



**中國環保**  
China Environment Ltd.

## **CHINA ENVIRONMENT LTD.**

(Registration No.: 200301902W)

Financial Statements And Related Announcement  
For First Quarter And Three Months Ended  
31 March 2015

UNAUDITED FINANCIAL RESULT ANNOUNCEMENT FOR THE FIRST QUARTER AND THREE MONTHS ENDED 31 MARCH 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 STATEMENT OF COMPREHENSIVE INCOME**

	Unaudited 3 months ended		Increase/ (Decrease) %
	31.03.2015 RMB'000	31.03.2014 RMB'000	
<b>Revenue</b>	45,319	160,994	(71.9)
Cost of sales	(35,668)	(121,533)	(70.7)
<b>Gross profit</b>	9,651	39,461	(75.5)
Other income	274	452	(39.4)
Selling and distribution expenses	(1,977)	(5,432)	(63.6)
Administrative expenses	(2,925)	(11,953)	(75.5)
Finance costs	(3,003)	(2,440)	23.1
<b>Profit before tax</b>	2,020	20,088	(89.9)
Tax expense	4,532	(3,932)	N.M.
<b>Net profit for the period</b>	6,552	16,156	(59.5)
Attributable to:			
Owners of the Company	6,626	16,156	(59.0)
Non-controlling interests	(74)	-	N.M.
<b>Net profit for the period</b>	6,552	16,156	(59.5)

N.M. - Not meaningful

**UNAUDITED FINANCIAL RESULT ANNOUNCEMENT FOR THE FIRST QUARTER AND THREE MONTHS ENDED 31 MARCH 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 STATEMENT OF COMPREHENSIVE INCOME (CONT'D)**

	Unaudited		Increase/ (Decrease) %
	3 months ended		
	31.03.2015 RMB'000	31.03.2014 RMB'000	
<b>Net profit for the period</b>	6,552	16,156	(59.5)
Other comprehensive income:			
Currency translation differences arising from consolidation	(2,247)	1,023	N.M.
<b>Total comprehensive income for the period</b>	<u>4,305</u>	<u>17,179</u>	(74.9)
Attributable to:			
Owners of the Company	4,379	17,179	(74.5)
Non-controlling interests	(74)	-	N.M.
<b>Total comprehensive income for the period</b>	<u>4,305</u>	<u>17,179</u>	(74.9)
Profit before tax is arrived at after charging/(crediting):			
Depreciation of property, plant and equipment	1,809	243	644.4
Amortisation of land use rights	285	24	1,087.5
Research and development costs	163	3,335	(95.1)
Foreign exchange (gain)/loss	(2,307)	1,384	N.M.
Interest expense	2,774	2,039	36.0
Interest income	(27)	(172)	(84.3)
Share option expense	-	2,162	(100.0)

N.M. - Not meaningful



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

- 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	
	31.03.2015	31.12.2014	31.03.2015	31.12.2014
	RMB'000	RMB'000	RMB'000	RMB'000
	Unaudited	Audited	Unaudited	Audited
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	292,262	294,028	73	86
Land use rights	52,564	52,849	-	-
Investment in subsidiaries	-	-	672,614	673,467
Investment in associated company	2,450	2,450	-	-
	<u>347,276</u>	<u>349,327</u>	<u>672,687</u>	<u>673,553</u>
<b>CURRENT ASSETS</b>				
Inventories	13,632	12,449	-	-
Trade and bills receivables	688,133	660,133	67	27
Project work-in-progress	134	106	-	-
Other receivables, deposits and prepayments	80,734	167,434	182	135
Loan to subsidiaries	-	-	40,374	41,627
Dividend receivable from a subsidiary	-	-	20,070	20,927
Cash and cash equivalents	117,817	48,306	3,029	230
	<u>900,450</u>	<u>888,428</u>	<u>63,722</u>	<u>62,946</u>
<b>TOTAL ASSETS</b>	<u>1,247,726</u>	<u>1,237,755</u>	<u>736,409</u>	<u>736,499</u>
<b>NON-CURRENT LIABILITY</b>				
Deferred tax liability	-	5,030	-	-
<b>CURRENT LIABILITIES</b>				
Trade and bill payables	52,863	52,501	-	-
Other payables and accruals	45,059	44,855	1,146	2,787
Short-term borrowings	203,393	169,904	-	-
Amount due to subsidiaries (non-trade)	-	-	2,866	2,927
Amount due to a director (non-trade)	312	325	312	325
Amount due to related parties (non-trade)	28,797	86,597	-	-
Tax payable	301	210	-	-
	<u>330,725</u>	<u>354,392</u>	<u>4,324</u>	<u>6,039</u>
<b>TOTAL LIABILITIES</b>	<u>330,725</u>	<u>359,422</u>	<u>4,324</u>	<u>6,039</u>
<b>NET ASSETS</b>	<u>917,001</u>	<u>878,333</u>	<u>732,085</u>	<u>730,460</u>
<b>EQUITY</b>				
Share capital	386,604	352,241	807,912	773,549
Statutory reserves	91,720	91,352	-	-
Currency translation reserve	(304)	1,943	(50,074)	(19,142)
Share option reserve	8,128	8,128	8,128	8,128
Revenue reserve	421,063	414,805	(33,881)	(32,075)
	<u>907,211</u>	<u>868,469</u>	<u>732,085</u>	<u>730,460</u>
<b>Non-controlling interests</b>	9,790	9,864	-	-
<b>TOTAL EQUITY</b>	<u>917,001</u>	<u>878,333</u>	<u>732,085</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**

<b>As at 31.03.2015 (RMB'000)</b>		<b>As at 31.12.2014 (RMB'000)</b>	
Secured	Unsecured	Secured	Unsecured
124,941	78,452	75,000	94,904

**Amount repayable after one year**

<b>As at 31.03.2015 (RMB'000)</b>		<b>As at 31.12.2014 (RMB'000)</b>	
Secured	Unsecured	Secured	Unsecured
-	-	-	-

**Details of any collateral**

**As at 31.3.2015**

As at 31 March 2015, RMB75.0 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 RMB49.9 million of the short-term borrowings was secured by bank deposits of RMB52.8 million.

RMB78.4 million of the short-term borrowings were not secured by the Company's assets. These short-term borrowings were guaranteed or secured by:

- a) 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.;
- b) RMB46.4 million of the short-term borrowings was guaranteed by one of the Company's directors and his spouse; and
- c) 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.

**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:

- d) 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.;
- e) RMB9.9 million of the short-term borrowings was guaranteed by one of the Company's directors and the subsidiary of the Company;
- f) RMB50.0 million of the short-term borrowings was guaranteed by one of the Company's directors and his spouse; and
- g) 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	
	31.03.2015 RMB'000	31.03.2014 RMB'000
<b>Cash flows from operating activities</b>		
Profit before tax	2,020	20,088
Adjustments for:-		
Depreciation of property, plant and equipment	1,809	243
Amortisation of land use rights	285	24
Share option expense	-	2,162
Interest expense	2,774	2,039
Interest income	(27)	(172)
<b>Operating cash flow before movements in working capital</b>	6,861	24,384
Inventories	(1,183)	(6,455)
Project work-in-progress	(28)	-
Trade and other receivables	59,176	(20,540)
Trade and other payables	566	(14,477)
Currency translation adjustment	(2,120)	937
<b>Cash generated from/(used in) operations</b>	63,272	(16,151)
Interest received	27	172
Income tax paid	(882)	(4,256)
<b>Net cash generated from/(used in) operating activities</b>	62,417	(20,235)
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(2)	-
Increase in construction work-in-progress	(45)	(602)
<b>Net cash used in investing activities</b>	(47)	(602)
<b>Cash flows from financing activities</b>		
Net proceeds from new shares placement	34,362	-
Bank borrowing proceeds	91,941	64,000
Bank borrowing repayments	(58,451)	(72,700)
Repayment to advances from a director (non-trade)	-	(57,821)
Repayment to advances from related parties (non-trade)	(57,800)	-
(Increase)/decrease in deposits restricted-in-use	(52,888)	10,000
Interest paid	(2,774)	(2,039)
<b>Net cash used in financing activities</b>	(45,610)	(58,560)
<b>Net increase/(decrease) in cash and cash equivalents</b>	16,760	(79,397)
Cash and cash equivalents at beginning of financial period	8,806	90,315
Effect of exchange rate changes on cash equivalents	(137)	85
<b>Cash and cash equivalents at end of financial period (Note A)</b>	25,429	11,003
<b>Note A:</b>		
For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following:		
Cash on hand and at banks	117,817	76,031
Less: Deposits restricted-in-use	(92,388)	(65,028)
	25,429	11,003

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 →					Non-controlling		
	Share capital RMB'000	Statutory reserves RMB'000	Currency translation reserve RMB'000	Share option reserve RMB'000	Revenue reserve RMB'000	Total RMB'000	interests RMB'000	Total equity 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
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 income, 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

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 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
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 income, net of tax - Currency translation differences arising from consolidation	-	12,391	-	-	12,391
Total comprehensive income/(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



- 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 (Note)	72,500,000	34,645
Share issue expenses	-	(282)
As at 31 March 2015	<u>808,020,646</u>	<u>807,912</u>

Note: 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 31.03.2015	As at 31.12.2014
Total number of shares issued	<u>808,020,646</u>	<u>735,520,646</u>

The Company does not have any treasury shares at the end of the current financial period (as at 31 March 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	
	31.03.2015	31.03.2014
Net profit for the period (RMB'000)	6,626	16,156
(a) EPS based on weighted average number of shares in issue (RMB cents/share)	0.8	2.2
(b) EPS based on fully diluted basis (RMB cents/share)	0.8	2.2
Weighted average number of shares applicable to basic earnings per share	796,187,313	735,520,646
Weighted average number of shares based on fully diluted basis	856,853,979	735,520,646

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). The 3.5 million (31 March 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	
	31.03.2015	31.12.2014	31.03.2015	31.12.2014
Net asset value per share (RMB cents) based on issued share capital as at the end of period reported on	112.3	118.1	90.6	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 RMB45.3 million in the three months ended 31 March 2015 ("1Q2015"), a decrease of 71.9% or RMB115.7 million from RMB161.0 million achieved in the three months ended 31 March 2014 ("1Q2014"). In 1Q2015, we completed two dust collectors projects as compared to 13 projects in 1Q2014.

There were six uncompleted ongoing projects as at 31 March 2015 compared to 15 uncompleted ongoing projects as at 31 March 2014.

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

	1Q2015 %	1Q2014 %
Power generation	83.6	60.3
Steel and metallurgy	16.4	22.7
Chemical	-	3.1
Paper mill	-	0.1
Others	-	13.8
	<u>100.0</u>	<u>100.0</u>

For 1Q2015, 83.6% of our total revenue was from the power generation industry and another 16.4% from the steel and metallurgy industry.

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

b) Cost of Sales

Detailed breakdown of cost of sales is as follows:

	<b>1Q2015</b>	<b>1Q2014</b>
	%	%
Direct materials	82.7	81.7
Direct labour, fabrication and installation fees	10.1	16.8
Depreciation and rental charges	5.2	0.3
Utilities charges	0.5	0.2
Miscellaneous expenses	1.5	1.0
	<u>100.0</u>	<u>100.0</u>

Direct materials which consist mainly of steel plates, channel and angle steel, discharge electrode and collection electrode systems made up 82.7% and 81.7% of our total cost of sales in 1Q2015 and 1Q2014 respectively. The decrease in direct labour, fabrication and installation fees composition in 1Q2015 as compared to 1Q2014 was mainly due to the increase in the amortisation of the land use rights and depreciation of the plants in Anhui in 1Q2015. The amortisation of the land use rights and depreciation charges under cost of sales increased by 939.5% or RMB1.5 million from RMB0.2 million in 1Q2014 to RMB1.7 million in 1Q2015.

Total cost of sales for 1Q2015 amounted to RMB35.7 million, which was 70.7% or RMB85.9 million lower than RMB121.5 million incurred in 1Q2014 and our gross profit decreased 75.5% or RMB29.8 million from RMB39.5 million in 1Q2014 to RMB9.7 million 1Q2015. As such, the gross profit margin decreased from 24.5% in 1Q2014 to 21.3% in 1Q2015. The decrease in gross profit margin was due to two projects being sub-contracted to a third party sub-contractor for commercial reasons.

c) Other Income

Other income decreased by 39.4% or RMB0.2 million from RMB0.5 million in 1Q2014 to RMB0.3 million in 1Q2015. This was mainly due to the decrease in interest income of RMB0.2 million in 1Q2015.

d) Operating Expenses

Total operating expenses in 1Q2015 amounted to RMB7.9 million, which was approximately 60.1% or RMB11.9 million lower than the RMB19.8 million incurred in 1Q2014.

Selling and distribution expenses in 1Q2015 totalled RMB2.0 million, which was 63.6% or RMB3.5 million lower than RMB5.4 million in 1Q2014. The decrease was mainly due to the decrease in sales commission of RMB2.7 million, delivery charges of RMB0.6 million, and entertainment expenses of RMB0.2 million, which were in-line with the lower revenue for 1Q2015.

Administrative expenses decreased by 75.5% or RMB9.0 million from RMB12.0 million in 1Q2014 to RMB2.9 million in 1Q2015. The decrease was mainly due to increase in unrealised foreign exchange gain of RMB3.7 million, decrease in research and development costs of RMB3.2 million, decrease in staff cost of approximately RMB2.1 million (mainly due to absence of the recognition of fair value of employee share options of RMB2.2 million), and decrease in sundry expenses of RMB0.6 million. The decrease was partially offset by the increase in depreciation and amortisation of RMB0.3 million, and other administrative expenses such as office expenses and miscellaneous taxes of RMB0.3 million.

Finance costs increased by 23.1% or RMB0.6 million from 1Q2014 to 1Q2015. The increase was mainly due to increase in bank interest expense of RMB0.7 million as the monthly average bank loan balance for 1Q2015 was higher than that in 1Q2014.

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

e) Tax expense

For 1Q2015, the tax expenses was provided at an income tax rate of 15% based on Fujian Dongyuan's 1Q2015 profit before tax. The income tax expense of RMB0.5 million is offset by the reversal of the over-provision of deferred tax expense of RMB5.0 million in prior years.

f) Net profit for the period

The Group's net profit decreased by 59.5% or RMB9.6 million from RMB16.2 million in 1Q2014 to RMB6.5 million in 1Q2015. The decrease was mainly due to the decrease in gross profit of 75.5% or RMB29.8 million and decrease in other income of 39.4% or RMB0.2 million. The decrease was offset by the decrease in total operating expenses of RMB11.9 million, decrease in income tax provision of RMB3.4 million due to lower profit before tax, and reversal of over-provision of deferred tax expense of RMB5.0 million in prior years.

### **Review of Financial Position**

#### Non-Current Assets

The decrease in property, plant and equipment and land use rights of RMB2.1 million in 1Q2015 was due to the amortisation and depreciation charges incurred in 1Q2015.

#### Current Assets

Current assets comprise of inventories, trade and other receivables, project work-in-progress, and cash and bank balances. Total current assets amounted to RMB900.5 million as at 31 March 2015, which was about 1.4% or RMB12.0 million higher than that as at 31 December 2014.

As at 31 March 2015, inventories stood at RMB13.6 million, which was 9.5% or RMB1.2 million higher than RMB12.4 million as at 31 December 2014. The higher amount of inventories was mainly due to the increase in the number of ongoing projects as at 31 March 2015.

Trade and bills receivables balance amounted to RMB688.1 million as at 31 March 2015, increased by 4.2% or RMB28.0 million from RMB660.1 million as at 31 December 2014. Included in the trade and bills receivables were bills receivables of RMB3.6 million (31 December 2014: RMB3.4 million) and retention monies from completed projects, which amounted to RMB89.0 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. As at 31 March 2015, approximately 50% of our customers are state-owned enterprises or government-linked enterprises and approximately 24% of our customers are public listed companies. Nevertheless, the Group closely monitors the collections from its customers.

Other receivables, deposits and prepayments amounted to RMB80.7 million as at 31 March 2015, which was 51.8% or RMB86.7 million lower than RMB167.4 million as at 31 December 2014. The decrease was mainly due to decrease in advances to suppliers and sub-contractor of approximately RMB89.8 million. Included in the other receivables, deposits and prepayments were advances to suppliers and sub-contractor, which amounted to RMB64.5 million as at 31 March 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 RMB5.8 million (31 December 2014: RMB5.8 million), and advance payments to the contractors for the construction of the plant of RMB1.2 million (31 December 2014: RMB1.2 million).

As at 31 March 2015, the Group has cash and cash equivalents of RMB117.8 million, approximately 143.9% or 69.5 million higher than RMB48.3 million as at 31 December 2014. The increase was mainly due to net cash generated from operating activities, and partially offset by the net cash used in financing activities. Included in the cash and bank balances was an amount of RMB92.4 million (31 December 2014: RMB39.5 million) of deposits restricted-in-use, which were pledged with financial institutions as security deposits for issuance of bills payables and bank loans.

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

#### Non-Current Liabilities

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

#### Current Liabilities

Current liabilities comprise of trade and bills payables, other payables and accruals, short-term borrowings and tax payable.

Trade and bills payables amounted to RMB52.9 million as at 31 March 2015, which had marginally increased by 0.7% or RMB0.4 million from RMB52.5 million as at 31 December 2014.

Other payables and accruals amounted to RMB45.1 million as at 31 March 2015, which had marginally increased by 0.5% or RMB0.2 million from RMB44.9 million as at 31 December 2014.

The interest-free loan advanced from the Executive Chairman's related parties decreased by 66.8% or RMB57.8 million due to the repayment made during the period.

The Group's short-term borrowings from banks increased by 19.7% or RMB33.5 million from RMB169.9 million as at 31 December 2014 to RMB203.4 million as at 31 March 2015. Please refer to Paragraph 1(b)(ii) for the details of the collaterals.

### **Review of Cash Flows**

For 1Q2015, the Group made a pre-tax profit of RMB2.0 million. After adjusting for non-cash flow items, interest expense and interest income, cash flow from operating profits before working capital changes was RMB6.9 million. The Group's cash flow was further improved by the decrease in trade and other receivables (RMB59.2 million) and increase in trade and other payables (RMB0.6 million). The increase in operating cash flow was partially offset by the increase in inventories (RMB1.2 million) and payment of income tax (RMB0.9 million). As a result, the Group had a net cash generated from operating activities of RMB62.4 million in 1Q2015.

Net cash used in investing activities is minimal.

Net cash used in financing activities amounted to RMB45.6 million in 1Q2015. This was mainly due to repayment of bank borrowings of RMB58.5 million, repayment of advances from related parties of RMB57.8 million, increase in deposits restricted-in-use of RMB52.9 million, and interest paid of RMB2.8 million. The decrease was partially offset by the net proceeds of RMB34.4 million from the new shares placement and bank borrowing proceeds of RMB91.9 million.

The Group had a net increase in cash and cash equivalents of RMB16.8 million for 1Q2015. Cash and cash equivalents (excluding deposits restricted-in-use) stood at RMB25.4 million as at 31 March 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.**

China's vice minister for environmental protection has announced a two-year inspection campaign to root out fake air quality data and accused some local governments of manipulating the data to meet national standards, state media said. The move comes as China has sought to improve transparency and compel polluters to provide comprehensive and real-time emissions data. Some local governments make monitoring stations fabricate or tamper with air quality data, state news agency Xinhua quoted Wu Xiaoqing, vice minister of environmental protection, as saying. Beijing has declared a war on pollution, vowing to abandon a decades-old growth-at-all-costs economic model that has spoiled much of China's water, skies and soil. A study by Greenpeace and scientists at Peking University based on 2013 data attributed more than 257,000 premature deaths in 31 Chinese cities to PM2.5 – microscopic pollutant particles in the air – making it a bigger killer than smoking. Under China's newly amended environmental law, criminal penalties will be imposed on those found guilty of trying to evade pollution monitoring systems (*Source: Reuters, April 2015*).

China plans to launch a 50 billion yuan environmental protection fund in stepped-up efforts to reduce widespread pollution, the official China Securities Journal reported on Wednesday (3 December 2014). The fund would receive investment from the National Development and Reform Commission (NDRC) and the Ministry of Finance, the paper said, and would attempt to beef up investment in critical sectors through low or no-interest loans. Beijing has struggled to incentivize local governments and Chinese companies to step up their pollution-fighting efforts. The rapid industrialization of the world's second-biggest economy has been accompanied by rampant pollution of its air and water supplies, prompting the World Health Organisation to warn of the rising health hazard. China now emits about twice as much carbon as the United States, the world's second-biggest greenhouse gas polluter. And without major policy changes, China is set to double its greenhouse gas emissions by 2040, according to US Energy Information Administration (*Source: Reuters, December 2014*).

With the above measures and the tightening of anti-air pollution laws and policies in China, the Group expects the demand for our products to remain strong. Nevertheless, given the generally tight credit environment, the Group will also focus more on cash collection and securing projects from customers with good credibility.

**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 31 March 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 72.5 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:-

	<b>Amount Allocated S\$'000</b>	<b>Amount Utilised S\$'000</b>	<b>Balance S\$'000</b>
General working capital for the purposes:	7,478	(6,194)	1,284
a) Purchase of raw materials		(4,821)	
b) Staff cost, directors' fee and administrative expenses		(707)	
c) Audit, tax and other professional expenses		(154)	
d) Other operating expenses		(512)	
<b>Total</b>	<b>7,478</b>	<b>(6,194)</b>	<b>1,284</b>

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 first quarter and three months ended 31 March 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

**28 April 2015**