



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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## RESPONSE TO SGX QUERIES ON THE COMPANY'S FULL YEAR RESULTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

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The Board of Directors of Leader Environmental Technologies Limited (“**Company**”, and together with its subsidiaries, “**Group**”) refers to the following queries raised by the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) in its email dated 8 March 2021 in relation to the Company's full year results for the financial year ended 31 December 2020.

### **SGX-ST's query**

Please provide details towards Management's decision to terminate the industrial wastewater project in Linjiang in view of the slow progress and payment, including, but not limited to, which stage the project was at, the amount of contract assets recorded, the total amount billed, outstanding amounts, and actions taken by the Company to recover the outstanding payments.

### **Company's response to the SGX-ST's query**

The project in Linjiang was awarded to the Group in July 2018 by 临江市幸福基业开发建设有限公司 (“**Customer**”) and it was a government funded project. The project commenced in the fourth quarter of 2019 and only 10% of the engineering, procurement and construction works were performed before it was terminated in the second half of 2020. The slow progress was due to the delays by the Customer in obtaining the relevant approval to commence work on the project site. Moreover, management was also waiting for the Customer to receive the funding from the local authority before it commenced work on the remaining 90% of the contract. However, the Company experienced repeated delays by the Customer on the disbursement of funding from the authority and payment to the Company. In view of the uncertainty in the funding for the project, management had a discussion with the Customer, and agreed that it will be beneficial for both parties to terminate the contract.

For the amount of work performed in FY2019 and FY2020, the Company had recognised RMB4.8 million of the contract assets in aggregate, and billings amounting to RMB5.3 million (inclusive of VAT) were issued to the customer. The final settlement was eventually finalized on 10 October 2020 with the balance outstanding fully settled.

### **SGX-ST's query**

With reference to para 13, please provide an explanation, on a line item basis, for the significant decrease in revenue.

### **Company's response to the SGX-ST's query**

The revenue from the dust elimination segment decreased by RMB7.9 million or 76.2%, from RMB10.3 million in FY2019 to RMB2.4 million in FY2020. The decrease was attributed to no additions of new contracts, and majority of the dust elimination contracts were already at the tail-end of completions.

The revenue from the industrial wastewater segment also decreased by RMB15.6 million or 58.1%, from RMB26.9 million in FY2019 to RMB11.3 million in FY2020. The decrease was due to no new contract secured, majority of the contracts are already at the tail-end of completions, and the early termination of the project in Linjiang due to slow progress and payment.

### **SGX-ST's query**

Please provide an explanation for the increase in administration expenses of 33% which was attributed mainly to additions in headcount resulting in higher payroll and related costs of RMB3.5mil, when there was a significant decrease in revenue of 63.1%.

### **Company's response to the SGX-ST's query**

The breakdown of the relevant payroll and related costs is as follows:

	<b>2020 RMB million</b>
Costs of headcount additions in Singapore office	2.8
Costs of headcount additions in newly incorporated subsidiaries in Guangzhou and Tianjin	1.1
Operating expenses of Guangzhou and Tianjin	1.0
Staff attritions and retrenchments from other subsidiaries	(0.4)
	<hr/> <hr/> 4.5

Had these costs been excluded from the administration expenses in FY2020, the administration expenses will be RMB9.4 million instead of RMB13.9 million, lower by RMB1.1 million when compared against FY2019. This was in line with the decrease in business activities.

### **SGX-ST's query**

It was disclosed that the Company made a specific allowance on a certain supplier in Dunhuang with outstanding balance of RMB22.4million fully provided for. In this regard, please disclose the following:-

- i. the identity of the supplier and whether it's a related party of the Group;
- ii. whether this supplier has any relationship (business, or otherwise), with any director, shareholder, employee of the Company or any of its subsidiaries;
- iii. when the advances to this supplier was made, and the terms of the advances to the supplier;
- iv. rationale for providing significant advances to the supplier;
- v. were the significant advances to the supplier approved by the Board. And if not, why not;
- vi. reasons as to why the outstanding amounts were outstanding for more than 3 years, but the two proposed industrial wastewater projects have not commenced yet;
- vii. details of the two proposed industrial wastewater projects;
- viii. whether the Group is still purchasing from the supplier;
- ix. the products the supplier is to supply to the Company;
- x. actions taken by the Group to recover the advance payments; and
- xi. how long the supplier has been supplying goods to the Company.

Please provide the Board's assessment of the recoverability of the outstanding advances to trade suppliers and the bases for such an assessment.

**Company's response to the SGX-ST's query**

- i. The name of the aforesaid supplier is 敦煌市莫峰贸易有限公司 (“Mofeng”) and it is not a related party of the Group.
- ii. Mofeng has no relationship (business or otherwise) with any director, shareholder, employee of the Company or any of its subsidiaries.
- iii. The advances were transferred to Mofeng on 28 July 2016. The salient terms of the agreements for both projects were based on fixed amount of advances amounting to RMB11.5 million and RMB28.5 million respectively. Once the projects reached certain performance milestones, the Company will provide a written notice to Mofeng to obtain a full refund of the advances. The refund will be made without interest.
- iv. The two projects are located in North Western region of Gansu province, a relatively weaker province in China financially. For an external party such as the Group to undertake environmental projects in such a province, the Group is required to work with an established local supplier, appointed by the Group with the consent of the customer. The Group will need to demonstrate its financial capability and commitment to the customer by providing the initial capital required to ensure timely delivery of raw materials and equipment to the project sites and to complete the project on a timely basis. The initial capital will usually be in the form of advance or deposit to be placed with the local supplier, and is normally based on 20% to 30% of the contract sum awarded or a fixed sum agreed between the parties.
- v. In the past, advances were not subjected to approvals from the Board as these were deemed to be transactions in the normal course of the Group's business. The Board would instead follow up with management on the project status and its recoverability of the advances during the quarterly Board and Audit Committee meetings. At year end, the Board had a discussion with the auditors to understand the audit and recoverability issue.

Management has since re-evaluated the Group's existing internal controls and risk management process with the objective of enhancing and strengthening the internal controls of the Group, and has instituted additional controls with various approval matrix for senior management and Board from Singapore to approve the payments to be made by the respective subsidiaries in China.

- vi. The proposed projects were delayed because of delays in funding from the local authorities, and the need to acquire additional land for the construction of the projects which did not materialise.

- vii. The advances paid to Mofeng were for the water treatment contract with and equipment supply to two companies, namely, 合作市给排水有限责任公司 and 兰州热力有限公司, which are based in Gansu province. The contracts signed amounted to RMB42.9 million and RMB92.3 million respectively. The contract for 合作市给排水有限责任公司 was terminated following the subsequent refund of RMB3.9 million received from Mofeng after the financial year end.
- viii. The Group has no business dealings with Mofeng other than the above-mentioned contracts.
- ix. For the two projects, the Group only intended to purchase certain equipment and materials from Mofeng.
- x. Management is in the midst of finalizing a settlement agreement with the supplier and expects a refund of RMB15.0 million by the end of June 2021, and the balance of RMB7.4 million by the end of September 2021, to the Company.
- xi. The Group has no further business dealing with Mofeng other than this transaction.

The Board discussed the status of the recoverability of the above advances with Executive Director, Mr Lin Baiyin, and the Chief Financial Officer at every quarterly Board meeting held in 2020. As the amount has been long outstanding and no major receipts are expected from this supplier prior to the signing of the audited accounts, the Board concurs with management to make full provision on the balance of RMB22.4 million.

Based on the work performed above, the Board is satisfied with the reasonableness of the methodologies used to compute the allowance for impairment as this basis is consistent with the Group's treatment of overdue debts of more than 3 years old, and the reason for the impairment loss. Notwithstanding the 100% allowance made which was in accordance with SFRS(I) 9, the Board continues to follow up closely with Mr Lin Baiyin to ensure full recoverability of the advances.

### **SGX-ST's query**

It was disclosed that the Company made an impairment on tender and security deposits of RMB9,574,000 (FY2019: RM1,138,000) in FY2020. In this regard, please disclose the following:-

- i. what was the probability of default considered in FY2019 and FY2020?
- ii. the identity of the supplier in Linjiang and whether it's a related party of the Group;
- iii. whether this supplier has any relationship (business, or otherwise), with any director, shareholder, employee of the Company or any of its subsidiaries;
- iv. when the advances of RM20mil to this supplier was made, when refunds of RM11mil was collected, and the terms of the advances to the supplier;

- v. whether the Group is still purchasing from this supplier even though Jilin Anjie New Energy Group Co., Ltd has been subsequently disposed and if so, please provide further details.
- vi. Please clarify if the Net Asset Value ("NAV") of Jilin Anjie New Energy Group Co., Ltd disclosed in Note 1(c)(B) has excluded the tender and security deposits that was impaired. What would the NAV of this subsidiary be, assuming the tender and deposits are not impaired? What are the implications of the disposal of Jilin Anjie New Energy Group Co., Ltd on the Group's ability to recover the remaining tender and security deposit of about RMB 9 m?
- vii. Please explain the relationship between the amount due from the supplier in Linjiang and the security deposit for the industrial wastewater contract.

### **Company's response to the SGX-ST's query**

- i. The probability of default considered in FY2019 was based on the assessment of 12 month expected credit loss and applied using China loan default loss rate of 2.23% to compute the allowance for impairment. In FY2020, however, taking cognisant of the heightened risk and uncertainty posed by COVID-19 pandemic, the probability of default was increased to a range from 10% - 40% to be applied on the aging of the debts to compute the allowance for impairment.
- ii. The name of the supplier is 吉林省裕盛中药材有限公司 ("Yusheng") and it is not a related party of the Group.
- iii. Yusheng has no relationship (business or otherwise) with any director, shareholder, employee of the Company or any of its subsidiaries.
- iv. The RMB20.0 million advance was paid in July 2018 to Yusheng, and the refunds of RMB11.0 million were received during the period from November 2019 to July 2020. The salient terms of the contract were for RMB20.0 million security deposit to be placed with Yusheng for purpose of ensuring the smooth execution and delivery of the contract by the Company. Upon commencement of the project, the Company will give a written notice for the security deposit to be refunded to the Company. Subsequently, it was agreed with the customer and Yusheng that the refund will be based on the progress of the project. The refund will be made without interest.
- v. The Group has no more business dealing with Yusheng other than this transaction.

- vi. No, the tender and security deposits impaired were included in the NAV. If there was no disposal, no impairment on the security deposit relating to the Linjiang contract, and there was also no intercompany debt written-back, the NAV of this subsidiary will be a capital deficit of RMB4.6 million. By not disposing the subsidiary, and Jilin Anjie New Energy Group Co., (“**New Energy**”) continues with its operation and pursues the security deposit of the remaining RMB9.0 million, New Energy will require more funding from its immediate holding company, Jilin Anjie Engineering Co., Ltd, to be injected into New Energy to sustain its operations because it has been loss making for many years. With the disposal, the Group will not be able to recover the security deposit of RMB9.0 million from the supplier, but the Group will recover instead the intercompany debts owing by New Energy of RMB18.1 million from the purchaser.
  
- vii Yusheng was approved by the customer to receive the initial RMB20.0 million security deposit placed by the Company for securing the industrial wastewater contract from 临江市幸福基业开发建设有限公司 in July 2018.

**SGX-ST's query**

It was disclosed that the Group made allowances for impairment of RMB4.6mil in FY2020 on Contract Assets. In this regard, please disclose the following:-

- i. the identities of the four customers and whether they have any relationship (business or otherwise), with any director, shareholder, employee of the Company or any of its subsidiaries;
- ii. whether the Company still transacts with these four customers and if so, the commercial decisions for doing so.

### **Company's response to the SGX-ST's query**

i the identities of the four customers and their outstanding balances are as follows:

	<b>2020 RMB'000</b>
甘谷县恒通城乡建设开发有限公司	439
中庆建设有限责任公司	1,297
中建三局集团有限公司**	6,654
长春城投供热有限公司	1,420
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	9,810
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The above customers do not have any relationship (business or otherwise) with any director, shareholder, employee of the Company or any of its subsidiaries.

ii The Company has no more business dealings with the above-mentioned customers once the projects are commissioned and handed over.

\*\* The Company is considering legal recourse to pursue the outstanding contract assets if payment is still not forthcoming by 30 June 2021.



### **SGX-ST's query**

Please provide the breakdown of Other liabilities of RM5,396k and RM14,778k as at 31 Dec 2020 and 31 Dec 2019 respectively and an explanation, on a line item basis, for the significant decrease in Other liabilities.

### **Company's response to the SGX-ST's query**

	<b>2020</b>	<b>2019</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Accrued purchases	2,053	5,824
Accrued salary and related expenses	2,033	3,197
Deposits from customers	-	4,314
Accrued operating expenses	1,266	1,399
Accrued welfare expenses	44	44
	<hr/> 5,396	<hr/> 14,778

The decrease in other liabilities of RMB9.4 million was attributed mainly to lower accrued purchases of RMB3.7 million which was in line with the decrease in business activities and lower accrued salary and related expense of RMB1.2 million due to payments made during the financial year for part of the outstanding salaries and related costs. In addition, the deposits from customers received in previous year of RMB4.3 million were offset against contract assets coupled with no new signing of contract in 2020 which contributed to the overall decrease in other liabilities to RMB5.4 million in 2020.

### **SGX-ST's query**

Please disclose the rationale for making significant advances to trade suppliers and the assessment of the remaining advances to trade suppliers.

### **Company's response to the SGX-ST's query**

The key reason for making advances to trade suppliers was the specific conditions imposed by the customers under the contracts. The Company has since forbidden such practice, and is limiting advance payment to suppliers to reasonable amounts based on the percentage of completion of the projects by the suppliers.

The Company is in the midst of reviewing its advances to trade suppliers, and will request for refunds from the suppliers for long outstanding projects. The Group is undergoing transformation to put in place more stringent processes to assess the viability of projects, including but not limited to the creditworthiness of the customers, the selection of approved suppliers with good track records, and the expected profit or return on the investment.

### **By Order of the Board**

Dr Lin Yucheng  
Executive Chairman and Chief Executive Officer  
10 March 2020