 December 2014. Included in the trade and bills receivables were bills receivables of RMB0.4 million (31 December 2014: RMB3.4 million) and retention monies from completed projects, which amounted to RMB97.5 million (31 December 2014: RMB82.4 million). The increase in trade receivables was due to overall slower debt collection as a result of tighter government credit control in PRC. Majority of our customers are either state-owned enterprises or government-linked enterprises or public listed companies. Nevertheless, the Group continues to monitor the collection from the trade receivables closely.

Other receivables, deposits and prepayments amounted to RMB45.6 million as at 30 September 2015, which was RMB121.9 million lower than RMB167.4 million as at 31 December 2014. The decrease was mainly due to the repayment of short-term non-interest bearing advances of approximately RMB82.2 million to the Group by a sub-contractor and the completion of sub-contracted projects of approximately RMB45.2 million where advances were previously paid to the sub-contractors.

Included in the other receivables, deposits and prepayments were advances to suppliers for the purchase of raw materials, which amounted to RMB31.3 million as at 30 September 2015 (31 December 2014: RMB27.0 million), tender deposits for projects of RMB1.1 million (31 December 2014: RMB1.4 million), advances to employees of RMB4.3 million (31 December 2014: RMB5.8 million) and advance payments to the contractors for the construction of the plant of RMB1.2 million (31 December 2014: RMB1.2 million).

As at 30 September 2015, the Group has cash and cash equivalents of RMB79.8 million, approximately RMB31.5 million higher than RMB48.3 million as at 31 December 2014. This was due mainly to net cash generated from operating activities. Included in the cash and bank balances was an amount of RMB75.9 million (31 December 2014: RMB39.5 million) of deposits restricted-in-use, which was pledged with financial institutions as security deposit for the short-term borrowing and bills payable.

### Non-Current Liability

The deferred tax liability has decreased by RMB5.0 million from 31 December 2014 to nil as at 30 September 2015. This was due to reversal into income statement as it has been over-provided in prior years.

### Current Liabilities

Current liabilities mainly comprise trade and bills payables, other payables and accruals, short-term borrowings, amount due to related parties and tax payable.

Trade and bills payables amounted to RMB29.8 million as at 30 September 2015, which was RMB22.7 million lower than the RMB52.5 million as at 31 December 2014. The decrease was due mainly to the decrease in bills payable of approximately RMB19.2 million from RMB42.5 million in 31 December 2014 to RMB23.3 million as at 30 September 2015 and decrease in trade payables of RMB1.1 million from RMB5.8 million in 31 December 2014 to RMB4.7 million as at 30 September 2015.



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

#### Current liabilities (cont'd)

Other payables and accruals amounted to RMB72.5 million as at 30 September 2015, which was higher by RMB27.7 million than the RMB44.9 million as at 31 December 2014. The increase was mainly due to the increase in advance receipts from customers of approximately RMB14 million, increase in sale commission payable of RMB5.7 million, accrued subcontracting and installation costs of RMB 4.1 million, increase in staff benefits payable of RMB1.2 million from 31 December 2014 to 30 September 2015.

The amount due to related parties (non-trade) decreased by 63.3% or RMB54.8 million due mainly to repayment of RMB67.0 million made during the period. The decreased was partially offset by additional loan advanced from related parties of RMB12.2 million during the period.

As at 30 September 2015, the Group has short-term borrowings of RMB180.5 million from the banks. Please refer to Paragraph 1(b)(ii) for the details of the collaterals.

### **Review of Cash Flows**

For 3Q2015, the Group's net cash used in operating activities was approximately RMB10.6 million. Operating cash flow before working capital changes was approximately RMB22.3 million after adjusting for non-cash flow items, interest expense and interest income. The Group registered net cash flow used in working capital of approximately RMB30.3 million as a result of increase in inventories of approximately RMB3.1 million, trade and other receivables of approximately RMB9.2 million and trade and other payables of approximately RMB17.7 million.

For 9M2015, the Group generated positive cash flows from operating activities of approximately RMB50.7 million. Operating cash flow before working capital changes was approximately RMB43.7 million after adjusting for non-cash flow items, interest expense and interest income. The Group registered net cash flow from working capital of approximately RMB10.4 million as a result of increase in trade and other payables of approximately RMB5.0 million and decrease in trade and other receivables of approximately RMB7.4 million.

For 3Q2015, the Group recorded net cash used in investing activities of approximately RMB0.06 million due mainly to increase in purchase of property, plant and equipment.

For 9M2015, the Group recorded net cash used in investing activities of approximately RMB0.2 million due mainly to increase in property, plant and equipment and construction work-in-progress of RMB0.1 million each.

For 3Q2015, the Group recorded net cash generated from financing activities of approximately RMB6.0 million. This was a result of proceeds from bank borrowings of RMB60 million, increase in advances from related parties by approximately RMB10.8 million and decrease in deposits restricted-in-use by RMB13.5 million, partially offset by increase in repayment of bank borrowing of RMB66.4 million, repayment of advances from related parties (non-trade) of RMB9.2 million and payment of interests charged by the banks of approximately RMB2.7 million.

For 9M2015, the Group recorded net cash used in financing activities of approximately RMB55.5 million. This was a result of repayment of bank borrowings of RMB141.4 million, repayment of advances from related parties (non-trade) of approximately RMB67.0 million, increase in deposits restricted-in-use of RMB36.4 million and payment of interests charged by the banks of approximately RMB9.2 million, partially offset by net proceeds from new shares placement of approximately RMB34.4 million, additional bank borrowing proceeds of approximately RMB151.9 million and increase in advances from related parties by approximately RMB12.2 million.

The Group had a net decrease in cash and cash equivalents of RMB4.7 million and RMB4.9 million for 3Q2015 and 9M2015 respectively. Cash and cash equivalents (excluding deposits restricted-in-use) stood at RMB3.9 million as at 30 September 2015.

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

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

**10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.**

Although increasing tightening of anti-air pollution laws and policies in China is a positive factor for the anti-pollution industry, the Group also expects slowing economic growth, generally tight credit environment and intense competition in this industry which may affect the near term of this industry more. As such the Group will focus more on cash collection for our trade receivables and securing projects from customers with good credibility only.

**11. Dividend**

**(a) Current Financial Period Reported On**

Any dividend declared for the current financial period reported on?

No.

**(b) Corresponding Period of the Immediately Preceding Financial Year**

Any dividend declared for the corresponding period of the immediately preceding financial year?

No.

**(c) Date payable**

Not applicable.

**(d) Books closure date**

Not applicable.

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

No dividend has been declared or recommended for the financial period ended 30 September 2015.

**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.



**CHINA ENVIRONMENT LTD.**  
(Registration No.: 200301902W)

**14. Use of Proceeds**

All proceeds have been fully utilised and relevant announcements or statements have been made via SGXNet.

**15. Negative confirmation by the Board pursuant to Rule 705(5)**

We, Huang Min and Wu Jida, being two directors of China Environment Ltd. (the "Company"), do hereby confirm on behalf of the directors of the Company that, to the best of our knowledge, nothing has come to the attention of the Board of Directors of the Company which may render the financial statements for third quarter and nine months ended 30 September 2015 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**  
**13 November 2015**