



中國環保
China Environment Ltd.

CHINA ENVIRONMENT LTD.

(Registration No.: 200301902W)

Financial Statements And Related Announcement
For Second Quarter And Six Months Ended
30 June 2016



UNAUDITED FINANCIAL RESULT ANNOUNCEMENT FOR THE SECOND QUARTER AND SIX MONTHS ENDED 30 JUNE 2016

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

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Unaudited		Increase/ (Decrease)	Unaudited		Increase/ (Decrease)
	3 months ended			6 months ended		
	30.06.2016	30.06.2015	%	30.06.2016	30.06.2015	%
	RMB'000	RMB'000		RMB'000	RMB'000	
Revenue	1,645	113,546	(98.6)	1,645	158,865	(99.0)
Cost of sales	(1,434)	(86,101)	(98.3)	(1,434)	(121,769)	(98.8)
Gross profit	211	27,445	(99.2)	211	37,096	(99.4)
Other income	462	270	71.1	2,409	544	342.8
Other expense	(356,760)	-	-	(359,927)	-	N.M.
Selling and distribution expenses	(1,203)	(3,198)	(62.4)	(2,619)	(5,175)	(49.4)
Administrative expenses	(9,582)	(11,996)	(20.1)	(22,278)	(14,921)	49.3
Finance costs	(2,424)	(3,720)	(34.8)	(4,827)	(6,723)	(28.2)
(Loss) / Profit before tax	(369,296)	8,801	N.M.	(387,031)	10,821	N.M.
Tax (expense) / credit	-	(2,495)	N.M.	-	2,037	N.M.
Net (loss) / profit for the period	(369,296)	6,306	N.M.	(387,031)	12,858	N.M.
Attributable to:						
Owners of the Company	(369,245)	6,382	N.M.	(386,924)	13,008	N.M.
Non-controlling interests	(51)	(76)	(32.9)	(107)	(150)	(28.7)
Net (loss) / profit for the period	(369,296)	6,306	N.M.	(387,031)	12,858	N.M.



UNAUDITED FINANCIAL RESULT ANNOUNCEMENT FOR THE SECOND QUARTER AND SIX MONTHS ENDED 30 JUNE 2016

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

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
(CONT'D)

	Unaudited		Increase/ (Decrease)	Unaudited		Increase/ (Decrease)
	3 months ended			6 months ended		
	30.06.2016 RMB'000	30.06.2015 RMB'000	%	30.06.2016 RMB'000	30.06.2015 RMB'000	%
Net (loss) / profit for the period	(369,296)	6,306	N.M.	(387,031)	12,858	N.M.
Other comprehensive (loss) / income:						
Currency translation differences arising from consolidation	2,023	940	115.2	8,081	(1,307)	N.M.
Total comprehensive (loss) / income for the period	(367,273)	7,246	N.M.	(378,950)	11,551	N.M.
Attributable to:						
Owners of the Company	(367,222)	7,322	N.M.	(378,843)	11,701	N.M.
Non-controlling interests	(51)	(76)	(32.9)	(107)	(150)	(28.7)
Total comprehensive (loss) / income for the period	(367,273)	7,246	N.M.	(378,950)	11,551	N.M.
(Loss) / Profit before tax is arrived at after charging/(crediting):						
Depreciation of property, plant and equipment	1,513	1,803	(16.1)	3,564	3,612	(1.3)
Amortisation of land use rights	286	286	-	571	571	-
Property, plant and equipment written off	-	-	N.M.	48	-	N.M.
Allowance for impairment of trade receivable	356,760	-	N.M.	356,760	-	N.M.
Research and development costs	-	103	N.M.	186	266	(30.2)
Reversal of research and development costs	(78)	-	N.M.	-	-	N.M.
Realisation of translation reserve	-	-	N.M.	3,167	-	N.M.
Foreign exchange loss / (gain)	2,224	857	159.5	7,773	(1,450)	N.M.
Interest expense	2,419	3,716	(34.9)	4,382	6,490	(32.5)
Interest income	(2)	(59)	(96.6)	(1,714)	(86)	1,893.0
N.M. - Not meaningful						



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

STATEMENTS OF FINANCIAL POSITION

	Unaudited Group		Unaudited Company	
	As at		As at	
	30.06.2016 RMB'000	31.12.2015 RMB'000	30.06.2016 RMB'000	31.12.2015 RMB'000
NON-CURRENT ASSETS				
Property, plant and equipment	272,850	276,453	-	59
Land use rights	51,137	51,708	-	-
Investment in subsidiaries	-	-	742,977	692,864
Investment in associated company	2,450	2,450	-	-
	326,437	330,611	742,977	692,923
CURRENT ASSETS				
Inventories	11,593	8,135	-	-
Trade and bills receivables	309,162	677,774	26	52
Other receivables, deposits and prepayments	26,323	27,005	316	209
Loan to subsidiaries	-	-	55,001	51,292
Dividend receivable from a subsidiary	-	-	22,169	20,674
Cash and cash equivalents	1,912	63,517	153	639
	348,990	776,431	77,665	72,866
TOTAL ASSETS	675,427	1,107,042	820,642	765,789
CURRENT LIABILITIES				
Trade and bill payables	13,702	14,941	-	-
Other payables and accruals	82,372	72,533	5,566	1,870
Short-term borrowings	114,670	173,611	-	-
Amount due to subsidiaries (non-trade)	-	-	3,434	3,115
Amount due to a director (non-trade)	-	321	344	321
Amount due to related parties (non-trade)	28,032	27,688	-	-
Tax payable	-	2,348	-	-
	238,776	291,442	9,344	5,306
TOTAL LIABILITIES	238,776	291,442	9,344	5,306
NET ASSETS	436,651	815,600	811,298	760,483
EQUITY				
Share capital	400,604	400,604	821,912	821,912
Statutory reserves	91,352	91,352	-	-
Currency translation reserve	9,854	1,773	27,073	(27,784)
Share option reserve	8,128	8,128	8,128	8,128
(Accumulated loss) / Revenue reserve	(82,813)	304,111	(45,815)	(41,773)
	427,125	805,968	811,298	760,483
Non-controlling interests	9,526	9,632	-	-
TOTAL EQUITY	436,651	815,600	811,298	760,483



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

Amount repayable in one year or less, or on demand

As at 30.06.2016 (RMB'000)		As at 31.12.2015 (RMB'000)	
Secured	Unsecured	Secured	Unsecured
91,670	23,000	146,611	27,000

Amount repayable after one year

As at 30.06.2016 (RMB'000)		As at 31.12.2015 (RMB'000)	
Secured	Unsecured	Secured	Unsecured
-	-	-	-

Details of any collateral

As at 30.06.2016

- The details of the secured short-term borrowings of RMB91.7 million are as follows:
 - RMB55.0 million of the short-term borrowings was secured by the Group's land use rights and plant in Anhui and guaranteed by the Company's former director, Mr Huang Min, his spouse and one of the subsidiaries of the Company.
 - RMB36.7 million of the short-term borrowings was secured by the Group's land use rights and plant in Fujian, account receivables of one of the subsidiaries and guaranteed by the Company's former director, Mr Huang Min, his spouse and one of the subsidiaries of the Company.
- RMB23 million of the short-term borrowings were not secured by the Company's assets. These short-term borrowings were guaranteed by the Company's former director, Mr Huang Min and secured by the land use rights and leasehold buildings of Fujian Mintai Environmental Protection Co., Ltd ("FJMT"), a company wholly owned by Mr Huang Min and his spouse.

All the securities and guarantees mentioned above were provided free-of-charge to the Group except the Company has entered into a conditional indemnity deed with FJMT for the RMB23 million short-term borrowings on 15 April 2016, as announced through SGXNet on 16 April 2016.

As at 31.12.2015

- USD8.0 million (approximately RMB50.0 million) of the short-term borrowings was secured by bank deposits of RMB52.9 million.
- The details of the secured short-term borrowings of RMB96.7 million are as follows:
 - RMB60.0 million of the short-term borrowings was secured by the Group's land use rights and plant in Anhui and guaranteed by the Company's former director, Mr Huang Min, his spouse and one of the subsidiaries of the Company; and
 - RMB36.7 million of the short-term borrowings was secured by the Group's land use rights and plant in Fujian, one of the trade receivables of a subsidiary and guaranteed by the Company's former director, Mr Huang Min, his spouse and one of the subsidiaries of the Company.
- RMB27 million of the short-term borrowings were not secured by the Company's assets. These short-term borrowings were guaranteed by the Company's former director, Mr Huang Min and secured by the land use rights and leasehold buildings of Fujian Mintai Environmental Protection Co., Ltd., a company wholly owned by Mr Huang Min and his spouse.

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

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		Unaudited	
	3 months ended		6 months ended	
	30.06.2016	30.06.2015	30.06.2016	30.06.2015
	RMB'000	RMB'000	RMB'000	RMB'000
Cash flows from operating activities				
Profit/(loss) before tax	(369,296)	8,801	(387,031)	10,821
Adjustment for:-				
Depreciation of property, plant and equipment	1,513	1,803	3,564	3,612
Amortisation of land use rights	286	286	571	571
Property, plant and equipment written off	-	-	48	-
Impairment allowance on trade receivable	356,760	-	356,760	-
Interest expense	2,419	3,716	4,382	6,490
Interest income	(2)	(59)	(1,714)	(86)
Realisation of translation reserve	-	-	3,167	-
Operating cash flow before movements in working capital	(8,320)	14,547	(20,253)	21,408
Inventories	(1,370)	4,430	(3,458)	3,247
Project work-in-progress	-	(464)	-	(492)
Trade and other receivables	4,321	(42,601)	12,804	16,575
Trade and other payables	2,364	22,131	8,430	22,697
Currency translation adjustment	2,014	844	4,913	(1,276)
Cash (used in)/generated from operations	(991)	(1,113)	2,436	62,159
Interest received	2	59	1,714	86
Income tax received / (paid)	-	(515)	(2,618)	(1,397)
Net cash (used in)/generated from operating activities	(989)	(1,569)	1,532	60,848
Cash flows from investing activities				
Purchase of property, plant and equipment	-	-	-	(2)
Increase in construction work-in-progress	-	(44)	-	(89)
Net cash used in investing activities	-	(44)	-	(91)
Cash flows from financing activities				
Net proceeds from new shares placement	-	-	-	34,362
Proceeds from bank borrowing	-	-	-	91,941
Repayment of Bank borrowing	147	(16,546)	(58,941)	(74,997)
Advances from related parties (non-trade)	-	1,420	-	1,420
Repayment to advances from related parties (non-trade)	-	-	-	(57,800)
Decrease/(increase) in deposits restricted-in-use	-	3,000	52,888	(49,888)
Interest paid	(1,616)	(3,716)	(4,211)	(6,490)
Net cash used in financing activities	(1,469)	(15,842)	(10,264)	(61,452)
Net decrease in cash and cash equivalents	(2,458)	(17,455)	(8,732)	(695)
Cash and cash equivalents at beginning of financial period	4,359	25,429	10,629	8,806
Effect of exchange rate changes on cash equivalents	11	101	15	(36)
Cash and cash equivalents at end of financial period (Note A)	1,912	8,075	1,912	8,075
Note A:				
For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following:				
	Unaudited		Unaudited	
	3 months ended		6 months ended	
	30.06.2016	30.06.2015	30.06.2016	30.06.2015
	RMB'000	RMB'000	RMB'000	RMB'000
Cash on hand and at banks	1,912	97,463	1,912	97,463
Less: Deposits restricted-in-use	-	(89,388)	-	(89,388)
	1,912	8,075	1,912	8,075

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 RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Statutory reserves RMB'000	Currency translation reserve RMB'000	Share option reserve RMB'000	Revenue reserve RMB'000			
Balance at 1 January 2016	400,604	91,352	1,773	8,128	304,111	805,968	9,632	815,600
Net loss for the period	-	-	-	-	(17,679)	(17,679)	(55)	(17,734)
Other comprehensive loss, net of tax								
- Currency translation differences arising from consolidation	-	-	6,058	-	-	6,058	-	6,058
Total comprehensive (loss) / income for the 3 months ended 31 March 2016	-	-	6,058	-	(17,679)	(11,621)	(55)	(11,676)
Balance at 31 March 2016	400,604	91,352	7,831	8,128	286,432	794,347	9,577	803,924
Net profit for the period	-	-	-	-	(369,245)	(369,245)	(51)	(369,296)
Other comprehensive loss, net of tax								
- Currency translation differences arising from consolidation	-	-	2,023	-	-	2,023	-	2,023
Total comprehensive (loss)/income for the 3 months ended 30 June 2016	-	-	2,023	-	(369,245)	(367,222)	(51)	(367,273)
Balance at 30 June 2016	400,604	91,352	9,854	8,128	(82,813)	427,125	9,526	436,651
Balance at 1 January 2015	352,241	91,352	1,943	8,128	414,805	868,469	9,864	878,333
Net profit for the period	-	-	-	-	6,626	6,626	(74)	6,552
Other comprehensive loss, net of tax								
- Currency translation differences arising from consolidation	-	-	(2,247)	-	-	(2,247)	-	(2,247)
Total comprehensive (loss)/income for the 3 months ended 31 March 2015	-	-	(2,247)	-	6,626	4,379	(74)	4,305
Proceeds from new shares placement	34,645	-	-	-	-	34,645	-	34,645
Share issue expenses	(282)	-	-	-	-	(282)	-	(282)
Transfer to statutory reserves	-	368	-	-	(368)	-	-	-
Balance at 31 March 2015	386,604	91,720	(304)	8,128	421,063	907,211	9,790	917,001
Net profit for the period	-	-	-	-	6,382	6,382	(76)	6,306
Other comprehensive loss, net of tax								
- Currency translation differences arising from consolidation	-	-	940	-	-	940	-	940
Total comprehensive (loss)/income for the 3 months ended 30 June 2015	-	-	940	-	6,382	7,322	(76)	7,246
Transfer to statutory reserves	-	1,896	-	-	(1,896)	-	-	-
Balance at 30 June 2015	386,604	93,616	636	8,128	425,549	914,533	9,714	924,247



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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 Company	Share capital RMB'000	Currency translation reserve RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total equity RMB'000
As at 1 January 2016	821,912	(27,784)	8,128	(41,773)	760,483
Net loss for the period	-	-	-	(2,086)	(2,086)
Other comprehensive loss, net of tax - Currency translation differences arising from consolidation	-	31,931	-	-	31,931
Total comprehensive income / (loss) for the 3 months ended 31 March 2016	-	31,931	-	(2,086)	29,845
Balance at 31 March 2016	821,912	4,147	8,128	(43,859)	790,328
Other comprehensive loss, net of tax - Currency translation differences arising from consolidation	-	-	-	(1,956)	(1,956)
	-	22,926	-	-	22,926
Total comprehensive income / (loss) for the 3 months ended 30 June 2016	-	22,926	-	(1,956)	20,970
Balance at 30 June 2016	821,912	27,073	8,128	(45,815)	811,298
As at 1 January 2015	773,549	(19,142)	8,128	(32,075)	730,460
Net loss for the period	-	-	-	(1,806)	(1,806)
Other comprehensive loss, net of tax - Currency translation differences arising from consolidation	-	(30,932)	-	-	(30,932)
Total comprehensive loss for the 3 months ended 31 March 2015	-	(30,932)	-	(1,806)	(32,738)
Proceeds from new shares placement	34,645	-	-	-	34,645
Share issue expenses	(282)	-	-	-	(282)
Balance at 31 March 2015	807,912	(50,074)	8,128	(33,881)	732,085
Other comprehensive loss, net of tax - Currency translation differences arising from consolidation	-	-	-	(4,037)	(4,037)
	-	11,374	-	-	11,374
Total comprehensive loss for the 3 months ended 30 June 2015	-	11,374	-	(4,037)	7,337
Balance at 30 June 2015	807,912	(38,700)	8,128	(37,918)	739,422

- 1.(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles, as well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.**

There were no movements in the Company's share capital for the financial period ended 30 June 2016

- 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 30.06.2016	As at 31.12.2015
Total number of shares issued	843,020,646	843,020,646

The Company does not have any treasury shares at the end of the current financial period (as at 30 June 2016) and at the end of the immediately preceding year (as at 31 December 2015).

- 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 unaudited financial statements for the financial year ended 31 December 2015, except for the adoption of certain revised Financial Reporting Standards ("FRS") which are effective for the financial period commencing 1 January 2016. The adoption of these FRS has no material impact on the Group's and the Company'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		Group	
	3 months ended	3 months ended	6 months ended	6 months ended
	30.06.2016	30.06.2015	30.06.2016	30.06.2015
Profit/(Loss) attributable to the shareholders for the period (RMB'000)	(369,245)	6,382	(386,924)	13,008
(a) (LPS)/EPS based on weighted average number of shares in issue (RMB cents/share)	(43.80)	0.79	(45.90)	1.61
(b) (LPS)/EPS based on fully diluted basis (RMB cents/share)	(43.80)	0.73	(45.90)	1.49
Weighted average number of shares applicable to earnings per share	843,020,646	805,617,331	843,020,646	805,617,331
Weighted average number of shares fully diluted basis	843,020,646	875,714,016	843,020,646	875,714,016

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

Diluted earnings per share is calculated on the same basis as the basic earnings per share except that the weighted average number of shares issued during the financial period under review is adjusted for the effects of all dilutive potential ordinary shares (i.e. 72.5 million unlisted warrants which have been allotted to the subscriber on 7 January 2015 and expired on 6 July 2016). The 3.5 million (30 June 2015: 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		Company	
	As at	As at	As at	As at
	30.06.2016	31.12.2015	30.06.2016	31.12.2015
Net asset value per share (RMB cents) based on issued share capital as at the end of period reported on	50.7	95.6	96.2	90.2
Number of shares used in calculating net asset value per share ('000)	843,021	843,021	843,021	843,021

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 RMB1.6 million in the six months ended 30 June 2016 ("6M2016"), a decrease of 99% or RMB157.3 million from RMB158.9 million achieved in the six month ended 30 June 2015 ("6M2015"). The decrease in revenue was mainly because there was no production in 1Q2016 and the production only resumed a bit in 2Q2016.

b) Cost of Sales

Total cost of sales for 6M2016 amounted to RMB1.4million which was 98.8% or RMB120.3 million lower than RMB121.8 million incurred in 6M2015. The decrease in cost of sales was mainly because there was no production in 1Q2016 and the production only resumed a bit in 2Q2016.

Gross profit decreased 99.2% from 37.1 million in 6M2015 to 0.2 million in 6M2016. The decrease in gross profit was in-line with the decrease in revenue. Gross profit margin decreased from 23.4% in 6M2015 to 12.8% because the revenue in 6M2016 was mainly derived from selling material.

c) Other Income

Other income increased by more than 3 folds or RMB1.9 million from RMB0.5 million in 6M2015 to RMB2.4 million in 6M2016. This was mainly due to the increase in interest income of RMB1.7 million in 1Q2016 mainly derived from bank deposit of RMB52.9 million.

d) Operating Expenses

Total operating expenses in 6M2016 amounted to RMB384.8 million, which was approximately RMB364.8 million higher than the RMB20 million incurred in 6M2015.

Other expense included RMB356.8 million of impairment allowance on trade receivable and realisation of translation reserve of RMB3.2 million arising from de-registration of a subsidiary from the register of companies.

Selling and distribution expenses in 6M2016 totalled RMB2.6 million, which was 49.4% or RMB2.5 million lower than RMB5.1 million in 6M2015. The decrease was mainly due to the decrease in sales commission of RMB3.7 million. The decrease was partially offset by increase in travelling and entertainment expenses by RMB0.8 million for sales team to visit customers for debts collection.

Administrative expenses increased by RMB7.4 million from RMB14.9 million in 6M2015 to RMB22.3 million in 6M2016. The increase was mainly due to increase in unrealised foreign exchange loss of RMB7.8 million as opposed to unrealised foreign exchange gain of RMB1.4 million as the strengthening of Singapore dollars against Chinese Reminbi. The increase was partially offset by decrease of RMB1.7 million of land use right tax and property tax.

Finance costs decreased by 28.2% or RMB1.9 million from RMB6.7 million in 6M2015 to RMB4.8 million in 6M2016. The decrease was mainly due to the monthly average bank loan balance for 6M2016 was lower than that in 6M2015.



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Review of Financial Performance (cont'd)

e) Tax (expense)/credit

For 6M2016, the tax expenses was NIL as net loss was incurred in 6M2016. In 6M2015, the income tax was provided at an income tax rate of 15% based on Fujian Dongyuan's 6M2015 profit before tax. Included in 6M2015, was the reversal of an over-provision of deferred tax expense of RMB5.0 million in prior years.

f) Net (loss) / profit for the period

The Group's net loss for the period for 6M2016 was RMB387 million. As compared to profit for the period in 6M2015 of RMB12.9 million, this period result was decreased by RMB399.9 million. The net loss for the period was mainly due to RMB356.8 million of impairment allowance on trade receivable, no revenue in 1Q2016 and little production resumed in the 2Q2016.

Review of Financial Position

Non-Current Assets

The decrease in property, plant and equipment and land use rights of RMB3.6 million in 6M2016 was due to the amortisation and depreciation charges incurred in 6M2016.

Current Assets

Current assets comprise inventories, trade and other receivables, and cash and bank equivalents. Total current assets amounted to RMB349 million as at 30 June 2016, which was about 55.1% or RMB427.4 million lower than RMB776.4 million as at 31 December 2015.

As at 30 June 2016, inventories stood at RMB11.6 million, which was 42.5% or RMB3.5 million higher than RMB8.1 million as at 31 December 2015. The increase in inventories mainly due to the inventories ordered for the projects remained unused as at 30 June 2016.

Trade and bills receivables balance amounted to RMB309.2 million as at 30 June 2016, decreased by 54.4% or RMB368.6 million from RMB677.8 million as at 31 December 2015. This significant decrease was mainly due to additional RMB356.8 million of impairment allowance on trade receivable in 2Q2016. Total impairment allowance on trade receivable in 2015 and 2016 amounted to RMB492 million which were mainly due from Anhui Shengyun mechanical Co. Ltd (RMB136 million) and Nanning Youji Technology Co. Ltd (RMB341.7 million). The current management has set up a special task force to verify the outstanding amount due from the customers and investigate the validity of all the impaired trade receivables. The high level of trade and bills receivables is mainly due to overall slower payment from customers.

Other receivables, deposits and prepayments amounted to RMB26.3 million as at 30 June 2016, which was 2.5% or RMB0.7 million lower than RMB27.0 million as at 31 December 2015



Review of Financial Performance (cont'd)

As at 30 June 2016, the Group has cash and cash equivalents of RMB1.9 million, approximately 97% or 61.6 million lower than RMB63.5 million as at 31 December 2015. The decrease was mainly due to the deposits restricted-in-use of RMB52.9 million which were pledged with financial institutions as security deposits was uplifted to repay short-term borrowings in 1Q2016.

Current Liabilities

Current liabilities comprise of trade and bills payables, other payables and accruals, short-term borrowings and amount due to related parties (non-trade).

Trade and bills payables amounted to RMB13.7 million as at 30 June 2016, which had decreased by 8.3% or RMB1.2 million from RMB14.9 million as at 31 December 2015.

Other payables and accruals amounted to RMB82.3 million as at 30 June 2016, which had increased by 13.6% or RMB9.8 million from RMB72.5 million as at 31 December 2015. The increase mainly due to a loan from a third party of RMB9.5 million bearing an interest of 2.0% per month for a 6-month term.

The Group's short-term borrowings from banks decreased by 34.0% or RMB58.9 million from RMB173.6 million as at 31 December 2015 to RMB114.7 million as at 30 June 2016. The decrease was mainly arose from repayment using the bank deposit restricted-in-use of RMB52.9 million in 1Q2016. Please refer to Paragraph 1(b)(ii) for the details of the collaterals.

Amount due to related parties (non-trade) has been increased by 1.2% or RMB0.3 million from RMB27.7 million as at 31 December 2015 mainly due to reclassification of amount owing due to a director of RMB0.3 million following the resignation of the former Executive Chairman.

Review of Cash Flows

For 6M2016, the Group incurred pre-tax loss of RMB387 million. After adjusting for non-cash flow items, Impairment allowance on trade receivable, interest expense and interest income, cash outflow from operating profits before working capital changes was RMB20.3 million. The Group's cash flow was improved by the decrease in trade and other receivables (RMB12.8 million) and increase in trade and other payables (RMB8.4 million). The increase in operating cash flow was partially offset by the increase in inventories (RMB3.5 million) and payment of income tax (RMB2.6 million). As a result, the Group had a net cash generated from operating activities of RMB2.4 million in 6M2016.

There was no cash flow movement in the investing activities.

Net cash used in financing activities amounted to RMB10.3 million in 6M2016. This was mainly due to repayment of bank borrowings of RMB58.9 million and interest paid of RMB4.2 million, offset by decrease in deposits restricted-in-use of RMB52.9 million.

The Group had a net decrease in cash and cash equivalents of RMB8.7 million for 6M2016. Cash and cash equivalents stood at RMB1.9 million as at 30 June 2016.

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.



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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.

The Group has recently reorganised its management team, the new management's current strategy is to focus on collection (including taking legal actions where necessary) from our existing trade receivables and securing projects from customers with good payment terms only. The company is reviewing and verifying the validity and collectibility of the long outstanding trade receivables. The collectibility of the trade receivables is challenging.

Due to the slowdown in China's economy, business and economic outlook continues to be challenging. The management team will be exploring and seeking new sources of funding and financing, identifying strategic investors and collaboration opportunities with other renowned state-owned enterprises to carry out concessions and Build-Operate-Transfer (BOT) projects, as well as looking at other business models as opposed to the current Engineering, Procurement and Construction (EPC) model.

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 June 2016.



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- 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.

Name of interested person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than \$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)
Fujian Mintai Environmental Protection Co., Ltd. (wholly-owned by the Group's major shareholder Mr Huang Min and his spouse)	RMB639,000

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

We, Norman Winata and Huan Xin Zhi, being two of the 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 second quarter and six months ended 30 June 2016 to be false or misleading in any material aspect.

- 15. Confirmation Pursuant to Rule 720(1) of the Listing Manual**

China Environment Ltd confirms that undertakings under Rule 720(1) have been obtained from all its directors and executive officers in the format set out in Appendix 7.7.

BY ORDER OF THE BOARD

Norman Winata
Executive Chairman

12 August 2016