



**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 UNAUDITED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2021 (“1HY2021”)**

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Leader Environmental Technologies Limited (the “Company”, and together with its subsidiaries, the “Group”) refers to the unaudited financial statements of the Group for the period ended 30 June 2021 released on SGXNet on 13 August 2021. The Company would like to provide the following information in response to the queries raised by the Singapore Exchange Securities Trading Limited on 16 September 2021.

### **Query 1**

It was disclosed that the bulk of the increase in revenue was derived from the commencement of the industrial wastewater contract. Please disclose who the customer is, how long the contract is for, and the contract amounts.

### **Response to Query 1**

The customer is 天津机电进口有限公司 and the contract is scheduled for completion in 4Q2021. The relevant contract sum is RMB56.5 million, of which revenue of RMB27.8 million was recognised in 1HY2021.

Details of the contract have been announced via SGXNet on 6 January 2021.

### **Query 2**

In respect of (i) allowance for impairments on financial assets and contract assets of RMB4.3mil; (ii) allowance for impairment loss on financial assets in respect of advances to trade suppliers of RMB2.1mil; (iii) allowance for impairment loss on tender and security deposits amounting to RMB0.8mil; and (iv) write-back of impairment loss on financial assets of RMB14.9mil, please disclose the following:

- (a) Details of the allowance for impairments for categories (i) to (iv) above;
- (b) Actions to recover the amounts for categories (i) to (iv);
- (c) Amounts recovered in FY2021 that were previously impaired for categories (i) to (iv) above. Please also provide when the impairments were accounted for;

- (d) How the impairment in categories (i) to (iv) above was determined;
- (e) An update of the status of the any arrangements to recover the impairment losses and refunds received in the Company's financial results announcements;
- (f) Reasons for the allowance for impairments;
- (g) The Board's confirmation as to whether it is satisfied with the reasonableness of the methodologies used to determine the amount of impairment;
- (h) The percentage of impairment loss on financial assets that was written back and when the impairment loss was provided for;
- (i) Whether they are major customer(s) and whether the Company continues to transact with these customer(s) and if so, the commercial reasons in doing so;
- (j) The percentage of (i) financial assets and contract assets; (ii) advances to trade suppliers; and (iii) tender and security deposits that was impaired.

### **Response to Query 2**

<b>Categories</b>	<b>RMB'000</b>	<b>Actions to recover</b>	<b>Determination of impairment</b>	<b>Reasons for impairment</b>
<b>Query (a)</b>		<b>Query (b)</b>	<b>Query (d)</b>	<b>Query (f)</b>
Contract assets Allowance for both contracts of 长春城投供热有限公司 and 中庆建设有限责任公司.	1,400	The Executive Chairman and senior management are constantly following up and working closely with the Executive Director, Mr Lin Baiyin, on the recoverability of the contract and financial assets mentioned in the first column of this table. The Chief Financial Officer is also working closely with the finance team in Jilin Anjie Environmental Engineering Co.,Ltd to obtain updates on the recoverability of the debtors. Based on the work performed, a quarterly status update will be furnished to the Board.	Consistent with the previous financial year, the impairments were measured based on the probability of default approach and the expected recoverable amount is discounted using an effective interest rate with reference to the China Prime Lending Rate.  The effective rate used for 30 June 2021 was 4.35% per annum.	The allowance for impairments was based on the expected credit loss model applied on contract and financial assets which are due for more than 90 days.  This is consistent with the Group's policy and the approach adopted for the annual audit.
Advances to trade suppliers Allowance was made based on the aging of the advances.	2,110			
Tender and security deposits Allowance was made based on the aging of the tender and security deposit	828			
<b>Total</b>	<b>4,338</b>			

Write-back of impairment loss The impairment was made in FY2020.	14,940	As above	NA	Write-back of impairment loss on receipts of the refund from 敦煌市莫峰贸易有限公司 ("Mofeng").  See announcement made via SGXNet on 30 June 2021.
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- (c) The major collections in 1HY2021 relate to the refunds received from Mofeng of RMB14.9 million, and this allowance for impairment was previously provided in FY2020.

- (e) The Company will provide an update of the status of any arrangement to recover the impairment losses and refunds received in the Company's financial results announcements.
- (g) The Board concurred with the management on the reasonableness of the basis applied to determine the amount of impairment.
- (h) The percentage of impairment loss on financial assets that was written back and when the impairment loss was provided for was 66.5%.
- (i) Once the remaining outstanding projects are completed, Jilin Anjie Environmental Engineering Co., Ltd ("**Jilin Anjie**"), the company's subsidiary in Changchun, will no longer tender for and undertake any new projects. Hence, it will not have any more dealings with these customers.
- (j) The impairment allowance made as a percentage of Jilin Anjie's gross balances for (i) financial assets and contract assets was 81.8%; (ii) advances to trade suppliers was 71.8%; and (iii) tender and security deposits were 68.1%.

### **Query 3**

In respect of advances to trade suppliers of RMB6.1mil and tender and security deposits of RMB9.8mil, please disclose the following:

- (a) A breakdown of the advances to suppliers and identify the nature of each material advances to suppliers;
- (b) When the advances to suppliers were made, terms of the advances to suppliers, where applicable;
- (c) The identities of the suppliers and whether they are related parties of the Group;
- (d) How long these suppliers have been supplying goods to the Company;
- (e) Products these suppliers have been supplying to the Company;
- (f) Whether the Group has made any impairment on the advance payment to these suppliers for this financial period and whether the Group is still purchasing from them;
- (g) Nature of the tender and security deposits;
- (h) Reasons for the significant increase in tender and security deposits for 1HFY2021;
- (i) Breakdown of the tender and security deposits;
- (j) Basis for the allowance for impairment loss on financial assets in respect of advances to trade suppliers amounting to RMB2.1mil and tender and security deposits amounting to RMB0.8mil for the half year ended 30 June 2021;
- (k) What is The Company's policy of making advances to trade suppliers and whether the policy is approved by the Board of Directors;
- (l) Please disclose the rationale for making significant tender and security deposits and the assessment of the remaining tender and security deposits.

### Response to Query 3

Name of suppliers and nature of advances	Amount RMB'000	Payment date and terms of advances	Relationship with suppliers	Products supplied	Impairment made # RMB'000
(a) & (c)	(a)	(b)	(c), (d) & (f)	(e)	(f)
吉林青山绿水环境科技有限公司 - Marketing fees for promotion of the company's patented technological products	4,729	April 2019  Interest free, unsecured and repayable on demand	Unrelated to the Group and has been the Group's supplier since 2019	Service related	4,256
长春兴程自动化科技有限公司 - Payment for provision of technical support	3,669	September 2017 and March 2018  Interest free, unsecured and repayable on demand	Unrelated to the Group and has been the Group's supplier since incorporation of Jilin Anjie.	Provision of automations to the company's technological products	3,302
敦煌陇盛石业有限公司 - Payment for purchase of anti-corrosion additives	3,500	January 2020  Interest free, unsecured and repayable on demand	Unrelated to the Group and has been the Group's supplier since 2019	Anti-corrosion additives	1,740
长春远东化机有限公司 - Payment for purchase of ancillary equipment	2,862	February 2018  Interest free, unsecured and repayable on demand	Unrelated to the Group and has been the Group's supplier since incorporation of Jilin Anjie	Valves and pipeline expansion joints and other ancillary equipment relating to its dust elimination and industrial wastewater projects	2,375
吉林丰源电力环保科技有限公司 - Payment for purchase of dust elimination equipment	2,100	May 2020  Interest free, unsecured and repayable on demand	Unrelated to the Group and has been the Group's supplier since 2017	Dust elimination equipment	773
吉林省东大自动化工程有限公司 - payment for purchase of equipment	1,200	August 2020  Interest free, unsecured and repayable on demand	Unrelated to the Group and has been the Group's supplier since incorporation of Jilin Anjie.	Dust elimination and industrial wastewater equipment	575
长春市鑫磊物资贸易有限公司 - purchase of steel parts and components	1,050	September 2020  Interest free, unsecured and repayable on demand	Unrelated to the Group and has been the Group's supplier since incorporation of Jilin Anjie.	Steel parts and components	503
Others (Individual balances < RMB1.0 million)	2,531		All unrelated to the Group		2,024
TOTAL	21,641				15,548
Less: allowance for impairments	(15,548)				
Net	<u>6,093</u>				

# The allowance for impairments was based on the expected credit loss model applied on contract and financial assets which are due for more than 90 days. This is consistent with the Group's policy and the approach adopted for the annual audit. During the 6-month for the financial period ended 30 June 2021, the Group made a further impairment allowance of RMB 2.1 million based on the aging profile of the above balances.

(g&i) The breakdown of the tender and security deposits and their nature are as follows:

		Amount	Impairment made	Net
Customer/name of projects	Nature of payments	RMB'000	RMB'000	RMB'000
			(j)	
天津机电进口有限公司 – Shijiazhuang project	Deposit for a performance bond	8,069	-	8,069
兰州七里河污水, 和政污水, 长春热力, 九台热力 and 宽甸满族自治县亿源热力有限公司	Tenders for industrial waste-water and dust elimination projects	2,495	(1,699)#	796
Rental, electricity and renovation deposits etc		969	-	969
<b>Total</b>		<b>11,533</b>	<b>(1,699)</b>	<b>9,834</b>

# RMB 0.8 million was made in the 6-month financial period ended 30 June 2021.

(h) The significant increase in tender and security deposits was mainly due to the issuance of a performance bond for the Shijiazhuang project amounting to RMB8.1 million.

In accordance with the terms of the contract, 天津机电进口有限公司 has, in February 2021, made an advance payment of RMB17.0 million to the Group.

(j) The allowance for impairment loss was measured based on the probability of default approach and the expected recoverable amount is discounted using an effective interest rate with reference to the China Prime Lending Rate. The effective rate used for 30 June 2021 was 4.35% per annum.

The allowance for impairments was based on the expected credit loss model applied on contract and financial assets which are due for more than 90 days. This is consistent with the Group's policy and the approach adopted for the annual audit.

(k) The advances to trade suppliers relate to advance payments made to trade suppliers for engineering, procurement and construction (“EPC”) contracts. The advances to trade suppliers are made mainly for customised items that require long lead time to manufacture and produce. Advances were made to trade suppliers in previous financial years for the following reasons:

(i) the items purchased from trade suppliers must be customised to meet the needs of specific projects. Suppliers would require advances in order to commit to the production schedule of these customised items; and

(ii) some customers impose a requirement on the project bidders to make advances to the customer-appointed supplier(s) during the bidding stage or upon signing of the contract so as to ensure that the bidder would be capable of providing the required initial capital to facilitate timely delivery of items to project sites and to complete the project on a timely basis.

In the light of the credit risks exposures, the Board undertook a review and proposed the following policy in FY2015:

The Board resolved that all payments, whether in advance or in arrears, to any single supplier above RMB10.0 million will require prior approval from the Board. The management had also been asked to exercise more stringency in accepting customer contracts. Upfront collection of customer deposits will be a precondition to the undertaking of new projects. Advances to suppliers will be proscribed unless under compelling circumstances which the Board is apprised of.

Following the strategic review and with the appointment of Dr Lin Yucheng as Executive Director on 8 June 2020, and subsequently as the Executive Chairman and Chief Executive Officer on 1 January 2021, it was unanimously agreed by the Board that the Group will reduce its reliance on stand-alone EPC projects for income, and that advances to suppliers should be minimised when embarking on any environmental related projects.

During the course of his work, Dr Lin Yucheng also proposed the tightening of the internal controls with regard to payments to be made by Jilin Anjie. Any payments to a single person or corporate amounting to RMB500,000 or more will require his authorisation and approval before any payment can be made, and his proposal was approved by the Board. In addition, Board's approval is required for any payments exceeding RMB5.0 million.

- (l) As mentioned in our responses on (h), the significant increase in tender and security deposits was due to the issuance of performance bond in respect of the industrial wastewater project in Shijiazhuang. The project is scheduled for completion in 4Q2021. Once the project is commissioned and certified, the deposit for the performance bond will be refunded to the Company.

As for the assessment of the remaining tender and security deposits, it was mentioned in our earlier responses to SGX's query 2 (i) that Jilin Anjie is working on the refunds since it is unlikely to embark on these potential projects.

#### **Query 4**

In the Company's response to our queries on its full year results for FY2020, it was disclosed that the Company made a specific allowance on 敦煌市莫峰贸易有限公司 ("Mofeng") in Dunhuang with outstanding balance of RMB22.4mil fully provided for. In this regard, please clarify the following:

Query	Response
(a) Identify the directors and shareholders of Mofeng in July 2016 and any changes till now (if any).	<p>Our Executive Director, Mr Lin Baiyin, who is the primary contact with Mofeng, has confirmed that Zhan Wenbing (詹文斌) and Yu Guohua (余国华) are the shareholders of Mofeng, owning 80% and 20% respectively of the shareholdings in Mofeng since July 2016 till now.</p> <p>There is no board of directors established by Mofeng. The legal representative, Zhan Wenbing, also acts as the executive director of Mofeng. This has remained unchanged till now.</p>
(b) Were the two projects which were based on fixed amounts of advances amounting to RMB11.5 million and RMB28.5 million respectively disclosed via SGXNet? If so, please provide a copy of the announcements.	<p>The two projects were not disclosed in stand-alone announcements via SGXNet, as they were deemed to be in the ordinary course of the business of the Company, and immediate announcement of securing of contracts is not a specific requirement under the SGX Listing Manual. However, the aforesaid contracts and their status updates were specifically disclosed in the Company's Annual Report from FY2016 to FY2020.</p>
(c) Provide an update of the status of the settlement agreement and amount of refunds received to date;	<p>A settlement agreement was arranged with Mofeng for the final and full settlement of RMB22.4 million during March 2021. Under the agreement, Mofeng agreed to settle the outstanding amount in 2 tranches.</p> <ol style="list-style-type: none"><li>1. First tranche - RMB 15.0 million before 30 June 2021; and</li><li>2. Second tranche - RMB 7.4 million before 30 September 2021.</li></ol> <p>The Company has received the first tranche of payment of RMB14.94 million.</p>
(d) How much is the outstanding balance?	<p>The outstanding amount is RMB7.5 million.</p>

#### **Query 5**

In the Company's response to our queries on its full year results for FY2020, it was disclosed that the Company made an impairment on tender and security deposits of RMB9.5mil in FY2020 to 吉林省裕盛中药材有限公司 ("Yusheng"). Please identify the directors and shareholders of Yusheng in July 2018 and any changes till now (if any).

### **Response to Query 5**

The company's Executive Director, Mr Lin Baiyin, who is the primary contact with Yusheng has confirmed that Anwei (安伟) and Liuyun (刘云) are the shareholders of Yusheng, owning 95% and 5% respectively of the shareholdings in Yusheng from July 2018 till 10 December 2020. On 11 December 2020, Liu Yun transferred her 5% stake to Shang Youjun (尚友君). There is no board of directors established by Yusheng. The legal representative, Anwei, also acts as the executive director of the company. This has remained unchanged till now.

### **Query 6**

In the Company's response to our queries on its full year results for FY2020, it was disclosed that the Company is in the midst of reviewing its advances to trade suppliers and will request for refunds from suppliers for long outstanding projects. In this regard please provide the following:-

- (a) Details of long outstanding projects;
- (b) How does the Company determine what constitutes a long outstanding project;
- (c) Whether the review is internal or external;
- (d) Key details of this review and conclusion of the review;
- (e) Details of the stringent processes were put in place to assess the viability of the projects.

### **Response to Query 6**

- (a) Jilin Anjie, the wholly-owned subsidiary, has five remaining long outstanding projects as at 30 June 2021, and their details are as follows:

	<b>Amount RMB'000</b>
<b><u>Contract assets</u></b>	
甘谷县恒通城乡建设开发有限公司	452
中庆建设有限责任公司	1,297
中建三局集团有限公司	6,175
长春城投供热有限公司	1,730
Total	<u>9,654</u>
<b><u>Contract liabilities</u></b>	
江西洪明建筑工程有限公司	(1,192)
Net	<u>8,462</u>

- (b) Project which is of more than one-year duration and without any major progress made constitutes a long outstanding project.



- (c) The review is performed internally by the management on a quarterly basis and by the external auditors during each annual audit. The material advances which are long outstanding will be identified and brought up for discussion during the management meeting with the Executive Director, Mr Lin Baiyin. For those projects which are deemed to be no longer viable, the Executive Chairman, Dr Lin Yucheng, will request that action be taken by Mr Lin Baiyin to request for refunds from these suppliers. The Chief Financial Officer will then follow up closely with the finance team in China and will keep the management updated on the status regularly. The Board will also be updated on the status of the recoverability in every quarter during the Board meeting.

Under such a review process, the Group managed to, from FY2020, reduce its advances to trade suppliers and third party, reduce its security and tender deposits, and improve its overall cash position to repay in full its bank borrowings of approximately RMB24.0 million in 1Q2021.

- (d) Apart from the discussion on the collections from Mofeng, the review exercise conducted previously was focused on the above-mentioned projects as these remaining projects are either completed or substantially completed, and still pending the commissioning and handing over to the customers. Upon completion of the final milestone, only will Jilin Anjie be able to establish the final settlements with the respective trade suppliers, and to set off against any deposits or advances made previously. Jilin Anjie will take appropriate actions to recover any outstanding balances and advances not related to the above-mentioned projects.
- (e) On the viability of future projects to be entered into, board papers will be prepared and presented by the Chief Executive Officer and/or the Deputy Chief Executive Officer, providing the financials, expected internal rate of return, profitability, funding, rationale and justifications to the Board for review, evaluation and approval. A quarterly update will then be furnished to the Board on the contracts which have been entered into.

#### **Query 7**

Please provide an explanation as to why interest income amounted to only RMB0.2mil for the first half year ended 30 Jun 2021 when the Company has significant cash and cash equivalents of RMB34.9 million.

#### **Response to Query 7**

The Group has maintained current accounts of approximately RMB10.6 million in Singapore banks which pay zero interest. In addition, receipts of RMB8.0 million were only collected on 29 June 2021 which earned minimal interest income in 1HY2021.

### **Query 8**

In respect of the Group's Accrued purchases of RMB11.6mil in HY2021, please disclose the following:-

- (a) What is meant by accrued purchases?
- (b) How is "accrued purchases" different from trade payables and other payables?
- (c) Reasons for the increased in Accrued Purchases, from RMB2.1mil in FY2020 to RMB11.6mil in HY2021.

### **Response to Query 8**

- (a,b) Accrued purchases pertain to accrued payable on raw materials and equipment received from trade suppliers which tax invoices have yet to be received. Upon receipt of invoices, accrued purchases will then be reclassified as trade payables.
- (c) The increase was mainly attributed to the procurement of equipment and system of approximately RMB9.9 million for the industrial wastewater project in Shijiazhuang. Details of the contract have been announced via SGXNet on 6 January 2021.

### **Query 9**

Please provide the reason(s) for the significant Trade and other payables of RMB29.2mil when the Group recorded cash and cash equivalents of RMB34.9mil.

### **Response to Query 9**

Trade and other payables comprised trade payables of RMB19.6 million, non-trade payables of RMB2.3 million, advances from Directors of RMB6.8 million to finance the working capital of the Company, and VAT and other tax payables of RMB0.5 million. The reason for the significant trade payables was due to delays in payments to certain suppliers as some of the contracts entered into were signed back-to-back with our customers' contracts. Hence, if the collections from customers were to be delayed, the Group will also delay payments to the suppliers. Notwithstanding the delays in payments, the amount of trade and other payables had decreased by RMB12.2 million as compared with the amount as at 31 December 2020.

**BY ORDER OF THE BOARD**

Dr Lin Yucheng  
Executive Chairman  
21 September 2021