



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)

RESPONSE TO SECURITIES INVESTORS ASSOCIATION (SINGAPORE)'S ("SIAS") QUESTIONS ON THE COMPANY'S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

The Board of Directors of Leader Environmental Technologies Limited ("**Company**") refers to the following questions raised by SIAS on the Company's Annual Report for the financial year ended 31 December 2020, and wishes to respond to the questions as follows:

Q1. As highlighted in the chairman's statement, the group carried out a strategic review in June 2020 and it aims to transform into a technology-driven environmental solutions provider by expanding its business focusing on municipal sludge management, industrial wastewater treatment using membrane technologies, and production of equipment widely used in the sludge and water treatment segments.

The group will also focus on building up revenue streams that are recurring in nature.

The group had carried out two fund-raising exercises – a private placement in May 2020 to raise \$1.7 million for working capital; and a rights issue in September 2020 to raise \$8.6 million for investments and acquisitions.

Dr Lin Yucheng took on the role of executive chairman and chief executive officer on 1 January 2021. The group has secured an industrial wastewater treatment project in Shijiazhuang and a municipal sludge build-operate-transfer ("BOT") project in Tianjin of approximately RMB119.0 million. This is the maiden BOT project which will provide the group with 25 years of recurring income.

- (i) Would the new executive chairman and CEO be presenting to shareholders his vision for the group and his priorities for the next 18-24 months? What was Dr Lin Yucheng's input to the strategic review given that Dr Lin was only and newly appointed in June 2020?

Answer:

Upon Dr Lin Yucheng's appointment as the Company's Executive Chairman and Chief Executive Officer ("CEO") on 1 January 2021, he had provided shareholders with glimpses of his vision and priorities via the presentation slides titled "General Introduction to Company's Business Plans". The slides were uploaded onto SGXNet on 18 January 2021 for shareholders' information. Dr Lin has been working on the transformation plans so as to crystallise his vision and plans for the Company, and he will share the details with shareholders via our investor relations programme.

Dr Lin Yucheng has been working in the environmental sector, especially in China, for more than 30 years. Prior to joining the Company, he founded CITIC Envirotech Ltd, formerly known as United Envirotech Ltd., and successfully transformed the SGX mainboard-listed company into a vertically-integrated environmental solutions provider with a market capitalization of more than S\$1 billion.

In spite of his short tenure as an Executive Director and subsequently as CEO of the Company, Dr Lin is able to offer valuable insights into the environmental businesses, especially in China. Based on his assessment of the Company, he commented that the existing business model of the Company relies too heavily on non-recurring and engineering, procurement and construction projects which contributed to the Group's lumpy earnings over the years. The business concentrates solely on the far Northern regions of China where the business environment has become more challenging in recent years. He provided the Board with his recommendations and the rationale to rebalance the revenue streams, and some of his inputs can be found in the SGXNet announcement on the "Outcome of Strategic Review and appointment of ED" dated 8 June 2020.

- (ii) Can management help shareholders understand if the group has the expertise and technical skills to execute on the new projects, especially in sludge treatment?

Answer:

As highlighted on page 7 of the aforesaid presentation slides, it was mentioned that the Company now owns 9 patented sludge treatment technologies after the acquisition of Bituo Environmental Technologies (Tianjin) Co., Ltd., and given the short period of time, it has clearly demonstrated to its customers during the tender process, its capabilities and abilities and that it has the proven and effective technologies to solve the industrial wastewater and sludge-related problems, which culminated in the award of an industrial wastewater treatment project and a municipal sludge build-operate-transfer ("BOT") project in Tianjin totalling approximately RMB119.0 million

As part of the transformation plan, the Group is focusing on technology to drive the business. The Group has assembled a team of technical engineers with the relevant pre-requisite experience, knowledge and skill sets.

- (iii) Has the integration of Bituo Environmental Technologies (Tianjin) Co., Ltd. been completed? How did the group assess the technical capability of Bituo which is an environmental technology company specialising in municipal sludge treatment?

Answer:

Yes, the integration of Bituo Environmental Technologies (Tianjin) Co., Ltd. (“Bituo”) was completed.

As part of the investments, mergers and acquisitions process, the Investment Committee of the Company will have to be satisfied with the due diligence on the project/target company, which includes the technical due diligence. The Company noted that Bituo’s continuous thermal hydrolysis technology can reduce the water content of sludge to 30-40% and generate dried sludge with higher heating value. This improves the overall energy recovery of the sludge treatment process and brings significant cost savings. The Company believes Bituo’s technologies complement the Company’s sludge treatment business and its acquisition will add synergies to the Company.

- (iv) In addition, on 14 April 2021, the company announced that it has recorded pretax losses for three financial years. What are management’s plans to return the group to profitability?

Answer:

The Company is staying focussed, currently working on its transformation plans to turn itself into a high-tech environmental treatment service provider. Barring unforeseen circumstances, the Company strongly believes that the focus on business activities in respect of industrial wastewater, sludge treatment, production of high performance membrane, and greentech investments - which require high technical know-how and technologies - will generate positive returns to the company.

2. As noted in the corporate governance report, Mr Lim Kuan Meng and Mr Lee Suan Hiang were appointed to the board on 8 June 2020 and 16 July 2020 respectively.

The profiles of the directors can be found on pages 11 to 13 of the annual report.

Mr Lim is currently the managing partner of Pinnacle Partnership LLP and JB Chua & Co. In his previous role in a Big 4 accounting firm, he was involved in multiple engagements, including with Citic Envirotech Ltd (previously known as United Envirotech Ltd). He is also an independent non-executive director of Triyards Holdings Ltd, which is currently placed under Judicial Management (page 28) and was on the board of Falcon Energy Group Limited as an independent non-executive director.

Mr Lee Suan Hiang holds directorships in several listed companies, including Viking Offshore & Marine Ltd. His previous directorships include CITIC Envirotech Ltd. and United Engineers Limited (page 13). On page 33, it was also disclosed that Mr Lee received a “supervisory warning” from the MAS in May 2015 for failing to notify a listed corporation (of which he was a director) of changes in his interest in the securities of the

incorporation within two business days of acquisition of the interest, as required under Section 133 of the Securities and Futures Act, Chapter 289 of Singapore.

- (i) Would the board help shareholders understand the search and nomination process for directors, especially for independent directors? It is noted that the two newly appointed directors were both associated with CITIC Envirotech Ltd in various capacities, as is the newly appointed executive chairman and CEO.

Answer:

During 2020, two of the board members, namely, Independent Director and Audit Committee Chairman, Mr Goh Kay Seng Edwin, and Independent Director and Nominating Chairman, Mr Liu Kaiyi, stepped down on their own accord. The Board identified the need to fill the two vacant independent director positions, one candidate with accounting and finance background and one with some knowledge of environmental business. The Board approached several potential suitable candidates, and after several rounds of discussions and interviews, Mr Lim Kuan Meng and Mr Lee Suan Hiang were shortlisted and appointed by the Board. Although Mr Lim Kuan Meng and Mr Lee Suan Hiang were previously associated with Citic Envirotech in various capacities, there was nothing negative noted by the Board during its review, coupled with searches performed on the SGX'S records, to suggest that they are in any way improper or not suitable to act as Independent Directors of the Company.

The other independent director, Mr Mak Yen-Chen Andrew, was appointed on 21 June 2010 and has served on the board for more than 9 years. Mr Mak is also an independent director of Falcon Energy Group Limited, which is court protection from creditors (page 28).

- (ii) Do the independent directors have the appropriate balance and mix of skills, knowledge, experience, especially in wastewater/sludge treatment industry in China, to engage in effective and constructive debate with the executive directors?

Answer:

The three independent Directors have wide experience both as professionals and as independent directors on listed boards. Mr Lim Kuan Meng is a practising accountant. Mr Mak Yen-Chen Andrew is a practising lawyer whose professional areas include listed company work, corporate governance, and cross-border transactions. Mr Lee Suan Hiang is a former senior civil servant with many years of working experience in statutory boards involved in economic development including environmental technologies. Mr Lee was also Chairman of technology-related PSB Corporation and Chief Executive of the former Singapore Institute of Standards and Industrial Research. Collectively, the independent directors have a good mix of skill sets and experience needed to engage in effective and constructive debate with the executive directors.

- (iii) How does the current board composition create a board culture with high level of independence, diversity of thought and high propensity to avoid groupthink?

Answer:

To create a board culture with high level of independence, diversity of thought and high propensity to avoid groupthink, the current Board has adopted the following practices:

- (i) The Independent Directors appointed are not in any way related to the Company, its related corporations, officers, or its substantial shareholders with shareholdings of 5% or more voting shares of the Company.
- (ii) The Independent Directors hold internal discussions without the presence of Management on any sensitive issue affecting the Company. They will abstain from discussions or voting on any matter where there is conflict of interests between their duties as director of the Company and their other interests.
- (iii) The Independent Directors do not accept what is presented to them by Management at face value, but will raise relevant questions to understand the subject matter before making a decision.
- (iv) From time to time, the Independent Directors also offer their views, perspectives and suggestions to the Company for consideration during the review of business proposals and plans.
- (v) The Independent Directors will also constructively challenge one another with the sole objective of acting in the best interest of the Company.

Q3. On 14 April 2021, the company announced that there are material variances between the unaudited financial statements and the audited financial statements for the financial year ended 31 December 2020 following the finalisation of audit.

The announcement on unaudited financial results for the financial year ended 31 December 2020 was first released via SGXNet on 1 March 2021. The announcement on material variance came more than 6 weeks after the company first announced the unaudited financial statements.

The changes following the finalisation of audit include: - Impairment loss on financial assets and contract assets increased by \$(45.7) million - Other expenses reduced by \$(45.9) million to \$(2.8) million

The company announced material discrepancies between the unaudited and the audited financial statements for the past three financial years, i.e. financial year ending 31 December 2020, ending 31 December 2019 and ending 31 December 2018.

(Source: www.sgx.com)

- (i) Is the group and its officers familiar with the Singapore Financial Reporting Standards (International) (SFRS(I))?

Answer:

The Group and its officers are familiar with the Singapore Financial Reporting Standards (International) (SFRS(I)) or its equivalent the International Financial Reporting Standards, And where needed, the finance team stand guided by its auditors for presentation and for clarity on complex accounting issues.

The announcement on the material discrepancies between the unaudited financial statements on 1 March 2021 and audited financial statements on 14 April 2021 were due to:

- a. The reclassification and presentation of the allowance for impairments to be shown as a line item on the face of the consolidated statement of profit or loss and other comprehensive income. This would "tied" to the presentation as per the audited financial statements instead of combining them under other operating expenses in the unaudited financial statements.
- b. Accounting for the premium paid on acquisition of non-controlling interests amounting to RMB 170,000 as part of the movement in equity upon disposal of the subsidiary, and not as part of the gain/loss on disposal of subsidiary. This has been adjusted by the auditors in the financial statements.

In view of the above, the audited loss after taxation was RMB64,858,000 instead of the RMB65,028,000 as previously announced.

For the previous two years in FY2018 and FY2019, the discrepancies arose due to the availabilities of additional information subsequent to the announcement of the unaudited results which resulted in the change in the basis to the profit and cash flow forecast and applications of expected credit loss model on financial assets and contract assets. Consequently, additional adjustments were required to increase the allowance for impairment on the investments in subsidiaries and financial assets and contract assets in FY2018 and FY2019 respectively.

- (ii) How can shareholders get assurance from management that the financial statements are prepared in accordance with the relevant Act and financial reporting standards?

Answer:

In 2020, the Group has strengthened its finance department by the recruitment of a finance director and several finance managers. Currently, the CFO has sufficient support from these finance personnel both in Singapore and China. Both the CFO and the finance personnel are required to regularly attend continuous training update of accounting standards and update of Act as conducted by the relevant regulatory authorities. The finance team will also work closely with the external auditors to ensure that the FS prepared is not materially misstated and comply with the relevant Act and financial reporting standards.

- (iii) Has the audit committee (AC) evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?

Answer:

With the additional finance headcount added, the AC has reviewed their background and concurs with the Management that the finance team is sufficiently resourced with experienced and qualified staff.

- (iv) What changes have been made/will be made to the group's financial reporting systems and processes? Will the AC be taking ownership to oversee the improvement of the financial reporting function?

Answer:

Please refer to point 3(ii) above for the changes.

The Management takes full responsibility for the financial statements and is committed, and will work closely with the AC to strengthen its financial reporting function.

By Order of the Board

Dr Lin Yucheng
Executive Chairman and Chief Executive Officer
30 April 2021