



Securities Investors Association (Singapore)

7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111

Tel: (65) 6227 2683 Fax: (65) 6220 6614

Email: admin@sias.org.sg www.sias.org.sg

UEN No: S99SS0111B

GST Reg No: M90367530Y

Issuer: Leader Environmental Technologies Limited

Security: Leader Environmental Technologies Limited

Meeting details:

Date: 30 April 2019

Time: 10.00 a.m.

Venue: RELC International Hotel, Tanglin Room 2, Level 1, 30 Orange Grove Road, Singapore 258352

Company Description

Leader Environmental Technologies Limited is a China-based investment holding company. The Company is engaged in the research and development, design, manufacturing, assembly, installation and support services of environmental protection systems for industrial wastegas emissions and wastewater treatments. Its segments include Industrial wastegas treatment, which provides treatment solutions for the elimination of dust and desulfurization from the emission of industrial wastegas; Industrial wastewater treatment, which provides treatment solutions for the removal and reduction of pollutants in the wastewater; Design, technical services and other, which include technical drawings, as well as the specifications of the systems to be manufactured and installed, and Operation and maintenance, which offers operational and maintenance services to the customers on the projects and equipment constructed by the Company. The Company operates in the Northern region of the People's Republic of China.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=LS9)

Q1. Revenue for the group decreased by 55% from RMB119.8 million to RMB53.8 million for the financial year ended 31 December 2018. The group ended the year with a loss of RMB(10.3) million, slipping from a profit of RMB13.4 million a year ago.

The group disclosed that it has an order book of approximately RMB89.4 million and it intends to target larger scale industrial wastegas and wastewater contracts. The group recognised that a key priority is to improve its cash flow and to strengthen its overall cash position.

- (i) Would the board/management elaborate further on the reasons for the difficulty in securing new projects and the drop in revenue? With the stricter enforcement and further tightening of environmental laws by the PRC government, were there not more projects available to be tendered for?**
- (ii) What are the specific opportunities in the large scale industrial wastegas and wastewater segment that the group is looking to tender for in the next 12-18 months?**
- (iii) Can the company explain the group's technological edge and its value proposition to the potential clients?**
- (iv) How does the group ensure that projects tendered for provide the group with sufficient and fair margin for the group?**
- (v) Does the group have sufficient working capital to fund its projects? Cash and cash equivalents amounted to RMB10.5 million as at 31 December 2018 and the group already has a high gearing ratio of 79.9% (page 119).**

Q2. On 5 December 2018, the company announced that its key subsidiary successfully renewed its loan facilities from China Merchants Bank in respect of a loan amount of not more than RMB55.0 million for a one year tenure commencing from 21 November 2018. In addition, the group obtained unsecured loans of RMB6.5 million and RMB3.7 million, comprising interest free loan and interest charge of 10.0% per annum respectively from certain third parties.

- (i) Who is the third party that provided the group with interest free loan?**
- (ii) What is the interest rate of the loan from China Merchants Bank?**
- (iii) Has the board evaluated the group's cost of capital? With the new loans renewed at average interest rate of 9% in 4Q2018, how much profit margin is left?**

- (iv) **Given that the group has to fund projects with its own working capital, has the group considered alternate ways of finding the projects, including structuring in more milestone payments and upfront payment by the customer?** The issue of large repayment is also the subject of a SGX-ST query dated 20 March 2019.
- (v) **As the cycle of the projects tends to be long (i.e more than a year), does the board consider it appropriate to fund its working capital with short term funds from the bank?**
- (vi) **Would the board evaluate how it could further strengthen its capital structure so that it could support the group's activities and growth?**

Q3. In the Corporate Governance Report, under Principle 13: Internal audit (page 39), the company stated the following regarding the internal audit function:

Internal Audit

Principle 13: *The Company should establish an effective internal audit function that is adequately resourced and independent of the activities it audits*

The Company currently does not have a separate internal audit function. The Audit Committee will, as and when necessary, make an assessment and then recommend to the Board the appointment of internal audit professionals (with the requisite qualifications and experience) to undertake the internal audit function of the Group for the relevant financial years. The internal audit professionals will report primarily to the Audit Committee. The internal audit plan will be submitted to the Audit Committee for approval prior to the commencement of the internal audit and the Audit Committee will oversee and monitor the implementation of improvements as required. The appointed internal audit professionals shall have unfettered access to all the company's documents, records, properties and personnel, including access to the Audit Committee. The Audit Committee shall, at least annually, review the adequacy and effectiveness of the internal audit function. The Audit Committee reviewed the internal audit function and noted necessary co-operation were provided by the Management to enable the internal auditor to perform its function. After reviewing the internal auditors' reports and actions implemented by Management, the Audit Committee is satisfied that the internal audit functions are adequate and effective.

(Source: Company annual report)

Elsewhere in Principle 11: Risk management and internal controls (pages 32 and 33), the company has also said the following:

The Audit Committee has also appointed MS Risk Management Pte Ltd in November 2018 to review Jilin Anjie Engineering Co., Ltd's internal controls of the Purchases to Payment Process including Prepayments. These business processes have been identified by the Audit Committee, upon discussion with management as most critical to the operations of the Group's most significant operating subsidiary. The review work has been completed as of the date of this report and the draft internal audit findings highlighted the following three significant internal controls deficiencies which required immediate remedies:

(i) Approval for Use of Official Seals and Custodianship

The use of the Company Seal and Contract Seal is to be approved by the respective heads of departments currently. The internal auditors is of the opinion that the current designated approving personnel are inappropriate as the Company Seal can be used for all legal documents and supplants all the functions of other Official Seals such as Contract Seal, Finance Seal, Legal Seal, except for the Customs Seal and the Invoice Seal....

(ii) Enhancement on the Segregation of Duties within the Finance Team

The internal auditors noted that the Accounts Supervisor was tasked to perform both keying in and approval of journal entries. The lack of proper segregation of duties may lead to weak check and balance that may result in material misstatement of financial statements....

(iii) Enhancement on the process to release payment in bank portal

Our CEO has delegated the authority to release payment in the bank portal to his personal assistant ("PA") single-handedly and without limits. As the releasing of payment request in the bank portal is deemed reviewed and approved, the internal auditors is of the opinion that there may be a lack of accountability over the good corporate governance practices within the Company. Notwithstanding, the internal auditors have not noted any anomaly in the course of their review....

Apart from the above highlighted control weaknesses, there were also other controls improvement recommendations proposed by the internal auditors in their draft internal audit report.

- (i) Can the board confirm that while it does not usually have an internal audit function, the audit committee specifically engaged MS Risk Management Pte Ltd in November 2018 (on an ah-doc basis) to review Jilin Anjie Engineering Co., Ltd's internal controls?**
- (ii) Would the audit committee help shareholders understand their oversight and monitoring of the group's risk management and internal controls in the past?**
- (iii) Going forward, how closely will the audit committee be working with management to address the issues raised in the internal audit?**

- (iv) Would the audit committee be shortlisting and selecting an internal auditor on a permanent basis? How soon can an internal auditor be appointed? Would the audit committee be announcing the appointment of an internal auditor on SGXNet and disclosing the scope of work of the internal auditors for FY2019?**

A copy of the questions for the Annual Report for the financial year ended 31 December 2016 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Leader%20Environmental%20Technologies%20Ltd&cid=6412,4266>

The company's response could be found here: -----