



**Leader Environmental Technologies Limited**

利德环保技术有限公司

(Incorporated in the Republic of Singapore on 15 August 2006)

(Company Registration Number: 200611799H)

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**MATERIAL DIFFERENCE BETWEEN UNAUDITED AND AUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

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*Unless otherwise defined, capitalised terms herein shall have the same meaning as ascribed to them in the Company's announcement dated 28 February 2020 in relation to its unaudited financial results for the financial year ended 31 December 2019.*

The Board of Directors of Leader Environmental Technologies Limited ("Company" and together with its subsidiaries, "Group") refer to the unaudited full year financial results announcements for the financial year ended 31 December 2019 ("**FY2019**") released via the SGX-NET on 28 February 2020 ("**Unaudited**"). Further reference is made to the Audited Financial Statements of the Company for FY2019 ("**Audited**") which will be subsequently provided to shareholders and the SGX-ST.

Pursuant to Rule 704(6) of the Listing Manual, the Board wishes to highlight that there are certain adjustments made by the Company to the Group's Consolidated Statement of Profit and Loss and other Comprehensive loss, Statement of Financial Position and Consolidated Statement of Cash Flows in the Audited Financial Statements compared to what was disclosed in the Unaudited Financial Statements.

Below is a comparison between the earlier announced unaudited financial statements and the audited financial statements.

Consolidated Statement of profit and loss and other comprehensive income

	Note	Group		Variance RMB'000
		12 Months Ended		
		31.12.19 ("FY2019") Audited RMB'000	31.12.19 ("FY2019") Unaudited RMB'000	
Revenue		37,239	37,239	
Cost of sales		(27,821)	(27,821)	
Gross profit		<b>9,418</b>	<b>9,418</b>	
Financial income		22	22	
Other income	(1)	146	2,318	(2,172)
Selling and distribution expenses		(1,291)	(1,291)	
Administrative expenses		(10,461)	(10,461)	
Finance costs		(5,877)	(5,877)	
Other expenses	(2)	(16,088)	(13,322)	2,766
<b>Loss before income tax</b>		<b>(24,131)</b>	<b>(19,193)</b>	
Taxation		(6)	(6)	
<b>Loss after taxation</b>	(3)	<b>(24,137)</b>	<b>(19,199)</b>	4,938
<b>Other comprehensive loss after tax</b>		-	-	
<b>Total comprehensive loss for the year</b>		<b>(24,137)</b>	<b>(19,199)</b>	
<b>Loss attributable to:</b>				
Owners of the parent		(24,133)	(19,199)	
Non-controlling interests		(4)	-	
		<b>(24,137)</b>	<b>(19,199)</b>	
<b>Total comprehensive loss attributable to:</b>				
Owners of the parent		(24,133)	(19,199)	
Non-controlling interests		(4)	-	
		<b>(24,137)</b>	<b>(19,199)</b>	

- (1) The bad debts recovered of RMB0.5 million from certain customer and write-back of allowance for impairment of trade receivables amounting to RMB1.6 million are reclassified and offset against other expenses in the audited accounts.

(2) The breakdown of other expenses is as follows:

	Group		Variance RMB'000	Note
	Audited 2019 RMB'000	Unaudited 2019 RMB'000		
Bad debts written off	(82)	(82)	-	
*Allowance for impairments:	(16,084)	(12,869)	3,215	(a)
- contract assets	(3,287)	(2,576)	711	
- trade receivables	(3)	-	3	
- trade receivables no longer required	1,642	-	(1,642)	
- retention monies	(246)	(305)	(59)	
- advances to trade suppliers	(12,553)	(8,936)	3,617	
- advances to non-trade suppliers	(499)	(165)	334	
- tender deposits	(1,138)	(167)	971	
- other receivables	-	(720)	(720)	
Bad debts recovered	450	-	(450)	(b)
Exchange loss	(58)	(58)	-	
Loss on disposal of property, plant and equipment	(252)	(251)	1	
Others	(62)	(62)	-	
	<u>(16,088)</u>	<u>(13,322)</u>	<u>2,766</u>	

\* Further details on the allowance for impairments relating to contract assets, trade receivables, retention monies, advances to trade, non-trade, tender deposits can be found in note 29.2 credit risk of the audited accounts when they are made available to shareholders.

(a) **Allowance for impairments:**

#### **Contract assets**

There are revisions made to the cumulative probability of default and loss given default which resulted in additional general allowance for impairment of contract assets of RMB0.7 million in the audited results.

#### **Retention monies**

The expected credit loss rate of 2.23% is applied on the audited results instead of 3.23% used in the unaudited results. The rate used is by reference to China's loan default loss rate, and without considering the need for an additional 1.0% of liquidity risk since they are subsequent receipts from customers. The lower rate applied resulted in decrease in general allowance for impairment of retention monies of RMB59,000.

#### **Advances to trade suppliers**

In view of the challenging business environment and the uncertainty from COVID-19 pandemic, additional general allowances for impairments of RMB10.3 million are considered in the audited results. They relate mainly to advances placed for raw materials and equipment of RMB26.1 million in respect of the on-going dust elimination and industrial wastewater contracts due to fear of postponements or delays caused by COVID-19 pandemic. The expected credit loss is based on the probability of default approach and the estimate of loss is derived from the recoverable amount discounted by an effective interest rate 4.35%. This rate is by reference to China's prime lending rate.

### **Advances to trade suppliers (cont'd)**

The increased allowance for impairments of RMB10.3 million is partly offset by a reversal in the allowance for impairment of deposit to a trade supplier of RMB6.7 million in the unaudited results. A refund of RMB7.7 million is received after year end to further mitigate the credit risk. Accordingly, the deposit is reduced from RMB37.6 million to RMB29.9 million. The amount is subsequently reclassified to other receivables as advance to third party in the audited accounts and no allowance for impairment is deemed necessary since there is no default history upon termination of the industrial wastewater contracts in the last two financial years, and the financial due diligence performed by management did not indicate that the supplier is in financial difficulty.

### **Advances to non-trade suppliers**

There is additional allowance for impairment in the audited results of approximately RMB0.3 million on the specific identification of advance paid for certain design and consultancy work which was long overdue.

### **Tender deposits**

There is also higher general allowance for impairment of tender deposits in the audited results of RMB1.0 million mainly on the balance deposit to be recovered from an on-going delayed industrial wastewater contract of RMB15.0 million and the tender deposit placed for a new industrial wastewater contract of RMB25.0 million as the outcome of the tender has been postponed to a later date due to COVID-19 pandemic. Both accounted for RMB0.9 million of the allowance for impairments and the expected credit loss rate of 2.23% was applied, and this rate is by reference to China's loan default loss rate.

### **Other receivables**

Other receivables of RMB9.0 million relate to advances disbursed to the respective employees in charge to pay for company's project tenders, procurement of raw materials and equipment, and consultancy work. Based on the supporting documentation furnished, these advances are reclassified in the audited results according to the nature of the advances incurred. The documentations could not be furnished on time prior to the release of the unaudited results on 28 February 2020 due to the COVID-19 situation. In the light of this, the allowance for impairments in respect of advances to trade, non-trade and tender deposits are then re-assessed accordingly in the audited results. With the reclassifications, the allowance for impairments of other receivables of RMB720,000 is no longer deemed necessary and is removed.

### **Trade receivables no longer required**

The write-back of allowance for impairment of trade receivables of RMB1.6 million is reclassified from other income in the audited results.

### **(b) Bad debts recovered**

The bad debts recovered of RMB0.5 million from certain customer is reclassified from other income to other expenses in the audited results.

- (3) In light of the foregoing, loss after taxation increased by RMB4.9 million to RMB24.1 million in FY2019.

**Statement of financial position as at 31 December 2019**

	Note	Group		Variance RMB'000
		Audited Financial Statements RMB'000	Unaudited Financial Statements RMB'000	
<b>ASSETS</b>				
<b>Non-Current Assets</b>				
Property, plant and equipment	(1)	8,630	7,862	768
Right-of-use asset	(1)	-	769	(769)
Intangible assets		1,282	1,282	
		<b>9,912</b>	<b>9,913</b>	
<b>Current assets</b>				
Contract assets	(2)	20,087	20,799	(712)
Inventories		934	934	
Trade and other receivables	(3)	126,440	78,649	47,791
Prepayments	(4)	43	52,227	(52,184)
Bank deposits pledged		1,525	1,526	
Cash and cash equivalents		9,707	9,707	
		<b>158,736</b>	<b>163,842</b>	
<b>Total assets</b>		<b>168,648</b>	<b>173,755</b>	
<b>Equity and liabilities</b>				
<b>Capital and reserves</b>				
Share capital		224,747	224,747	
PRC statutory common reserve		31,748	31,748	
Merger reserve		(454)	(454)	
Premium paid on acquisition of non-controlling interests		(170)	(170)	
Accumulated losses	(5)	(215,435)	(210,501)	4,934
		<b>40,436</b>	<b>45,370</b>	
<b>Non-controlling interests</b>		<b>-</b>	<b>4</b>	
<b>Total equity</b>		<b>40,436</b>	<b>45,374</b>	
<b>Non-Current Liabilities</b>				
Deferred tax liabilities		-	-	
Lease liabilities		459	459	
		<b>459</b>	<b>459</b>	
<b>Current liabilities</b>				
Contract liabilities		5,691	5,691	
Trade and other payables	(6)	56,961	57,130	(169)
Borrowings		50,000	50,000	
Lease liabilities		323	323	
Other liabilities		14,778	14,778	
		<b>127,753</b>	<b>127,922</b>	
<b>Total equity and liabilities</b>		<b>168,648</b>	<b>173,755</b>	

- (1) The right-of-use asset of RMB0.8 million is grouped as part of property, plant and equipment in the audited results.
- (2) The decrease in contract assets of RMB0.7 million is due to higher impairment allowance as a result of the revision on the cumulative probability of default and loss given default.
- (3) The increase in trade and other receivables in the audited results is due to reclassification from prepayments relating mainly to advance payments to trade and non-trade suppliers and deposits to a third party of RMB52.2 million in aggregate, partly offset by the higher allowance for impairments of RMB4.2 million. In addition, there was also reversal of advance payments to certain supplier against trade creditors of RMB0.2 million as the raw materials and supplier's invoices are received.
- (4) Prepayments in the audited results relate solely to advance payments for operating expenses. Hence, there is a decrease of RMB52.2 million because the advance payments to trade, non-trade suppliers and deposit to a third party are reclassified to other receivables.
- (5) The increase in accumulated losses in the audited result is due to higher allowance for impairments of RMB4.9 million as explained in page 3 and 4 under (a).
- (6) The decrease in trade and other payables of RMB0.2 million in the audited results is due mainly to the offset of trade creditors against advance payments to certain supplier because the raw materials and supplier's invoices are received.

## Consolidated Statement of Cash Flows for the financial year ended 31 December 2019

	<b>Group</b>		<b>Variance</b>	<b>Note</b>
	<b>Audited</b>	<b>Unaudited</b>		
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	
<b>Cash Flows from Operating Activities</b>				
Loss before taxation	(24,131)	(19,193)		
Property, plant and equipment written off	-	6		
Depreciation of property, plant and equipment	1,070	850	220	(1)
Loss on disposals of property, plant and equipment	252	245		
Amortisation of intangible assets	261	261		
Amortisation of right-of-use-asset	-	220	(220)	(1)
Allowance for impairments:				
- contract assets	3,287	2,576	711	(2)
- trade receivables	3	-		
- trade receivables no longer required	(1,642)	(2,171)	(529)	(3)
- retention monies	246	305		
- other receivables	-	720	(720)	(4)
- advances to trade suppliers	12,553	8,936	3,617	(5)
- advances to non-trade suppliers	499	165		
- tender deposits	1,138	167	971	(6)
Finance costs	5,877	5,877		
Interest income	(22)	(22)		
<b>Operating loss before working capital changes</b>	(609)	(1,058)		
Decrease in contract assets	18,468	18,467		
Decrease in inventories	347	347		
Decrease/(increase) in trade and other receivables	6,402	(28,769)	35,171	(7)
Decrease in prepayments	14	35,467	(35,453)	(8)
Decrease in contract liabilities	(382)	(382)		
Increase in trade and other payables	376	544	(168)	(9)
Decrease in other liabilities	(4,685)	(4,685)		
<b>Net cash generated from operations</b>	19,931	19,931		
Income tax paid	(6)	(6)		
<b>Net cash generated from operating activities</b>	19,925	19,925		
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment	(14)	(14)		
Proceeds from disposals of property, plant and equipment	451	451		
Interest income received	22	22		(11)
<b>Net cash flows generated from investing activities</b>	459	459		
<b>Cash flows from financing activities</b>				
Repayments of third party loans	(10,249)	(10,249)		
Proceeds from bank borrowings	60,000	70,000	(10,000)	(10)
Repayments of bank borrowings	(64,860)	(74,860)	10,000	(10)
Repayments of lease liabilities	(238)	(207)		(12)
Proceeds from bills payable	335	336		
Interest paid	(5,846)	(5,877)		(11)
Increase in bank deposits pledged	(335)	(336)		
<b>Net cash flows used in financing activities</b>	(21,193)	(21,193)		
Net decrease in cash and cash equivalents	(809)	(809)		
<b>Cash and cash equivalents at the beginning of the year</b>	10,516	10,516		
<b>Cash and cash equivalents at the end of the year</b>	<b>9,707</b>	<b>9,707</b>		

- (1) The amortisation of right-of-use asset of RMB0.2 million is grouped as part of depreciation of property, plant and equipment.
- (2) There is an increase in allowance for impairment of contract assets amounting to RMB0.7 million as a result of the revision on the cumulative probability of default and loss given default.
- (3) The lower allowance for impairment of trade receivables written back of RMB0.6 million is mainly due to the reversal of receipts recovered from certain long outstanding customer of RMB0.5 million.
- (4), (5) and (6) pertain to higher allowance for impairments as explained in page 3 and 4 under (a).
- (7) and (8) The prepayments to trade and non-trade suppliers and deposit to a third party are reclassified to other receivables as explained in page 6, under (3) and (4).
- (9) The trade payables and other payables decreased because of the offset against advances to certain supplier as a result of the receipts of raw materials and invoices.
- (10) The unaudited results relating to the proceeds and repayments of bank borrowings of RMB10.0 million each, with no financial impact, are recognized incorrectly in the unaudited results, so they are amended in the audited results.
- (11) Interest income received and interest paid are reclassified to investing and financing activities in the audited accounts instead of under operating activities as shown in the unaudited results. The reclassification is based on the sources where the interest income and expenses are derived.
- (12) Unlike the audited results, interest paid of RMB31,000 are recorded separately from repayments of lease liabilities in the unaudited results.

**By Order of the Board**

Lin Bai Yin  
Executive Chairman and Chief Executive Officer  
5 May 2020