



**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 2015

**UNAUDITED FINANCIAL RESULT ANNOUNCEMENT FOR THE SECOND QUARTER AND SIX MONTHS ENDED 30 JUNE 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 6 months ended		Increase/ (Decrease) %
	30.06.2015 RMB'000	30.06.2014 RMB'000		30.06.2015 RMB'000	30.06.2014 RMB'000	
<b>Revenue</b>	113,546	182,809	(37.9)	158,865	343,803	(53.8)
Cost of sales	(86,101)	(136,365)	(36.9)	(121,769)	(257,898)	(52.8)
<b>Gross profit</b>	27,445	46,444	(40.9)	37,096	85,905	(56.8)
Other income	270	968	(72.1)	544	1,420	(61.7)
Selling and distribution expenses	(3,198)	(6,395)	(50.0)	(5,175)	(11,827)	(56.2)
Administrative expenses	(11,996)	(8,597)	39.5	(14,921)	(20,550)	(27.4)
Finance costs	(3,720)	(3,664)	1.5	(6,723)	(6,104)	10.1
<b>Profit before tax</b>	8,801	28,756	(69.4)	10,821	48,844	(77.8)
Tax expense	(2,495)	(4,748)	(47.5)	2,037	(8,680)	(123.5)
<b>Net profit for the period</b>	6,306	24,008	(73.7)	12,858	40,164	(68.0)
Attributable to:						
Owners of the Company	6,382	24,002	(73.4)	13,008	40,158	(67.6)
Non-controlling interests	(76)	6	(1,366.7)	(150)	6	(2,600.0)
<b>Net profit for the period</b>	6,306	24,008	(73.7)	12,858	40,164	(68.0)

- 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			6 months ended		
	30.06.2015 RMB'000	30.06.2014 RMB'000	%	30.06.2015 RMB'000	30.06.2014 RMB'000	%
<b>Net profit for the period</b>	6,306	24,008	(73.7)	12,858	40,164	(68.0)
Other comprehensive income:						
Currency translation differences arising from consolidation	940	368	155.4	(1,307)	1,391	(194.0)
<b>Total comprehensive income for the period</b>	<u>7,246</u>	<u>24,376</u>	(70.3)	<u>11,551</u>	<u>41,555</u>	(72.2)
Attributable to:						
Owners of the Company	7,322	24,370	(70.0)	11,701	41,549	(71.8)
Non-controlling interests	(76)	6	(1,366.7)	(150)	6	(2,600.0)
<b>Total comprehensive income for the period</b>	<u>7,246</u>	<u>24,376</u>	(70.3)	<u>11,551</u>	<u>41,555</u>	(72.2)
Profit before tax is arrived at after charging/(crediting):						
Depreciation of property, plant and equipment	1,803	243	642.0	3,612	486	643.2
Amortisation of land use rights	286	24	1,091.7	571	48	1,089.6
Research and development costs	103	2,178	(95.3)	266	5,513	(95.2)
Foreign exchange (gain)/loss	857	629	36.2	(1,450)	2,013	(172.0)
Interest expense	3,716	1,880	97.7	6,490	3,919	65.6
Interest income	(59)	(685)	(91.4)	(86)	(857)	(90.0)
Share option expense	-	2,174	(100.0)	-	4,336	(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	
	30.06.2015	31.12.2014	30.06.2015	31.12.2014
	RMB'000	RMB'000	RMB'000	RMB'000
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	290,505	294,028	63	86
Land use rights	52,278	52,849	-	-
Investment in subsidiaries	-	-	683,049	673,467
Investment in associated company	2,450	2,450	-	-
	<u>345,233</u>	<u>349,327</u>	<u>683,112</u>	<u>673,553</u>
<b>CURRENT ASSETS</b>				
Inventories	9,203	12,449	-	-
Trade and bills receivables	777,575	660,133	49	27
Project work-in-progress	598	106	-	-
Other receivables, deposits and prepayments	33,892	167,434	132	135
Loan to subsidiaries	-	-	39,256	41,627
Dividend receivable from a subsidiary	-	-	20,381	20,927
Cash and cash equivalents	97,463	48,306	1,160	230
	<u>918,731</u>	<u>888,428</u>	<u>60,978</u>	<u>62,946</u>
<b>TOTAL ASSETS</b>	<u>1,263,964</u>	<u>1,237,755</u>	<u>744,090</u>	<u>736,499</u>
<b>NON-CURRENT LIABILITY</b>				
Deferred tax liability	-	5,030	-	-
<b>CURRENT LIABILITIES</b>				
Trade and bill payables	57,624	52,501	-	-
Other payables and accruals	62,430	44,855	1,389	2,787
Short-term borrowings	186,847	169,904	-	-
Amount due to subsidiaries (non-trade)	-	-	2,962	2,927
Amount due to a director (non-trade)	317	325	317	325
Amount due to related parties (non-trade)	30,217	86,597	-	-
Tax payable	2,282	210	-	-
	<u>339,717</u>	<u>354,392</u>	<u>4,668</u>	<u>6,039</u>
<b>TOTAL LIABILITIES</b>	<u>339,717</u>	<u>359,422</u>	<u>4,668</u>	<u>6,039</u>
<b>NET ASSETS</b>	<u>924,247</u>	<u>878,333</u>	<u>739,422</u>	<u>730,460</u>
<b>EQUITY</b>				
Share capital	386,604	352,241	807,912	773,549
Statutory reserves	93,616	91,352	-	-
Currency translation reserve	636	1,943	(38,700)	(19,142)
Share option reserve	8,128	8,128	8,128	8,128
Revenue reserve	425,549	414,805	(37,918)	(32,075)
	<u>914,533</u>	<u>868,469</u>	<u>739,422</u>	<u>730,460</u>
<b>Non-controlling interests</b>	<u>9,714</u>	<u>9,864</u>	<u>-</u>	<u>-</u>
<b>TOTAL EQUITY</b>	<u>924,247</u>	<u>878,333</u>	<u>739,422</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 30.06.2015 (RMB'000)		As at 31.12.2014 (RMB'000)	
Secured	Unsecured	Secured	Unsecured
114,941	71,906	75,000	94,904

**Amount repayable after one year**

As at 30.06.2015 (RMB'000)		As at 31.12.2014 (RMB'000)	
Secured	Unsecured	Secured	Unsecured
-	-	-	-

**Details of any collateral**

**As at 30.06.2015**

As at 30 June 2015, RMB65.0 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, the subsidiary of the Company. Another RMB49.9 million short-term borrowings was secured by bank deposits of RMB52.8 million.

RMB71.9 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
- RMB44.9 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 6 months ended	
	30.06.2015 RMB'000	30.06.2014 RMB'000	30.06.2015 RMB'000	30.06.2014 RMB'000
<b>Cash flows from operating activities</b>				
Profit before tax	8,801	28,756	10,821	48,844
Adjustment for:-				
Depreciation of property, plant and equipment	1,803	243	3,612	486
Amortisation of land use rights	286	24	571	48
Share option expense	-	2,174	-	4,336
Interest expense	3,716	1,880	6,490	3,919
Interest income	(59)	(685)	(86)	(857)
<b>Operating cash flow before movements in working capital</b>	<b>14,547</b>	<b>32,392</b>	<b>21,408</b>	<b>56,776</b>
Inventories	4,430	8,630	3,247	2,175
Project work-in-progress	(464)	-	(492)	-
Trade and other receivables	(42,601)	(134,542)	16,575	(155,082)
Trade and other payables	22,131	6,542	22,697	(7,935)
Currency translation adjustment	844	393	(1,276)	1,330
<b>Cash (used in)/generated from operations</b>	<b>(1,113)</b>	<b>(86,585)</b>	<b>62,159</b>	<b>(102,736)</b>
Interest received	59	685	86	857
Income tax paid	(515)	(3,921)	(1,397)	(8,177)
<b>Net cash (used in)/generated from operating activities</b>	<b>(1,569)</b>	<b>(89,821)</b>	<b>60,848</b>	<b>(110,056)</b>
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment	-	(116)	(2)	(116)
Increase in construction work-in-progress	(44)	(404)	(89)	(1,006)
<b>Net cash used in investing activities</b>	<b>(44)</b>	<b>(520)</b>	<b>(91)</b>	<b>(1,122)</b>
<b>Cash flows from financing activities</b>				
Net proceeds from new shares placement	-	-	34,362	-
Proceeds from borrowings	-	126,400	91,941	190,400
Repayment of borrowings	(16,546)	(41,000)	(74,997)	(113,700)
Repayment of advances from a director (non-trade)	-	-	-	(57,821)
Advances from related parties (non-trade)	1,420	57,000	1,420	57,000
Repayment of advances from related parties (non-trade)	-	-	(57,800)	-
Contribution from minority interests	-	500	-	500
Decrease/(increase) in deposits restricted-in-use	3,000	(18,730)	(49,888)	(8,730)
Interest paid	(3,716)	(1,880)	(6,490)	(3,919)
<b>Net cash (used in)/generated from financing activities</b>	<b>(15,842)</b>	<b>122,290</b>	<b>(61,452)</b>	<b>63,730</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(17,455)</b>	<b>31,949</b>	<b>(695)</b>	<b>(47,448)</b>
Cash and cash equivalents at beginning of financial period	25,429	11,003	8,806	90,316
Effect of exchange rate changes on cash equivalents	101	(23)	(36)	61
<b>Cash and cash equivalents at end of financial period (Note A)</b>	<b>8,075</b>	<b>42,929</b>	<b>8,075</b>	<b>42,929</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		6 months ended	
	30.06.2015	30.06.2014	30.06.2015	30.06.2014
	RMB'000	RMB'000	RMB'000	RMB'000
Cash on hand and at banks	97,463	126,686	97,463	126,686
Less: Deposits restricted-in-use	(89,388)	(83,757)	(89,388)	(83,757)
	<u>8,075</u>	<u>42,929</u>	<u>8,075</u>	<u>42,929</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	-	-	-	-	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 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/(loss) 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 income/(loss) for the 3 months ended June 2015	-	-	940	-	6,382	7,322	(76)	7,246
Transfer to statutory reserves	-	1,896	-	-	(1,896)	-	-	-
<b>Balance at 30 June 2015</b>	<b>386,604</b>	<b>93,616</b>	<b>636</b>	<b>8,128</b>	<b>425,549</b>	<b>914,533</b>	<b>9,714</b>	<b>924,247</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 →						Non-controlling interests	Total equity
	Share capital	Statutory reserves	Currency translation reserve	Share option reserve	Revenue reserve	Total		
	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 for the period	-	-	-	-	16,156	16,156	-	16,156
Other comprehensive loss, net of tax								
- Currency translation differences arising from consolidation	-	-	1,023	-	-	1,023	-	1,023
Total comprehensive income for the 3 months ended March 2014	-	-	1,023	-	16,156	17,179	-	17,179
Grant of equity-settled share options to employees	-	-	-	2,162	-	2,162	-	2,162
Transfer to statutory reserves	-	3,247	-	-	(3,247)	-	-	-
Balance at 31 March 2014	352,241	81,328	4,716	3,333	371,425	813,043	-	813,043
Net profit for the period	-	-	-	-	24,002	24,002	6	24,008
Other comprehensive income, net of tax								
- Currency translation differences arising from consolidation	-	-	368	-	-	368	-	368
Total comprehensive income for the 3 months ended 30 June 2014	-	-	368	-	24,002	24,370	6	24,376
Grant of equity-settled share options to employees	-	-	-	2,174	-	2,174	-	2,174
Contribution from non-controlling interests	-	-	-	-	-	-	500	500
Transfer to statutory reserves	-	3,870	-	-	(3,870)	-	-	-
Balance at 30 June 2014	352,241	85,198	5,084	5,507	391,557	839,587	506	840,093

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	reserve	reserve	losses	equity
	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	-	-	-	(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)
Grant of equity-settled share options to employees	-	-	-	-	-
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	-	11,374	-	(4,037)	(4,037)
Total comprehensive loss for the 3 months ended 30 June 2015	-	11,374	-	(4,037)	7,337
<b>Balance at 30 June 2015</b>	<b>807,912</b>	<b>(38,700)</b>	<b>8,128</b>	<b>(37,918)</b>	<b>739,422</b>
As at 1 January 2014	773,549	7,783	1,171	(16,911)	765,592
Net loss for the period	-	-	-	(4,026)	(4,026)
Other comprehensive profit, net of tax					
- Currency translation differences arising from consolidation	-	12,391	-	-	12,391
Total comprehensive profit/(loss) for the 3 months ended 31 March 2014	-	12,391	-	(4,026)	8,365
Grant of equity-settled share options to employees	-	-	2,162	-	2,162
Balance at 31 March 2014	773,549	20,174	3,333	(20,937)	776,119
Net loss for the period	-	-	-	(4,243)	(4,243)
Other comprehensive income, net of tax					
- Currency translation differences arising from consolidation	-	4,540	-	-	4,540
Total comprehensive income/(loss) for the 3 months ended 30 June 2014	-	4,540	-	(4,243)	297
Grant of equity-settled share options to employees	-	-	2,174	-	2,174
Balance at 30 June 2014	773,549	24,714	5,507	(25,180)	778,590

- 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 June 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 30.06.2015	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 June 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 6 months ended	
	30.06.2015	30.06.2014	30.06.2015	30.06.2014
Profit attributable to the shareholders for the period (RMB'000)	6,382	24,002	13,008	40,158
(a) EPS based on weighted average number of shares in use (RMB cents/share)	0.79	3.26	1.61	5.46
(b) EPS based on fully diluted basis (RMB cents/share)	0.73	3.26	1.49	5.46
Weighted average number of shares applicable to earnings per share	805,617,331	735,520,646	805,617,331	735,520,646
Weighted average number of shares fully diluted basis	875,714,016	735,520,646	875,714,016	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 June 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	
	30.06.2015	31.12.2014	30.06.2015	31.12.2014
Net asset value per share (RMB cents) based on issued share capital as at the end of period reported on	113.2	118.1	91.5	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 RMB113.5 million in the three months ended 30 June 2015 ("2Q2015"), a decrease of 37.9% or RMB69.3 million from RMB182.8 million achieved in the three months ended 30 June 2014 ("2Q2014"). The decrease in revenue was mainly due to fewer projects completed in 2Q2015 as compared to 2Q2014. In 2Q2015, 18 dust collectors projects were on-going as compared to 15 projects on-going and 11 projects completed in 2Q2014.

Revenue for six months ended 30 June 2015 ("6M2015") and six months ended 30 June 2014 ("6M2014") were RMB158.9 million and RMB343.8 million respectively. For 6M2015, we completed 2 dust collectors projects and as at 30 June 2015, there were 18 on-going projects. In 6M2014, we completed 24 dust collectors projects and as at 30 June 2014, there were 15 on-going projects.

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

	<b>2Q2015</b>	<b>2Q2014</b>	<b>6M2015</b>	<b>6M2014</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Power generation	78.6	45.2	80.0	52.3
Steel and metallurgy	11.2	36.8	12.7	30.2
Cement	6.4	-	4.6	-
Chemical	-	12.2	-	8.0
Others	3.8	5.8	2.7	9.5
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

For 6M2015, 78.6% of our total revenue was from the power generation industry, 11.2% from the steel and metallurgy industry, 6.4% from the cement industry, and the remaining 3.8% was from other industries.

## Review of Financial Performance (cont'd)

### b) Cost of Sales

Detailed breakdown of cost of sales is as follows:

	2Q2015	2Q2014	6M2015	6M2014
	%	%	%	%
Direct materials	85.1	79.1	84.4	80.3
Direct labour, fabrication and installation fees	13.2	18.9	12.3	17.9
Depreciation and rental charges	(0.2)	0.2	1.4	0.2
Utilities charges	0.2	0.1	0.2	0.2
Miscellaneous expenses	1.7	1.7	1.7	1.4
	<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 85.1%, 79.1%, 84.4% and 80.3% of our total cost of sales in 2Q2015, 2Q2014, 6M2015 and 6M2014 respectively. For 2Q2015 and 6M2015, the higher weightage for direct materials was mainly due to projects being subcontracted to third party sub-contractor resulting in lower weightage for direct labour, fabrication and installation fees as compared to that in 2Q2014 and 6M2014.

Negative weightage in depreciation and rental charges in 2Q2015 was due to reclassification of depreciation of plants in Anhui of RMB2.0 million in 2Q2015 to administrative expenses as certain factory buildings were not ready for production use. The depreciation and rental charges were RMB1.3 million and RMB0.4 million respectively for 6M2015 whereas the depreciation and rental charges were RMB0.3 million and RMB0.4 million respectively for 6M2014.

Total cost of sales for 2Q2015 amounted to RMB86.1 million, which was 36.9% or RMB50.3 million lower than RMB136.4 million incurred in 2Q2014. Gross profit for 2Q2015 amounted to RMB27.4 million, decreased by RMB19.0 million as compared to 2Q2014. The decrease in cost of sales and gross profit were in-line with the decrease in revenue. There was no significant changes in our gross profit margin for 2Q2015 as compared to 2Q2014.

The Group's revenue decreased 53.8% from RMB343.8 million in 6M2014 to RMB158.9 million in 6M2015, while gross profit decreased 56.8% from RMB85.9 million in 6M2014 to RMB37.1 million in 6M2015. 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 decreased marginally from 25.0% in 6M2014 to 23.4% in 6M2015.

### c) Operating Expenses

Total operating expenses in 2Q2015 which amounted to RMB18.9 million was approximately 1.4% or RMB0.3 million higher than the RMB18.6 million incurred in 2Q2014 whereas the total operating expenses in 6M2015 of RMB26.8 million was approximately 30.3% or RMB11.7 million lower than the RMB38.5 million incurred in 6M2014.

Selling and distribution expenses in 2Q2015 totalled RMB3.2 million, which was 50.0% or RMB3.2 million lower than the RMB6.4 million incurred in 2Q2014. The decrease was mainly due to the decrease in sales commission of RMB1.6 million, delivery charges of RMB1.2 million, travelling expenses of RMB0.2 million and entertainment expenses of RMB0.1 million, which were in line with the lower revenue for 2Q2015.

Selling and distribution expenses in 6M2015 totalled RMB5.2 million, which was 56.2% or RMB6.7 million lower than RMB11.8 million in 6M2014. The decrease was mainly due to the decrease in sales commission of RMB4.3 million, delivery charges of RMB1.7 million, travelling expenses of RMB0.3 million and entertainment expenses of RMB0.3 million, which were in-line with the lower revenue for 6M2015.

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

d) Operating Expenses (cont'd)

Administrative expenses increased by 39.5% or RMB3.4 million from RMB8.6 million in 2Q2014 to RMB12.0 million in 2Q2015. The increase was mainly due to amortisation of land use right and depreciation charges of RMB2.3 million (mainly due to reclassification of depreciation of RMB2.0 million from cost of sales), realised and unrealised foreign exchange loss of RMB0.2 million, property and land use right taxes of RMB3.4 million and staff costs of RMB0.8 million. The increase was partially offset by the decrease in research and development costs of RMB2.1 million and no amortisation of the employee share option reserve in 2Q2015 (2Q2014: RMB2.2 million).

Administrative expenses decreased by 27.4% or RMB5.6 million from RMB20.5 million in 6M2014 to RMB14.9 million in 6M2015. The decrease was mainly due to the decrease in realised and unrealised foreign exchange loss of RMB3.5 million, research and development costs of RMB5.2 million, and amortisation of the employee share option reserve of RMB4.3 million. The decrease was offset by the increase in amortisation of land use right and depreciation charges of RMB2.6m, property and land use right taxes of RMB3.5 million and staff costs of RMB0.5 million.

Finance costs increased by 1.5% or RMB0.1 million from 2Q2014 to 2Q2015. The increase was mainly due to increase in bank interest expense of RMB1.8 million compared to 2Q2014 as the average bank interest rate for 2Q2015 was higher than that in 2Q2014. The increase was partially offset by the decrease in bank charges of RMB1.8 million as compared to that in 2Q2014. For 6M2015, the finance costs increased by 10.1% or RMB0.6 million from 6M2014 to 6M2015 due to increase in bank interest expense from RMB3.9 million in 6M2014 to RMB6.5 million in 6M2015. The increase was partially offset by decrease in bank charges of RMB2.0 million as compared to 6M2014.

e) Income tax expense

For 2Q2015 and 6M2015, the tax expenses were provided at an income tax rate of 15% based on our wholly owned subsidiary, Fujian Dongyuan's 2Q2015 and 6M2015 profit before tax. Included in 6M2015, 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 2Q2015 decreased by 73.7% or RMB17.7 million from RMB24.0 million in 2Q2014 to RMB6.3 million in 2Q2015. The decrease was mainly due to the decrease in gross profit by 40.9% or RMB19.0 million, increase in administrative expenses by 39.5% or RMB3.4 million and a decrease in other income of approximately RMB0.7 million partially offset by the decrease in selling and distribution expenses of RMB3.2 million and decrease in income tax expense of 47.5% or RMB2.3 million.

The Group's net profit for 6M2015 decreased by 68.0% or RMB27.3 million from RMB40.2 million in 6M2014 to RMB12.9 million in 6M2015. The decrease was mainly due to the decrease in gross profit by 56.8% or RMB48.8 million and decrease in other income of RMB0.9 million partially offset by the decrease in total operating expenses of RMB11.7 million and income tax expense of RMB10.7 million.

## Review of Financial Position

### Non-Current Assets

The decrease in property, plant and equipment and land use rights of RMB4.1 million as at 30 June 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 RMB918.7 million as at 30 June 2015, which was approximately RMB30.3 million higher than that as at 31 December 2014.

As at 30 June 2015, inventories stood at RMB9.2 million, which was approximately RMB3.3 million lower than RMB12.5 million as at 31 December 2014.

Trade and bills receivables balance amounted to RMB777.6 million as at 30 June 2015, increased by RMB117.4 million from RMB660.1 million as at 31 December 2014. Included in the trade and bills receivables were bills receivables of RMB0.2 million (31 December 2014: RMB3.4 million) and retention monies from completed projects, which amounted to RMB89.6 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 and does not foresee any recoverability issues to date.

Other receivables, deposits and prepayments amounted to RMB33.9 million as at 30 June 2015, which was RMB133.5 million lower than RMB167.4 million as at 31 December 2014. Included in the other receivables, deposits and prepayments were advances to suppliers for the purchase of raw materials, which amounted to RMB21.6 million as at 30 June 2015 (31 December 2014: RMB154.3 million), tender deposits for projects of RMB1.2 million (31 December 2014: RMB1.4 million), advances to employees of RMB5.2 million (31 December 2014: RMB5.8 million) and advance payments to the contractors for the construction of the plant of RMB1.9 million (31 December 2014: RMB1.2 million).

As at 30 June 2015, the Group has cash and cash equivalents of RMB97.5 million, approximately RMB49.2 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 RMB89.4 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 June 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 RMB57.6 million as at 30 June 2015, which was RMB5.1 million higher than the RMB52.5 million as at 31 December 2014. The increase was due mainly to the increase in trade payables of RMB5.8 million from 31 December 2014 to RMB15.6 million as at 30 June 2015. The increase was partially offset by the decrease in bills payable of approximately RMB6.0 million from RMB42.5 million in 31 December 2014 to RMB36.5 million as at 30 June 2015.



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

### **Current liabilities (cont'd)**

Other payables and accruals amounted to RMB62.4 million as at 30 June 2015, which was higher by RMB17.6 million than the RMB44.9 million as at 31 December 2014. The increase was mainly due to the increase in sale commission payable of RMB3.7 million, unsecured and interest-free advances from a non-related third party of RMB8.0 million and accrued subcontracting costs of RMB 4.2 million from 31 December 2014 to 30 June 2015.

The amount due to related parties (non-trade) decreased by 65.1% or RMB56.4 million due mainly to repayment of RMB57.8 million made during the period. The decreased was partially offset by additional loan advanced from related parties of RMB1.4 million during the period.

As at 30 June 2015, the Group has short-term borrowings of RMB186.8 million from the banks. Please refer to Paragraph 1(b)(ii) for the details of the collaterals.

## **Review of Cash Flows**

For 2Q2015, the Group's net cash used in operating activities was approximately RMB1.6 million. Operating cash flow before working capital changes was approximately RMB14.5 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 RMB15.7 million as a result of increase in inventories of approximately RMB4.4 million, trade and other receivables of approximately RMB42.6 million and trade and other payables of approximately RMB22.1 million.

For 6M2015, the Group generated positive cash flows from operating activities of approximately RMB60.8 million. Operating cash flow before working capital changes was approximately RMB21.4 million after adjusting for non-cash flow items, interest expense and interest income. The Group registered net cash flow from working capital of approximately RMB40.8 million as a result of increase in inventories of approximately RMB3.2 million and trade and other payables of approximately RMB22.7 million and decrease in trade and other receivables of approximately RMB16.6 million.

For 2Q2015, the Group recorded net cash used in investing activities of approximately RMB0.05 million due mainly to increase in construction work-in-progress.

For 6M2015, the Group recorded net cash used in investing activities of approximately RMB0.1 million due mainly to increase in construction work-in-progress.

For 2Q2015, the Group recorded net cash used in financing activities of approximately RMB15.8 million. This was a result of repayment of bank borrowing of RMB16.5 million and payment of interests charged by the banks of approximately RMB3.7 million, partially offset by increase in advances from related parties by approximately RMB1.4 million and decrease in deposits restricted-in-used by RMB3 million.

For 6M2015, the Group recorded net cash used in financing activities of approximately RMB61.5 million. This was a result of repayment of bank borrowings of RMB75.0 million, repayment of advances from related parties (non-trade) of approximately RMB57.8 million, increase in deposits restricted-in-used of RMB49.9 million and payment of interests charged by the banks of approximately RMB6.5 million, partially offset by net proceeds from new shares placement of approximately RMB34.4 million, additional bank borrowing proceeds of approximately RMB91.9 million, increase in advances from related parties by approximately RMB1.4 million.

The Group had a net decrease in cash and cash equivalents of RMB17.5 million and RMB0.7 million for 2Q2015 and 6M2015 respectively. Cash and cash equivalents (excluding deposits restricted-in-use) stood at RMB8.1 million as at 30 June 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 June 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.

#### 14. Use of Proceeds

The Company refers to the net proceeds of approximately S\$7.48 million raised in January 2015 from the placement of 75 million ordinary shares in the share capital of the Company at an issue price of S\$0.104 per ordinary share.

As at the date of this announcement, the Group has utilised net proceeds from the placement of approximately S\$7.48 million as follows:-

	Amount Allocated S\$'000	Amount Utilised S\$'000	Balance S\$'000
General working capital for the purposes:	7,478	(7,478)	-
a) Purchase of raw materials		(6,105)	
b) Staff cost, directors' fee and administrative expenses		(707)	
c) Audit, tax and other professional expenses		(154)	
d) Other operating expenses		(512)	
	<u>7,478</u>	<u>(7,478)</u>	<u>-</u>

The above utilisation of the net proceeds is consistent with the intended use of proceeds disclosed in the announcement dated 12 December 2014.

#### 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 second quarter and six months ended 30 June 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 August 2015