

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CHINA ENVIRONMENT LTD.  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

## Report on the Revised Financial Statements

We were engaged to audit the accompanying revised financial statements of China Environment Ltd. (the "Company") and its subsidiaries (the "Group") which comprise the revised statements of financial position of the Group and the Company as at 31 December 2013, and the revised consolidated statement of profit or loss and other comprehensive income, revised consolidated statement of changes in equity and revised consolidated statement of cash flows of the Group and the revised statement of changes in equity of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory information. The revised financial statements replace the original financial statements approved by the directors on 13 March 2014.

### *Management's Responsibility for the Revised Financial Statements*

Management is responsible for the preparation of revised financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the Act) as they have effect under the Companies (Revision of Defective Financial Statements, or Consolidated Financial Statements or Balance-sheet) Regulations 2018 (the Regulations) and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair revised financial statements and to maintain accountability of assets.

### *Auditor's Responsibility*

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

### *Basis for Disclaimer of Opinion*

(1) Non-existence of 5 major trade receivables as at 31 December 2015

i) Findings of PRC legal firm on 2 significant trade receivables

On 21 September 2016 and as disclosed in Note 37(iii), the New Board [see Note 37(i)] announced the findings of their appointed legal firm in PRC (Oudun Law Firm – 欧顿律师) on their investigation into the existence of the following two significant trade receivables:

- a) Nanning Youji Technology Co Ltd (南宁市友济科技有限公司);
- b) Anhui Shengyun Mechanical Co. Ltd (安徽盛运机械股份有限公司);

Based on the announcement, Oudun Law Firm were of the opinion that the trade receivables due from Nanning Youji Technology Co Ltd and Anhui Shengyun Mechanical Co. Ltd were non-existent.

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TO THE MEMBERS OF CHINA ENVIRONMENT LTD.  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

## Report on the Revised Financial Statements (Cont'd)

### *Basis for Disclaimer of Opinion (Cont'd)*

(1) Non-existence of 5 major trade receivables as at 31 December 2015 (Cont'd)

ii) Significant findings from physical first site visit on 2 major trade receivables

As disclosed in Note 37(iv), at the New Board's request, we, along with the Company's Group Financial Controller (who had resigned as at the date of this Report) and an Assistant General Manager of the Company's PRC subsidiary, Xiamen GongYuan Environmental Protection Technology Co., Ltd ("XMGY") [incorporated on 27 January 2014] had on 17 and 18 November 2016 performed a surprise site visit on the above 2 major trade receivables namely Nanning Youji Technology Co Ltd ("NNYJ") and Anhui Shengyun Mechanical Co. Ltd ("AHSY") ["1st Site Visit"].

During our 1st Site Visit, we were unable to locate NNYJ's physical place of operations based on the address furnished by the previous Finance Department of the Company's PRC subsidiary, Fujian Dongyuan Environmental Protection Co., Ltd ("FJDY"), which is the same address indicated in the confirmation request letter received by us from the previous Finance Department of FJDY during our audit for FY 2015.

We had received a confirmation from NNYJ via courier from PRC on 4 May 2016 without exception, that is, the balance which amounted to RMB 341.69 million as at 31 December 2015 was confirmed by NNYJ without any disagreement.

Based on our findings of this inconsistency between the confirmation received by us and the inability to identify the physical location and existence of NNYJ, the New Board had concluded that the balance of RMB 341.69 million due from NNYJ as at 31 December 2015 (the bulk of which was brought forward balance from FY 2014 and FY 2013) is likely to be non-existent.

Similarly, our surprise site visit to AHSY office also found discrepancies on the outstanding balance of RMB 163.84 million as at 31 December 2015. We were unable to locate AHSY's Financial Controller or any key finance personnel responsible for the confirmation we had received via courier from PRC on 19 April 2016, which is prior to our 1<sup>st</sup> Site Visit which indicated the confirmed balance of RMB 163.84 million as at 31 December 2015.

As an alternative procedure, we decided to leave a new confirmation request letter with AHSY's Finance Department and was surprised to receive a second confirmation after our 1<sup>st</sup> Site Visit indicating Nil balance owed to the Company as at 31 December 2015. This second confirmation from AHSY which was dated 2 December 2016 was received via courier from PRC.

Based on our findings, the New Board had concluded that the balance of RMB 163.84 million due from AHSY as at 31 December 2015 (the bulk of which was also brought forward balance from FY 2014 and FY 2013) was likely to be non-existent.

The New Board had also concluded that the trade balance of these 2 major trade receivables were also non-existent as at 31 December 2013 where the outstanding balances from NNYJ and AHSY stood at RMB 15.75 million and RMB 67.65 million respectively.

We have since reported our findings to the Audit Committee immediately after our 1<sup>st</sup> Site Visit on 18 November 2016 and after deliberation by the New Board, the Company filed a report with the Commercial Affairs Department ("CAD") and served a writ of summons on the former Executive Chairman, Mr Huang Min for these 2 non-existent trade receivables as announced by the Company on 6 January 2017.

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TO THE MEMBERS OF CHINA ENVIRONMENT LTD.  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

## Report on the Revised Financial Statements (Cont'd)

### *Basis for Disclaimer of Opinion (Cont'd)*

(1) Non-existence of 5 major trade receivables as at 31 December 2015 (Cont'd)

iii) Significant findings from physical second site visit on 3 major trade receivables

In view of the findings during the 1<sup>st</sup> Site Visit, and at the request of the New Board, we, along with the Company's Group Financial Controller (who had resigned as at the date of our Report) and a personnel from the Marketing Department of the Company's PRC subsidiary, XMGY (incorporated on 27 January 2014) had on 28 and 29 December 2016 conducted another surprise site visit ("2<sup>nd</sup> Site Visit") on the following major trade receivables:

- a) Shanxi Electric Environment Engineering ("Shanxi Electric") [山西省电力环保设备工程有限公司];
- b) Changshu City Environment ("Changshu") [常熟市华能环保工程有限公司];
- c) Chongmei International Engineering ("Chongmei") [中煤国际工程集团北京华宇工程有限公司]

For details, please refer to Note 37(v) on the Company's announcement.

Based on the procedures we had performed during our 2<sup>nd</sup> Site Visit, we were able to locate Shanxi Electric's physical place of operations based on the address furnished by the previous Finance Department of FJDY, which is the same address indicated in the confirmation we had received during our audit for FY 2015.

The confirmation was received without exception, that is, the balance of RMB 70.04 million outstanding as at 31 December 2015 was confirmed by Shanxi Electric without any disagreement.

However, when we approached the Finance Manager of Shanxi Electric to verify the confirmed balance, we were informed that the correct amount should be RMB 22 million as at 31 December 2015 instead of RMB 70.04 million. When we queried on the reason for the discrepancy, we were informed by the Finance Manager that she was informed by management of the Company's PRC subsidiary, FJDY to inflate the outstanding balance as her company was facing financial difficulties and she had not been paid her salaries for the past 4 months.

Based on our findings, the Board was of the view that the trade balance due from Shanxi Electric amounting to RMB 70.04 million in the Company's PRC subsidiary, FJDY's financials for FY 2015 is likely to be grossly overstated.

For Changshu, we were able to locate the physical place of operation based on the address furnished by the previous PRC Finance Department of FJDY, which is the same address indicated in the confirmation we had received during our audit for FY 2015. The confirmation was received without exception, that is, the balance of RMB 44.97 million outstanding as at 31 December 2015 was confirmed by Changshu without any disagreement.

However, the company's name at the address during our site visit was indicated as 江苏鑫華能環保工程股份有限公司 instead of 常熟市华能环保工程有限公司.

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TO THE MEMBERS OF CHINA ENVIRONMENT LTD.  
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## Report on the Revised Financial Statements (Cont'd)

### *Basis for Disclaimer of Opinion (Cont'd)*

- (1) Non-existence of 5 major trade receivables as at 31 December 2015 (Cont'd)
- iii) Significant findings from physical second site visit on 3 major trade receivables (Cont'd)

For Chongmei, we were able to locate the physical place of operation based on the address furnished by the previous PRC Finance Department of FJDY, which is the same address indicated in the confirmation we had received during our audit for FY 2015. The confirmation was received without exception, that is, the balance of RMB 16.03 million outstanding as at 31 December 2015 was confirmed by Chongmei without any disagreement.

We were also able to locate the operation and marketing manager who had confirmed the balance to us. However, he was surprised to see us with the confirmation and denied confirming the balance of RMB 16.03 million as at 31 December 2015. He also denied that he had signed on the confirmation and claimed that it was a fraudulent act.

In view of the above, we were unable to verify the confirmations that we had received during our 2<sup>nd</sup> Site Visit for Changshu and Chongmei.

Our above findings were communicated to the Audit Committee and the New Board on 3 January 2017.

Based on our findings, and upon further investigation by the Company, the New Board had concluded that both Changshu and Chongmei, which made up approximately 5.72% and 2.04% respectively of the total trade receivables of RMB 786.13 million as at 31 December 2015 before impairment, are non-existent. For Shanxi Electric, the outstanding amount of RMB 70.04 million which constituted 8.91% of the total trade receivables as at 31 December 2015 before impairment had been overstated by RMB 48 million.

The New Board had also concluded that the trade balance of these 3 major trade receivables were also non-existent as at 31 December 2013 where the outstanding balances from Shanxi Electric, Changshu and Chongmei stood at RMB 53.19 million, RMB 57.81 million and RMB4.34 million respectively.

Arising from the findings of these 5 major trade receivables from our 1<sup>st</sup> Site Visit and 2<sup>nd</sup> Site Visit, the New Board had concluded that the instances of severe non-compliance as stated in ACRA's Advisory Letter dated 23 October 2015 were a result of these non-existent trade receivables as at 31 December 2015, 31 December 2014 and 31 December 2013.

Accordingly, the revision on the FY 2013 consolidated financial statements performed by the New Board were based on the reversal of revenue, costs of sales, trade receivables and the monies received and paid arising from sales made to these 5 major trade receivables, which were non-existent.

For this revision exercise, the starting reference point were all the related entries in relation to the 5 major trade receivables as at 31 December 2015 and thereafter, management rolled backwards those numbers till 31 December 2013. Accordingly, all revision adjustments for the financial year ended 31 December 2012 and earlier has been adjusted through the brought forward revenue reserves as at 1 January 2013.

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CHINA ENVIRONMENT LTD.  
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## Report on the Revised Financial Statements (Cont'd)

### *Basis for Disclaimer of Opinion (Cont'd)*

- (1) Non-existence of 5 major trade receivables as at 31 December 2015 (Cont'd)
- iii) Significant findings from physical second site visit on 3 major trade receivables (Cont'd)

The effects of the revision on the FY 2013 consolidated financial statements arising from these non-existent trade receivables are disclosed in Note 37(i).

Our FY 2015 audit findings on the discrepancies noted between our surprise site visits and the confirmation received for these 5 major trade receivables which amounted to RMB 636,576,000 constituted approximately 81% of the trade receivables as at 31 December 2015 before impairment.

The New Board had concluded that those 5 major trade receivables which amounted to RMB 198,729,000 as at 31 December 2013 and which constituted to approximately 41% of the trade receivables as at 31 December 2013 were also non-existent. These may have also affected many related accounts as at 31 December 2013 such as:

- Revenue; costs of sales and related expenses;
- Cash and cash equivalents;
- Trade and bill receivables;
- Trade and bill payables; and
- Revenue reserves

In addition, we were faced with limitation of scope arising from i) the loss of accounting records and supporting documents as detailed in point (3) below; ii) lack of access to the working papers of the predecessor auditor, Baker Tilly TFW LLP and we were not the statutory auditor for the FY 2013 financial statements other than to issue this new Auditor's Report on the previously issued FY 2013 financial statements audited by Baker Tilly TFW LLP, the auditor's report of which is dated 13 March 2014.

Consequently, we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves on the carrying amounts of the trade receivables as at 31 December 2013 and the related affected accounts mentioned above, including existence, valuation, completeness, presentation, and disclosures.

- (2) Opening balances

As disclosed in point (1) above in our Basis for Disclaimer of Opinion paragraphs, all revision adjustments for the financial year ended 31 December 2012 and earlier has been adjusted through the brought forward revenue reserves as at 1 January 2013 due to lack of accounting records.

Since the opening balances as at 1 January 2013 are entered into the determination of the financial position of the Group and of the Company as at 31 December 2013 and of the financial performance, changes in equity and cash flows of the Group and changes in equity of the Company for the financial year ended 31 December 2013, we were unable to determine whether adjustments, if any, might have been found to be necessary in respect of the Group's and the Company's financial statements for the financial year ended 31 December 2013.

Our opinion on the current financial year's financial statements of the Group and the Company is also modified because of the possible effects of these matters on the comparability of the current year's figures and the corresponding figures.

# **INDEPENDENT AUDITOR'S REPORT**

**TO THE MEMBERS OF CHINA ENVIRONMENT LTD.**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013**

## **Report on the Revised Financial Statements (Cont'd)**

### *Basis for Disclaimer of Opinion (Cont'd)*

#### (3) Loss of Partial Accounting Books and Records and Supporting Documents

As disclosed in Note 37(vi), the New Board announced on 18 August 2017 that pursuant to the judgment obtained by China Construction Bank ("CCB") against the Company's wholly owned subsidiary FJDY, CCB is entitled to sell off the land use rights and property assets of a related company, Fujian Mintai Environmental Protection Co. Ltd ("FJMT") [which is owned by former executive Chairman, Mr Huang Min] which was previously pledged as security for this loan. As part of the handover requirements of the Longyan People Court in this regard, the Company's personnel were allowed to gain access to FJDY's office premises on 26 July 2017 to pack up and retrieve FJDY's documents from the office premises.

Upon gaining entry to the FJDY premises, it was discovered that the office was in a state of disarray, with evidence of ransacking. The Company is in the process of reviewing the documents retrieved from the premises. It was announced that based on preliminary review, documents appear to be missing, and the records of the FJDY's various departments were therefore likely incomplete.

For the purpose of the revision of the FY 2013 financial statements, the financial statements were reconstructed by management based on information and supporting documents that were made available to the New Board after the change of legal representative in the principal subsidiary, FJDY from Mr Huang Min to Mr Norman Winata on 15 August 2016.

Based on information obtained to-date, management had made adjustments to the FY 2014 financial statements as stated in Note 37(i) arising from those non-existent trade receivables.

In view of the limitation of scope imposed on us due to the loss of accounting records and supporting documents, consequently, we were unable to satisfy ourselves as to the appropriateness of the adjustments/revision for the FY 2013 financial statements.

### *Disclaimer of Opinion*

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the revised financial statements.

### *Emphasis of Matter – Revisions Made Under the Regulations*

We draw your attention to Note 37 to these revised financial statements which describes the basis of the revisions. Our opinion is not modified in respect of this matter.

**INDEPENDENT AUDITOR'S REPORT**  
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**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013**

**Report on the Revised Financial Statements (Cont'd)**

*Other Matter*

*(1) Revisions Made Under the Regulations*

The original financial statements for the financial year ended 31 December 2013 were approved by the former directors on 13 March 2014, and Baker Tilly TFW LLP expressed an unmodified opinion and dated the original auditor's report on those original financial statements on that date.

The revised financial statements for the financial year ended 31 December 2013 were audited by RT LLP who was first appointed as auditors of the Company for the financial year ended 31 December 2015.

The revised financial statements have been prepared in accordance with the Regulations and accordingly do not deal with events which have taken place after the date on which the original financial statements were approved apart from those as disclosed in Note 37 to the financial statements. Consequently, our procedures on subsequent events are restricted solely to the revisions described in Note 37 to these revised financial statements and we have not performed procedures in relation to events occurring between the date of the original auditor's report and the date of this report.

*(2) Corresponding Figures*

The financial statements for the financial year ended 31 December 2012 were audited by the same predecessor auditor who expressed an unmodified opinion on those statements on 15 March 2013.

**Report on Other Legal and Regulatory Requirements**

In our opinion, in view of the significance of the matters referred to in the Basis for Disclaimer of Opinion paragraphs, we do not express an opinion on whether the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

**RT LLP**  
Public Accountants and  
Chartered Accountants

Singapore, 26 April 2019