

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
CHINA ENVIRONMENT LTD.
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

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 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group and the statement of changes in equity of the Company for the year then ended, and a summary of significant accounting policies.

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

Basis for Disclaimer of Opinion

(1) Opening balances

Our independent auditor's report dated 9 May 2019 on the financial statements for the financial year ended 31 December 2015 ("FY 2015") contained a disclaimer of opinion. The basis for disclaimer of opinion on the financial statements for the FY 2015 is disclosed in Note 33 to the financial statements.

In view of the matters described in the basis for disclaimer of opinion paragraphs on the financial statements for FY 2015, we were unable to determine whether the opening balances as at 1 January 2016 were fairly stated.

Since the opening balances as at 1 January 2016 are entered into the determination of the financial position of the Group and of the Company as at 31 December 2016 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 2016, 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 2016 - 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.

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



**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONT'D)**

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

Basis for Disclaimer of Opinion (cont'd)

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

As disclosed in Note 32(ii), the Board announced on 18 August 2017 that pursuant to the judgment obtained by China Construction Bank (“CCB”) against the Company’s wholly owned subsidiary Fujian Dongyuan Environmental Protection Co., Ltd. (“FJDY”), CCB is entitled to sell off the land use rights and leasehold buildings of a related company, Fujian Mintai Environmental Protection Co. Ltd (“FJMT”) (owned by former executive Chairman, Mr Huang Min), which was previously pledged as security for the Group’s unsecured bank borrowings. These leasehold buildings have been rented out to FJDY to be used for its office premises. As part of the handover requirements, the Longyan People Court in China had granted the Company’s personnel access to FJDY’s office premises on 26 July 2017, primarily to retrieve and recover FJDY’s documents from the said office premises.

Upon entry into the FJDY office premises, it was discovered that the office was in a state of disarray, with evidence of being ransacked. The Company had recovered and retrieved documents from the premises. The Company made an announcement, based on its preliminary assessment, that a number of documents seem to be missing, and therefore, the records of the FJDY’s various departments are unlikely to be found and/or incomplete.

Prior to the partial loss of the above mentioned accounting books, records and supporting documents, the management accounts for the financial year ended 31 December 2016 has been last prepared by the former PRC management (i.e. Finance Department of Mr Huang Min) up to 31 July 2016. The new management thereafter attempted to reconstruct the management accounts from 31 July 2016 to 31 December 2016 based on available bank statements, bank confirmation and courts documents using the movements of bank balances as the source for the reconstruction of the management accounts. In addition, management had also incorporated adjustments based on evidence obtained from events after the reporting period such as verdicts of civil suits of Court orders, auction results etc to finalise the reconstructed financial statements for the financial year ended 31 December 2016 based on their best of knowledge and ability.

However, management could not provide us with a reconciliation for the reconstructed accounts from 31 July 2016 to 31 December 2016 for our independent verification, citing impracticability given that the departure of PRC staff, partial loss of accounting books, records and supporting documents form the bulk of the accounting records required for reconstruction of accounts, and costs as reasons.

While the Company is seeking to recover these missing records, the chance of recovering the aforesaid records within a reasonable amount of time may be remote. Moreover, even if the aforesaid missing records could be recovered, there is no assurance that those financial records would be complete or that all material supporting documents and information required for reconstructing the Group’s financial statements as at and for the financial year ended 31 December 2016 would be available.

Management is also unable to ascertain the impact, if any, on the statements of financial position as at 31 December 2016 for the Group and the Company as well as the consolidated statement of profit or loss and other comprehensive income statement for the financial year ended 31 December 2016 as there is no assurance that there are no material facts not known to the current management that may require the financial statements to be further adjusted.



**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
CHINA ENVIRONMENT LTD.
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONT'D)**

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

Basis for Disclaimer of Opinion (cont'd)

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

In view of the matters described in the preceding paragraphs, we were unable to perform the necessary audit procedures to satisfy ourselves as to the appropriateness, completeness and accuracy of the financial statements of the Group and the Company as at and for the financial year ended 31 December 2016.

(3) 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 2016 amounted to approximately RMB 697 million.

In view that all the Company's subsidiaries are currently not in operation, management and the Board is unable to carry out a review of the recoverable amount of the investments in subsidiaries companies despite indications of impairment. This coupled with the limitations discussed in point 2 of the *Basis for Disclaimer of Opinion* section of our report, accordingly, we were unable to obtain sufficient appropriate audit evidence to determine the appropriateness of the carrying amounts of the investment in the subsidiaries.

For investment in the Group's associated company, Beijing Gongdao Environmental Protection Technology Co., Ltd ("BGDEPT"), management is unable to obtain the necessary accounting records and information necessary from management of BGDEPT for the assessment of the recoverable amount of the associate company. Accordingly, we were unable to obtain sufficient appropriate audit evidence to determine the appropriateness of the carrying amounts of the investment in the associated company, BGDEPT.

As disclosed in our Auditor's Report for FY2015, in the process of performing our audit verification of the equity interest in BGDEPT, management upon our inquiry, discovered that the Group's actual equity interest held in BGDEPT should be 83% instead of the 49% - as indicated in the audited financial statements for FY 2013 and FY 2014 by the predecessor auditor.

However, the Board is unable to determine whether the 83% held equity investment in BGDEPT would constitute an element of control. Control is defined as being exposed to, or has the rights to, variable returns from the Group's involvement in BGDEPT and has the ability to affect those returns through its power over BGDEPT. To be conservative, the Board has decided not to reclassify the investment from associated company to investments in subsidiaries.

Consequently, we were unable to carry out alternative audit procedures to determine the appropriateness of the classification of the investment in BGDEPT by the Board.

As stated in Note 32 (vi), on 3 July 2018, the Company announced that BGDEPT is under voluntary liquidation. On 29 March 2019, the Company announced that BGDEPT has completed its deregistration process. Consequently, management has fully impaired BGDEPT as at 31 December 2016.



**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
CHINA ENVIRONMENT LTD.
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONT'D)**

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

Basis for Disclaimer of Opinion (cont'd)

(4) Trade Payables, Other Payables and Accruals

We refer to point 2 of the *Basis for Disclaimer of Opinion* section of our report on the partial loss of accounting books, records and supporting documents and the lack of reconciliation for the reconstructed accounts prepared by management for our independent verification. Consequently, we were unable to obtain any sufficient appropriate supporting documents, information and explanations that we considered necessary to ascertain the rights and obligation, completeness, existence and valuation of "trade payables, other payables and accruals".

Management had decided to reverse the liabilities under the following conditions:

- a. Liabilities recorded as at the end of the reporting period for which the creditors has filed a legal suit against the Group and the Court have ruled in favour of the Group that no payment to the creditors is required;
- b. The Group has liabilities recorded as trade and other payables, of which the creditors neither have demanded for payment since the invoice date nor have filed with the Courts after the maximum period of three years (this is according to the PRC law); or
- c. The Group has accruals for outstanding amounts that neither has been invoiced nor filed with the Courts for more than three years.

We had communicated with management that points (b) and (c) above are not adjusting events under FRS 10 *Events after the Reporting Period*, paragraph 9. However, management would like to reverse these liabilities given that these liabilities had not been filed with the Courts and had exceeded the maximum time period of three years.

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

We refer to point 2 of the *Basis for Disclaimer of Opinion* section of our report on the partial loss of accounting books, records and supporting documents and the lack of reconciliation for the reconstructed accounts prepared by management for our independent verification. Consequently, we were unable to obtain any sufficient appropriate evidence for us to perform the necessary audit procedures to satisfy ourselves as to the appropriateness, completeness and accuracy of all items in the consolidated statement of profit or loss and other comprehensive income.

(6) Going concern and legal actions against the Group

As at 31 December 2016, the Group has a capital deficiency of RMB 95,738,000, accumulated loss of RMB 601,109,000 and its current liabilities exceeded current assets by approximately RMB171,301,000. In addition, the Group incurred a net loss of approximately RMB 104,504,000 and recorded net operating cash outflows of RMB25,426,000 for the financial year ended 31 December 2016.

As at 31 December 2016, the Group has bank balances amounting to RMB 659,000 and this is insufficient to meet its financial obligation for its short-term borrowings which amounted to RMB146,953,000 as at 31 December 2016.



**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
CHINA ENVIRONMENT LTD.
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONT'D)**

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

Basis for Disclaimer of Opinion (cont'd)

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

As disclosed in Note 32 (i), the following banks have also taken legal actions against the PRC subsidiaries subsequent to the end of the financial year:

- (i) China Construction Bank against FJDY for a sum of RMB 23 million; and
- (ii) Zhongxin bank against FJDY for a sum of approximately RMB 36.67 million

The outcome of these legal actions are disclosed in Note 32 (i).

These legal actions coupled with the above points in the *Basis for Disclaimer of Opinion* section of our report, has created a material uncertainty with respect to the Group's cash flow management that may cast significant doubt over 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 and of the Company made available to us, we were unable to perform alternative procedures to determine the appropriateness of the use of the going concern assumption.

Apart from the above legal suits and as disclosed in Note 32(i), the Board has represented that there are no new or on-going legal suits against the Group. We have checked to the PRC legal website: 人民法院网页 and noted that there are 8 lawsuits against the Group which were disclosed in Note 32 (i) as at the date of this Report. However, we were unable to perform further required procedures to satisfy ourselves as to whether there are any new or on-going legal suits against the Group in view of the limitations discussed in point 2 of the Basis for Disclaimer of Opinion section of our report.

(7) Events Occurring After the Reporting Period

We refer to point 2 of the *Basis for Disclaimer of Opinion* section of our report on the partial loss of accounting books, records and supporting documents and the lack of reconciliation for the reconstructed accounts prepared by management for our independent verification.

Consequently, we were unable to perform and complete all our audit procedures for events occurring after the reporting period, which we considered necessary to satisfy ourselves on the significant matters occurring after the reporting period with respect to items recorded or unrecorded as at 31 December 2016. Accordingly, in view of the limitation of scope (i.e. lost of accounting records and documents as detailed in point 2 of the *Basis for Disclaimer of Opinion* section of our report), we were unable to determine whether all significant events occurring after the reporting period have been adequately dealt with in these financial statements with respect to disclosures, presentation and adjusting subsequent events.



**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
CHINA ENVIRONMENT LTD.
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONT'D)**

Responsibilities of Management and Directors for the Financial Statements

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

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

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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.



**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
CHINA ENVIRONMENT LTD.
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONT'D)**

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 a 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 Ong Kian Meng.

RT LLP
Public Accountants and
Chartered Accountants

Singapore, 14 February 2020