Leader Environmental Technologies Limited

# PARALLELED GROWTH WITH NATURE

ANNUAL REPORT 2014

# CONTENTS



We are a comprehensive one-stop environmental solutions provider.

# CORPORATE INFORMATION

## Board of Directors

**Lin Baiyin (林柏银)**
Executive Chairman and Chief Executive Officer

**Zang Linying (臧林颖)**
Executive Director and Finance Director

**Lee Gee Aik (李宜益)**
Lead Independent Non-Executive Director

**Mak Yen-Chen Andrew (麦迎程)**
Independent Non-Executive Director

**Zhai Guihua (翟桂华)**
Independent Non-Executive Director

## Audit Committee

**Lee Gee Aik (Chairman)**
**Mak Yen-Chen Andrew**
**Zhai Guihua**

## Nominating Committee

**Zhai Guihua (Chairman)**
**Lin Baiyin**
**Lee Gee Aik**

## Remuneration Committee

**Mak Yen-Chen Andrew (Chairman)**
**Lee Gee Aik**
**Zhai Guihua**

## Company Secretaries

**Lim Poh Yeow, FCCA**
**Chia Foon Yeow**

## Registered Office

36 Armenian Street #06-12
Singapore 179934

## Share Registrar

M&C Services Private Limited
112 Robinson Road #05-01
Singapore 068902

## Principal Place of Business and Contact Numbers

Room 1303
No. 5445 Lin He Street
Economic Development Zone
Changchun City, Jilin Province
The People's Republic of China ("PRC")
Postal Code: 130033
Telephone : (86) 431 8678 7555
Facsimile : (86) 431 8678 5550

## Auditors

Foo Kon Tan LLP (formerly known as Foo Kon Tan Grant Thornton LLP)
Public Accountants and
Chartered Accountants
47 Hill Street #05-01
Singapore Chinese Chamber of Commerce & Industry Building
Singapore 179365
Partner-in-charge: Chang Fook Kay
(Year of appointment: with effect from the financial year ended 31 December 2012)

## Principal Bankers

Bank of Communications, Changchun Branch,
High-Tech Development Zone Sub-Branch
(交通银行长春分行高新技术开发区支行)
2601 Tongzhi Street
Changchun City, Jilin Province
The People's Republic of China

China Merchants Bank Co. Ltd., Changchun Branch
(招商银行股份有限公司长春分行)
1177 Freedom Road
Changchun City, Jilin Province
The People's Republic of China

# CORPORATE PROFILE

**We are an environmental protection solutions provider in the PRC and are principally engaged in the research and development, design, manufacturing, assembly, installation and support services of environmental protection systems, primarily for industrial wastegas emissions and wastewater treatments.**

We operate mainly in the Northern regions of PRC as these regions are severely affected by heavily polluted air. Our head office and manufacturing facility are located in Changchun City, Jilin Province. We also have representative offices located in the northern regions of the PRC, namely, Lanzhou, Urumqi and Shenyang to service our customers.

For the first time since FY2012, we also undertook operation and maintenance works on behalf of a customer who preferred to outsource its non-core activity to environmental specialists like us. We managed to increase the efficiency in operating and maintaining the systems and the contract was renewed for another year.

With the success in the development of the de-nitrification technology which we have tried and tested it on a small scale project, we have now a complete range of industrial wastegas technologies to address the dust particles, sulphur dioxides and nitrogen oxides emitting from the burning of coal from power plants, industrial boilers, heat supply systems and sintering machines. These would provide us with a competitive edge over our competitors during the tendering of the industrial wastegas contracts.

# COMPREHENSIVE ONE-STOP SOLUTIONS PROVIDER


# SYSTEM AND TECHNOLOGIES

## DUST ELIMINATION

**LFDM Series Dust Elimination Equipment with Low-Tension Pulse Fabric Filter attached with U-Type Setting Room and Built-in Bypass Flue**

- This technology was recognised by the Jilin Province Association of Environmental Protection Industry (JAEPI) as the 2007 Jilin Province's Key Environmental Protection Technological Method (Category B).

**Dust Elimination Equipment with Pulsating Rotary Positioning Mechanism**

- This technology was successfully awarded the invention patent on 10 December 2014.

**BFS Series Dual In-Line Amplitude Modulated Component for Flat Fabric Filter**

- This technology was certified with the Environmental Protection Product Assurance Certification issued by the JAEPI.

**SHG-II Wet Desulphurization Dust Elimination Equipment**

- A simple and compact system which combines the process of desulphurization and dust elimination.

## DESULPHURIZATION

**Dual Source Semi-Dry Material Circulating Fluidised Bed Flue Gas Desulphurization**

- This technology was conferred the "Energy Conserving and Discharge Reducing Key New Technological Product in the PRC" by the Energy Resources and Environmental Professionals Committee of All-China Environment Federation.

**Double Alkali Desulphurization and Magnesium Oxide Desulphurization**

- 2 new in-house developed technologies which meet the standards set by the Ministry of Environmental Protection of the PRC suitable for large-scale heat-supply companies based in the northern region of the PRC that utilise industrial boilers (which emits from 35 to 220 tonnes of steam per hour) in their heat-supply systems.

## DENITRIFICATION

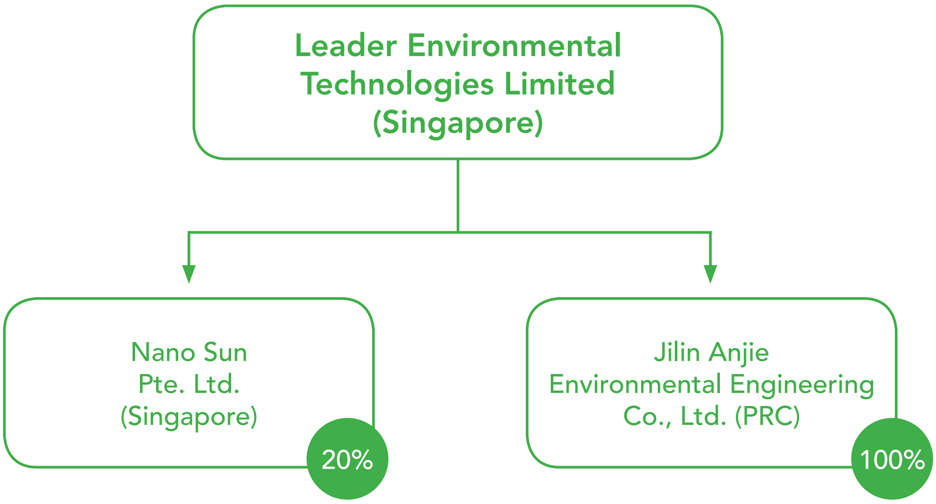
**The PRC government has placed greater emphasis on denitrification in its Twelve Five Year plan (2011 – 2015)**

- The emission requirement has become more stringent and based on the Emission Standard of Air Pollutants for Thermal Power Plants issued by the Ministry of Environmental Protection of the PRC and the General Administration of Quality Supervision, Inspection and Quarantine of the PRC, the emission of nitrogen oxides ("NOx") from thermal power plants in the PRC should not be more than 100mg/$m^3$. This presented a new business opportunity to the environmental protection companies. In response to this, we have developed our own in-house technology which adopted the selective non-catalytic reduction ("SNCR") method to remove NOx from flue gas, which we have tested successfully on a small scale project and this additional track record will give us an added advantage when we tender for large scale projects.

# REFLECTION OF OUR TRUE COLORS

At Leader, we continue to capitalize on our strong research and development capabilities as our investment for the future and the environment. We are focused on developing patented proprietary environmental protection systems and technologies, making us a comprehensive one-stop environmental solutions provider in the PRC.

# GROUP STRUCTURE




The following is the sole subsidiary in our Group:

| Subsidiary | Date and Place of Incorporation/ Establishment | Principal Activities | Principal Place of Business | Registered Capital | Equity Interest Held by our Group |
|---|---|---|---|---|---|
| Jilin Anjie Environmental Engineering Co., Ltd.[1] | 3 November 2005, PRC | Research and development, design, manufacture, and installation of environmental protection systems and provision of technical consulting and support services of environmental protection technologies and systems | PRC | RMB150,000,000 | 100% |

Note:

[1] Anjie Environmental has been issued with a business licence which is valid from 3 November 2005 to 7 September 2036. Anjie Environmental is not listed on any stock exchange.

## Investment in Associates

### Pioneer Membrane Pte. Ltd.

At an extraordinary General Meeting held on 14 November 2014, it was agreed by the shareholders to place Pioneer Membrane Pte. Ltd under Member's Voluntary Liquidation and the liquidator, Boardroom Corporate & Advisory Services Pte Ltd was appointed to deal with the liquidation affairs of the company. Accordingly, the remaining cost of investment in associate which is equivalent to the amount of monies escrowed under the Company's bank account was reclassified to other receivables since the Company and the Group no longer held any significant influence over that associate at 31 December 2014.

Subsequent to year end, the escrowed monies of RMB1,068,000 (S$210,000) was released to the Group on 15 January 2015 in accordance with the shareholders' agreement dated 8 October 2012.

### Nano Sun Pte. Ltd.

Nano Sun Pte. Ltd. was incorporated in Singapore on 7 May 2013 and the Company subscribed to a 20% equity interest subsequent to its incorporation. The consideration was fully paid up on the date of completion of the subscription for a total cash consideration of S$1,000,000 (RMB4,874,000).

# CHAIRMAN'S STATEMENT

"We remain steadfast in our belief to adopt a more prudent and selective strategy in undertaking only those engineering, procurement and construction ("EPC") contracts with better gross profit margin and/or payment terms, and such strategy had served us well in FY2014."

## Dear Shareholders,

On behalf of the Board of Directors, it is my pleasure to present you with our latest annual report of Leader Environmental Technologies Limited and its subsidiary for the financial year ended 31 December 2014 ("FY2014"). Although the financial performance in FY2014 was mediocre at best, but against the backdrop of continued global economic uncertainty and the slowing growth in China, it is nevertheless of much significance to the Group to be back in the black.

### THE YEAR IN REVIEW

We remain steadfast in our belief to adopt a more prudent and selective strategy in undertaking only those engineering, procurement and construction ("EPC") contracts with better gross profit margin and/or payment terms, and such strategy had served us well in FY2014. The Group had secured better quality contracts and reported a healthy revenue increase in all business segments. Total revenue grew by 98.1% to RMB72.4 million in FY2014, and coupled with better costs containment, it had propelled the Group to turn in a net profit of RMB96,000, reversing from a net loss after taxation of RMB103.1 million in FY2013. Our gross profit margin also improved to 30.6% as compared to 13.6% a year ago. Barring any unforeseen circumstances, we remain cautiously optimistic of the Group's prospect in the year ahead. Our order book approximates RMB160.0 million as at 31 December 2014.

### DEVELOPMENTS AND UPDATES

The Group's proven track record and commitment to deliver timely and quality products and services that satisfy the stringent emission requirements have gained the trust and confidence of our customers. During the year, we were awarded new contracts to fabricate and install new dust elimination systems for a customer in the oil and gas industry. We have previously fabricated and installed six sets of desulphurization systems for the same customer in 2008. On top of that, the Group also received a repeat order from a steel manufacturer to fabricate and install new desulphurization systems to treat harmful wastegas emitted from sintering machines. In addition, this customer also outsourced the operation and maintenance of the desulphurization systems to us for another year and at a higher fee. These new contracts from recurring customers are a testimony to our ability and capability to meet the high industry standards.

Our continuous research and development efforts had also came to fruition for the Group with the successful registration of an invention patent relating to an internally developed new dust elimination technology with pulsating rotary positioning mechanism to clean dust particles. We have successfully implemented this technology in one of our projects for a customer from the oil and gas industry and our services exceeded the customer's expectations.

# CHAIRMAN'S STATEMENT

Such track record will put us in good stead when we tender for new dust elimination contracts in future.

Our success and the growth prospect of the environmental sector have also attracted the interest and support of China Merchants Bank. The bank has increased our working capital loan quantum by another RMB90.0 million to RMB170.0 million in FY2014 at more favourable interest rates, allowing us to undertake more EPC projects.

On the investment front, our investee company, Pioneer Membrane Pte Ltd was placed under Members' Voluntary Liquidation during the year and the escrowed monies of S$210,000 were released to the Group after year end pursuant to the shareholders' agreement dated 8 October 2012. As for Nanosun Pte Ltd ("Nanosun"), it has secured its first maiden contract to deliver a portable system that can produce clean water. It is also in negotiation with a number of firms in Indonesia and China to apply Nanosun's technical expertise and TiO2 membrane technology to build industrial wastewater treatment systems to meet industrial needs.

## OUTLOOK AND STRATEGY

Stepping into 2015, the Chinese economy is already displaying further signs of weaknesses with reports of slowing exports and a contracting Purchasing Managers Index. This raises hope that the PRC government would inject more economic stimulus into the market in order to grow the economy in 2015. So far, China has taken measures to cut interest rates and bank reserve ratios, expand investments in infrastructure and deepen reforms in various sectors. The Group is a beneficiary of these favourable expansionary economic policies. Liquidity in China remains a key concern as most of the PRC companies are heavily dependent on bank loans and notwithstanding the progress made in the collection of long overdue trade receivables, much work remaining to be done on our collections in FY2015. We believe FY2015 will be another challenging year for the Group. Hence, it is important that the Group continues to leverage on new technology and innovation, and the continuous financial support from the bank to strengthen its competitive edge over its competitors. We have to stay vigilant and continue to adopt the same prudent strategy so as to weather through this challenging business environment.

Other than the sole O&M contract signed with a steel maker, little progress have been made so far in our search for more stable and recurring income to be added to the Group's income stream, however this has not deterred the management team to actively source for potential opportunities in mergers and acquisitions so as to diversify into other complementary environmental businesses that would provide such income base to the Group. We will update shareholders as and when appropriate in relation to any acquisition.

## ACKNOWLEDGEMENTS

On behalf of the Board, I would like to thank all our stakeholders for their unwavering support through the years.

I would also like to thank our Board members, management and employees for their dedication and commitment through FY2014. They have and will continue to play pivotal roles in their contribution to the Group's overall performances.

Last but not least, I would like to extend my appreciation to Mr Lee Gee Aik, who will be retiring from the Board after our Annual General Meeting on 27 April 2015.

**Lin Bai Yin**

Executive Chairman and Chief Executive Officer

# OPERATIONS AND FINANCIAL REVIEW

Total revenue increased by **RMB35.9 million or 98.1%**

Cost of sales increased by **59.0% or RMB18.6 million**

## REVENUE

Total revenue increased by RMB35.9 million or 98.1%, from RMB36.5 million in FY2013 to RMB72.4 million in FY2014. The increase was attributed to an upward price adjustment amounting to RMB6.4 million on the renewal of operation and maintenance ("O&M") contract, higher percentage of works performed for both dust elimination and industrial wastewater business segments of RMB22.1 million in aggregate, contributions from new desulphurization contracts of RMB6.4 million and the provision of new stand-alone technical service of RMB1.0 million. These segments contributed to an increase in revenue of RMB35.9 million in FY2014.

## PROFITABILITY

Cost of sales of the Group constituted 69.4% and 86.4% of its revenue in FY2014 and FY2013 respectively. In line with the increase in revenue of 98.1%, cost of sales also increased by 59.0%, from RMB31.6 million in FY2013 to RMB50.2 million in FY2014. Consequently, total Group's gross profit increased by 345.4% or RMB17.2 million, from RMB5.0 million in FY2013 to RMB22.2 million in FY2014 which was in line with more contracts undertaken and higher percentage of works performed.

Overall gross profit margin improved by 17.0%, from 13.6% in FY2013 to 30.6% in FY2014, attributed to contribution of 99.1% of gross profit margin from stand-alone technical service rendered as only a small amount of labour cost was incurred. The return of desulphurization contract, a key driver of the Group's past lucrative gross profit margin business generated 35.3% to the gross profit margin, higher price charged for the renewal of O&M contract from a steel manufacturer coupled with greater efficiency achieved in managing the treatment plant for two consecutive years added another 21.7% to the gross profit margin. In addition, greater amount of fabrication works, the segment of engineering procurement and engineering contract with the next highest gross profit margin, were undertaken for both dust elimination and industrial wastewater contracts during the last quarter of FY2014. These contracts generated an increase in gross profit margins of 7.2% and 13.7% respectively.

## FINANCIAL INCOME

Financial income increased by RMB91,000 or 104.6% in FY2014 as the Group earned higher interest income mainly from an increase in bank deposits pledged and cash and cash equivalents.

# OPERATIONS AND FINANCIAL REVIEW

## OTHER INCOME

Other income for FY2014 declined by RMB0.1 million or 19.4% due to the absence of fines imposed on certain outsourcing parties of RMB0.2 million and lower gain on disposal of motor vehicles of RMB0.1 million to suppliers as part settlement for trade payable balances. The decrease of RMB0.3 million was partly offset by rental income of RMB0.2 million, derived from sub-letting part of the operating plant in FY2014.

## OPERATING EXPENSES

In FY2014, selling and distribution expenses were mainly flat at RMB1.5 million.

Administrative expenses decreased by RMB6.9 million or 36.4%, from RMB18.9 million in FY2013 to RMB12.0 million in FY2014 due to the absence of a non-cash charge of RMB2.1 million, being the fair value of the 4.6 million ordinary shares issued to six employees pursuant to the Company's Performance Share Scheme, research expenses of RMB1.9 million on new technology relating to the treatment of wastegas, an one–off bonus of RMB0.8 million to retain experienced workers, downward revisions of managements' salaries, bonus and related costs of RMB0.4 million, lower professional fees incurred of RMB0.4 million in FY2014 due to the absence of compliance costs relating to the Enterprise Risk Management programme and share issuance expenses charged directly to administrative expenses and miscellaneous expenses of RMB0.3 million. In addition, travelling and entertainment expenses were also reduced by RMB1.2 million due to the effective cost control measures implemented by the Group. The decrease of RMB7.1 million was partly offset by higher stamp duties paid upon the execution of contracts of RMB0.2 million in FY2014, in line with the overall increase in revenue.

Higher interest expenses of RMB6.5 million were incurred in FY2014 against RMB6.1 million in the same corresponding period due to higher loan quantum obtained, partly offset by lower interest rate offered by China Merchants Bank as the weighted average effective interest rate in FY2014 was 5.8% per annum against 7.2% per annum in FY2013.

Other expenses dipped sharply by RMB79.5 million or 99.9% in FY2014, attributed mainly to the decrease in exchange loss of RMB0.1 million coupled with the absence of impairment loss on long overdue trade receivables of RMB79.1 million and inventory written down of RMB0.3 million relating to the steel parts and components dismantled from a dust elimination system which was previously fabricated for a certain customer.

Share of loss of associated companies decreased by RMB1.0 million or 54.8%, from RMB1.8 million in FY2013

Gross profit increased by **345.4% or RMB17.2 million**

# OPERATIONS AND FINANCIAL REVIEW

to RMB0.8 million in FY2014 due to the absence of impairment loss of RMB1.4 million recognized relating to the liquidation of an associate company, Pioneer Membrane Pte Ltd, partly offset by higher operating loss recognized of RMB0.4 million on the development of TiO2 membrane.

## INCOME TAX EXPENSE

Income tax expense increased by RMB1.0 million or 111.4%, from RMB0.9 million in FY2013 to RMB1.9 million in FY2014 due to higher corporate tax provided of RMB1.5 million as the subsidiary generated a chargeable income in FY2014 as opposed to a loss registered in the same period of last year. The higher corporate tax was partly offset by the absence of withholding tax of RMB0.5 million on the potential amount of dividends expected to be declared to finance the working capital of the holding company since the holding company has sufficient working capital in the next twelve months.

In the light of the foregoing, the Group achieved a small profit after taxation of RMB96,000 in FY2014, reversing from a loss after taxation position of RMB103.1 million in FY2013.

## FINANCIAL POSITION

As at 31 December 2014, the Group's non-current assets amounted to RMB21.9 million and comprise property, plant and equipment ("PPE") of RMB10.5 million, intangible assets of RMB7.0 million, club membership of RMB0.7 million and investment in associate of RMB3.7 million as at 31 December 2014. The decrease in non-current assets of RMB1.4 million, from RMB23.3 million as at 31 December 2013 to RMB21.9 million as at 31 December 2014, attributed to the share of post-acquisition loss of RMB0.8 million in Nano Sun Pte Ltd, reversal of remaining cost of investment in Pioneer membrane Pte Ltd ("Pioneer") of RMB1.1 million to other receivables since the Group has ceased its significant influence over the company due to its Members' Voluntary liquidation, disposal of motor vehicles with net book values of RMB0.1 million and amortisation and depreciation charges of RMB2.0 million during the year. The decrease of RMB4.0 million was partly offset by the purchase of office furniture and addition of new patent applied on an internally developed new dust elimination technology of RMB2.6 million in aggregate.

As at 31 December 2014, current assets amounted to RMB537.3 million, representing an increase of RMB86.4 million over end of FY2013. The increase was due to increase in prepayments of RMB5.9 million, bank deposits pledged of RMB61.7 million and cash and cash equivalents of RMB22.1 million. The overall increase of RMB89.7 million was partly offset by decrease in gross amount due from customers for contract work-in-progress of RMB2.4 million, inventories of RMB0.6 million and trade and other receivables of RMB0.3 million.

Cash and cash equivalents amounted to RMB75.1 million as at 31 December 2014, from RMB53.0 million a year ago. The net cash flows used in the Group's operating activities amounted to RMB12.0 million. Net cash outflows from investing activities of RMB2.6 million. The total cash outflows of RMB14.6 million were partly offset by net cash inflows from financing activities of RMB36.7 million resulting in overall increase in cash and cash equivalents of RMB22.1 million in FY2014.

As at 31 December 2014, current liabilities amounted to RMB234.7 million, representing an increase of RMB79.2 million over end of FY2013. The increase was attributed to increase in gross amount due to customers for work-in-progress of RMB0.3 million, loans and borrowings of RMB92.6 million and income tax payable of RMB1.3 million. The overall increase of RMB94.2 million was partly offset by lower trade and other payables and other liabilities of RMB7.7 million and RMB7.3 million respectively.

Non-current liabilities comprise deferred tax liabilities of RMB4.6 million as no further tax was provided on the potential amount expected to be declared in the form of dividend to finance the operating expenses of the holding company since the holding company has sufficient funds in the next twelve months.

The Group's total shareholder's equity comprises share capital, PRC statutory reserve fund, merger reserve and accumulated profits. Between 31 December 2014 and 31 December 2013, our shareholder's equity increased from RMB314.1 million to RMB319.8 million due mainly to the issuance of new ordinary shares of RMB5.8 million as a result of a private placement and profit after tax of RMB0.1 million, partly offset by share issuance expenses of RMB0.2 million.

# A CLEAR VIEW OF TOMORROW

Since the PRC government is committed to diminish air pollution, they imposed penalties on non-compliant companies. As a result, our roll-out of investments in desulphurization projects flourished. Nonetheless, we still seek to secure more of these contracts and further cultivate our services to provide enhanced solutions and a cleaner, brighter tomorrow for our ecosystem.

# BOARD OF DIRECTORS

**LIN BAIYIN** is our founder, Executive Chairman and CEO and is responsible for the formulation of business strategies, overall management and overseeing the daily operations of our Group. From 1994 to 1999, Lin Baiyin was the factory manager of Changchun City Sanma Wastewater Treatment Equipment Factory, a company he established with two unrelated third parties, where he was responsible for the growth of the company as well as the development and implementation of the company's business strategies. From 1999 to 2000, Lin Baiyin was the managing director of Jilin EPT Environmental Engineering Design Institute ("EPT Design"), a company he established with his cousins and third parties, where he was responsible for the overall management. From 2001 to 2006, Lin Baiyin was the chairman of Jilin EPT Environmental where he was responsible for reviewing, formulating and implementing the company's business strategies and overall management. In 2005, Lin Baiyin established Anjie Environmental and was appointed as our CEO in 2006. Lin Baiyin is a member of the executive committee of the 4th Council of the CAEPI , the vice president of the JAEPI, the standing vice president of the Fujia Chamber of Commerce in Changchun City and the vice president of the Fuzhou Chamber of Commerce in Changchun City. Lin Baiyin obtained a Diploma in Commercial Economic Enterprise Management from the School of Continuing Education of the Beijing Normal University in 2000. He obtained the senior economist qualification from the Jilin Provincial Personnel Department in 2009. In 2001, Lin Baiyin was conferred the PRC's Outstanding Environmental Science and Technology Industrialist Award by the China Society for Environmental Sciences. In October 2009, Lin Baiyin was conferred the Outstanding Entrepreneur of the China Association of Environmental Protection Industry award by the CAEPI.

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**ZANG LINYING** is our Executive Director and Finance Director and is responsible for the overall financial management, accounting matters and administration functions of our Group. Zang Linying started her career as an accountant in Changchun Chemical Raw Material Co., Ltd. in 1987 where she remained till 1995. Zang Linying worked in the Changchun Certified Accountants Firm's audit department as an audit manager from 1995 to 1998. From 1998 to 2006, Zang Linying was a partner in Changchun Hengxin Certified Public Accountants Firm. In 2006, Zang Linying joined Anjie Environmental as financial controller overseeing the overall financial matters of Anjie Environmental. Zang Linying obtained the Bachelor Degree in Economics from Jilin University in 1991. In 1996, she obtained the Certified Public Accountant from the Chinese Institute of Certified Public Accountants and in 2007, she received the senior accountant qualification from Jilin Provincial Personnel Department.

# BOARD OF DIRECTORS

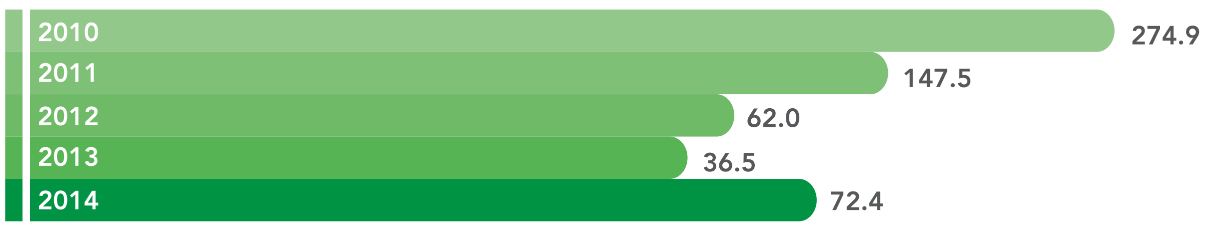
**LEE GEE AIK** is our lead Independent Non-executive Director. He is a practicing director with R Chan & Associates PAC. He has over 30 years of experience in accounting, tax and financial management areas. He previously worked for KPMG Singapore and USA and in the hospitality industry. Mr Lee is a Fellow of the Association of Chartered Certified Accountants (UK) and the Institute of Singapore Chartered Accountants. He also obtained a Masters in Business Administration from The Henley Management College, United Kingdom. He has been appointed by the Minister of Health to serve as Lay Person member of the Complaints Panel of the Singapore Pharmacy Council and serves as Director on the boards of a number of companies listed on the SGX-ST.

**MAK YEN-CHEN** is our Independent Non-Executive Director. He is a practising lawyer with more than 19 years' experience in legal practice. He is currently a partner with Loo & Partners LLP. Mak Yen-Chen Andrew is an independent director of Falcon Energy Group Limited (a company listed on the Main Board of the SGX-ST) and Far East Group Limited (a company listed on the Catalist Board of the SGXST). In addition, he also volunteers his time in community service. Amongst other appointments, Mak Yen-Chen Andrew is a member of the Telok Blangah Citizens' Consultative Committee. He was awarded the Public Service Medal (PBM) by the President of Singapore in the 2012 Singapore National Day honours list. He graduated from the National University of Singapore in 1994 with a Bachelor of Laws (Second Class Honours Upper Division).

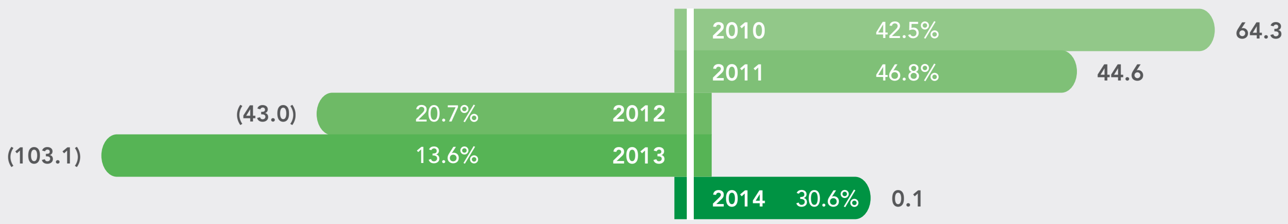
**ZHAI GUIHUA** is our Independent Non-Executive Director. She is presently a consultant to the Changchun National High-Technology Industry Development District Environmental Protection Bureau ("CHIDA"). From 1984 to 1995, she was an engineer at the Changchun City Environmental Protection Bureau ("CCEPB"). From 1995 to 1998, she was the head of the Changchun City Environmental Protection Institute, an affiliate of the CCEPB, where she was responsible for the institute's day-to-day operations. From 1998 to 1999, she was the head of Changchun City Environmental Protection Research Institute where she was responsible for environmental research projects carried out in the research institute, as well as managing the research institute's administration matters. From 1999 to 2006, she was the head of CHIDA where she was responsible for the environmental protection projects undertaken by the development zone. In 2006, Zhai Guihua became the consultant to CHIDA. She obtained the Bachelor Degree in Chemistry from Jilin University in 1980 and the Master Degree of Science from Beijing Normal University in 1988. In addition, she has a senior engineer qualification from the Jilin Provincial Personnel Department in 1997. She is a member of the Chinese Society for Environmental Sciences.

# FINANCIAL HIGHLIGHTS

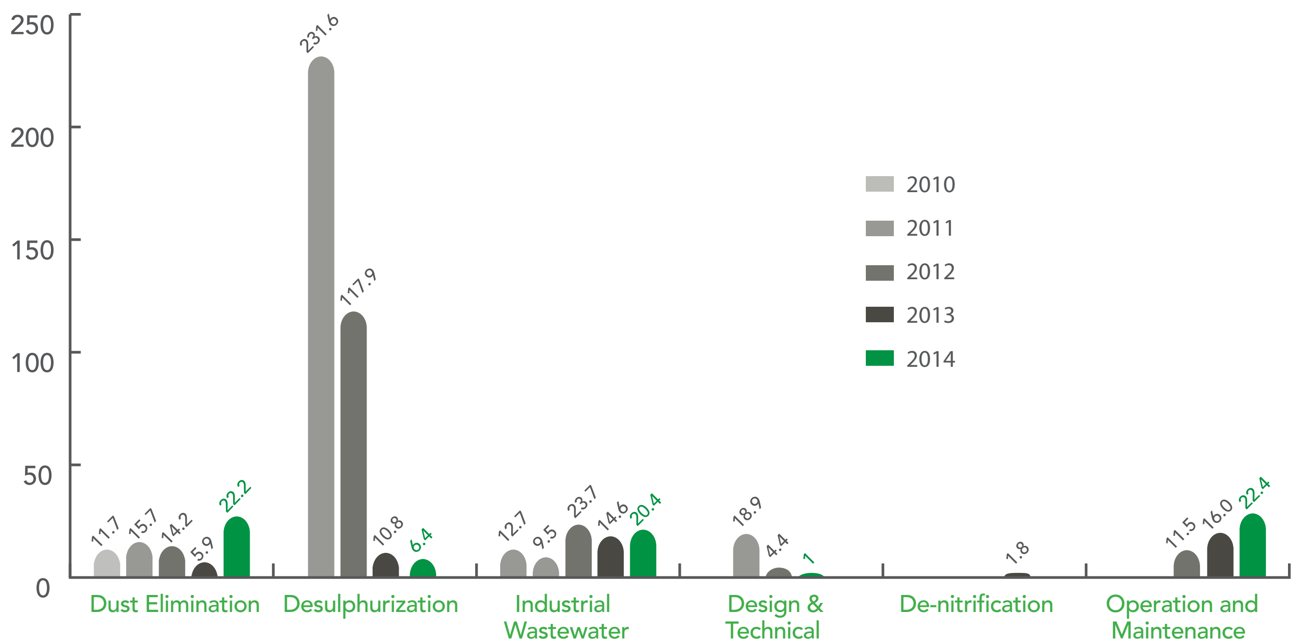
**REVENUE** (RMB' million)




**NET PROFIT** (RMB' million) **AND**
**GROSS PROFIT MARGIN** (%)




**REVENUE BY BUSINESS SEGMENT** (RMB' million)



# FINANCIAL CONTENTS



# CORPORATE GOVERNANCE REPORT

The Board of Directors ("Board") and management ("Management") of Leader Environmental Technologies Limited ("Company") and its subsidiary (collectively, "Group") recognise the importance of and are committed to maintaining a high standard of corporate governance. Good corporate governance provides the framework for an ethical and accountable corporate environment, which will protect the interests of the Company's shareholders and promote investor confidence.

As the Company's shares are listed on the Main Board of the Singapore Exchange Securities Trading Limited ("SGX-ST"), the Company seeks to comply with the listing rules of the SGX-ST as prescribed in the Listing Manual of the SGX-ST ("Listing Rules") and is guided in its corporate governance practices by the revised Code of Corporate Governance issued in 2012 ("Code").

The Board of Directors is pleased to outline in this report the Company's corporate governance practices and structures in the financial year ended 31 December 2014 ("FY2014"), with specific reference made to each of the principles set out in the Code. Other than deviations which are explained in this report, the Company has generally adhered to the principles and guidelines set out in the Code.

## BOARD MATTERS

### The Board's Conduct of Affairs

**Principle 1:** ***Every company should be headed by an effective board to lead and control the company. The board is collectively responsible for the long-term success of the company. The board works with the management to achieve this and the management remains accountable to the board.***

The Board is entrusted with the responsibility for the overall management of the business and corporate affairs of the Group. The principal functions of the Board, apart from its statutory responsibilities, include:

- to review and oversee the management of the Group's business affairs and financial controls, performance and resource allocation;
- to approve matters such as corporate strategy and business plans, corporate restructuring, mergers and acquisitions, major investments and divestments, material acquisitions and disposals of assets and major corporate policies on key areas of operations;
- to approve the release of the Group's quarterly, half-year and full-year financial results and related party transactions of a material nature;
- to establish a framework of prudent and effective controls which enables risks to be assessed and managed, including safeguarding of shareholder's interests and the Group's assets;
- to identify the key stakeholder groups and recognise that their perceptions affect the Group's reputation; and
- to consider sustainability issues, e.g. environmental and social factors, as part of its strategic formulation.

The Board has delegated, but without abdicating its responsibility, the day-to-day management and running of the Group to the Management headed by the Executive Chairman and Chief Executive Officer, Mr Lin Baiyin, and the Executive Director and Finance Director, Ms Zang Linying. Mr Lin Baiyin and Ms Zang Linying are involved in the management of the Group's operations. Both Directors shall discharge their duties and responsibilities at all times as fiduciaries in the interests of the Group.

# CORPORATE GOVERNANCE REPORT

The Board has established three Board committees, namely, the Audit Committee, the Nominating Committee and the Remuneration Committee, all of which are chaired by Independent Directors and operate within clearly defined and written terms of reference and functional procedures, which are reviewed on a regular basis. Each of these committees reports its activities regularly to the Board. The Board will meet at least four times a year and as warranted by particular circumstances. In view that certain members of the Board are not resident in Singapore and to facilitate the execution of the Board's responsibilities, the articles of association of the Company ("Articles of Association") also provide for tele-conference meetings. The number of meetings held, and the attendance at meetings, of the Board and Board committees during the financial year under review are as follows:

| | | Board Committees | | |
|---|---|---|---|---|
| | **Board** | **Audit** | **Nominating** | **Remuneration** |
| Number of meetings held | 4 | 5 | 1 | 1 |
| | **Number of meetings attended** | | | |
| Mr Lin Baiyin | 2 | 2* | 1 | 1* |
| Ms Zang Linying | 4 | 5* | 1* | 1* |
| Mr Lee Gee Aik | 4 | 5 | 1 | 1 |
| Mr Mak Yen-Chen Andrew | 4 | 5 | 1* | 1 |
| Ms Zhai Guihua | 3 | 3 | 0 | 0 |

* *By Invitation*

All Directors are expected to exercise due diligence and independent judgment, and make decisions objectively in the best interests of the Group.

A formal letter will be sent to newly appointed Directors upon their appointment setting out the Directors' duties and obligations. The Board ensures that any incoming Director will be given an orientation on the Group's business strategies and operations and governance practices to facilitate the effective discharge of their duties.

Board members have been and will be encouraged to attend seminars and receive training to improve themselves in the discharge of their duties as Directors. The Group will work closely with professionals to provide its Directors with updates on changes to relevant laws, regulations and accounting standards.

Directors are also provided with an insight into the Group's operational facilities and periodically meet with the Management to gain a better understanding of the Group's business operations. The Board as a whole is updated on risks management and the key changes in the relevant regulatory provisions which have an important bearing on the Group and the Directors' obligations to the Group.

The Company did not enter into any major transaction or business proposal out of the ordinary course of business.

**Board Composition and Guidance**

**Principle 2:** ***There should be a strong and independent element on the board, which is able to exercise objective judgment on corporate affairs independently, in particular, from management and 10% shareholders. No individual or small group of individuals should be allowed to dominate the board's decision making.***

The Board comprises five members, two of whom hold executive positions:

| | |
|---|---|
| Mr Lin Baiyin | Executive Chairman and Chief Executive Officer |
| Ms Zang Linying | Executive Director |
| Mr Lee Gee Aik | Lead Independent Non-Executive Director |
| Mr Mak Yen-Chen Andrew | Independent Non-Executive Director |
| Ms Zhai Guihua | Independent Non-Executive Director |

# CORPORATE GOVERNANCE REPORT

The Group endeavours to maintain a strong and independent element on the Board. Where the Executive Chairman and the Chief Executive Officer is the same person, the requirement of the Code that at least half the Board comprises Independent Directors is satisfied as there are three Independent Non-Executive Directors on the Board. The Board considers an Independent Director as one who has no relationship with the Company, its related corporations, officers, or its shareholders with shareholdings of 10% or more voting shares of the Company that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgment in the best interests of the Group.

The Nominating Committee has reviewed and determined, according to the Code's definition of "Independent Director" and relevant guidance that for FY2014, each of Mr Lee Gee Aik, Mr Mak Yen-Chen Andrew and Ms Zhai Guihua is non-executive and independent. There are no Independent Directors who have served on the Board beyond nine (9) years from the date of his or her first appointment. The independence of each Director has been and will be reviewed annually by the Nominating Committee based on the guidelines set forth in the Code.

The Board has examined its size and is satisfied that it is an appropriate size for effective decision-making, taking into account the scope and nature of the operations of the Group, the requirements of the business and the need to avoid undue disruptions from changes to the composition of the Board and board committees. The Nominating Committee is of the view that no individual or small group of individuals dominates the Board's decision-making process.

The Nominating Committee is of the view that the current Board comprises directors who as a group provide an appropriate balance and diversity of skills, experience, gender and knowledge to the Group. The Directors also provide core competencies such as accounting or finance, business or management or legal experience, industry knowledge, strategic planning experience and customer-based experience or knowledge required for the Board to be effective. Details of the Board members' qualifications and experience are presented in this Annual Report under the heading "Board of Directors".

The Independent Non-Executive Directors have constructively challenged and assisted with the development of business proposals and strategies. They have also assisted with the review of Management's performance against agreed goals and objectives. Where required under the Code and where necessary, the Independent Non-Executive Directors would have internal discussions without the presence of Management.

**Chairman and Chief Executive Officer**

**Principle 3:** ***There should be a clear division of responsibilities between the leadership of the board and the executives responsible for managing the company's business. No one individual should represent a considerable concentration of power.***

The Group's Executive Chairman, Mr Lin Baiyin, is also the Chief Executive Officer of the Group. The Board is of the view that it is not necessary to separate the roles of the Executive Chairman and the Chief Executive Officer, after taking into consideration the size, scope and the nature of the operations of the Group. Mr Lin Baiyin has been with the Group since its establishment and has played an instrumental role in developing our business. He has considerable industry experience and business network and has also provided the Group with strong leadership and vision. The Board is of the view that it is in the best interest of the Group to adopt a single leadership structure. In addition, there are sufficient safeguards and checks in place to ensure that the Management is accountable to the Board as a whole.

As the Executive Chairman and Chief Executive Officer of the Group, Mr Lin Baiyin is in charge of the management and day-to-day operation of the Group. He is also responsible for developing the overall strategic directions of the Group, as well as the business strategies and policies of the Group.

To ensure effectiveness of the Board, he is assisted by the Directors, Company Secretary and Management, to schedule meetings and to prepare meeting agenda. A culture of openness and debate is promoted at the Board.

To promote a high standard of corporate governance, Mr Lee Gee Aik has been appointed as the Lead Independent Non-Executive Director as well as the Chairman of the Audit Committee. In accordance with the Code, Mr Lee Gee Aik is available to shareholders where they have concerns and for which contact through the normal channels of the Chairman, Chief Executive Officer, Finance Director or Chief Financial Officer has failed to resolve or is inappropriate.

The Independent Non-Executive Directors would meet or discuss with each other without the presence of the other Directors, as and when necessary, and then provide the feedback to the Chairman for consideration or further discussion.

# CORPORATE GOVERNANCE REPORT

**Board Membership**

**Principle 4:** ***There should be a formal and transparent process for the appointment and re-appointment of directors to the board.***

The Nominating Committee comprises three directors, the majority of whom, including the Chairman, are non-executive and independent:

| | | |
|---|---|---|
| - | Ms Zhai Guihua | Chairman, Independent Non-Executive Director |
| - | Mr Lee Gee Aik | Lead Independent Non-Executive Director |
| - | Mr Lin Baiyin | Executive Chairman and Chief Executive Officer |

The principal roles and functions of the Nominating Committee are as follows:

- to make recommendations to the Board on all board appointments, including re-nominations, having regard to the Directors' contribution and performance (for example, attendance, preparedness, participation and candour);

- to determine annually whether or not a Director is independent;

- in respect of a Director who has multiple board representations on various companies, deciding whether or not such Director is able to and has been adequately carrying out his/her duties as Director, having regard to the competing time commitments that are faced when serving on multiple boards;

- to decide how the Board's performance may be evaluated and propose objective performance criteria, as approved by the Board, that allows comparison with its industry peers and addresses how the Board has enhanced long term shareholders' value;

- to assess the performance of the Board and contribution of each Director to the effectiveness of the Board;

- to review board succession plans for Directors; and

- to review the training and professional development programmes for the Board.

The Nominating Committee has put in place a formal and transparent process for all appointments to the Board. It has adopted written terms of reference defining its membership, administration and duties. As part of the process for the selection, appointment and re-appointment of Directors, the Nominating Committee takes into consideration the following issues: composition, diversity and progressive renewal of the Board and each Director's competencies, commitment, contribution and performance (including attendance at meetings).

The Nominating Committee deliberates annually, and as and when circumstances require, to determine the independence of a Director, bearing in mind the salient factors set out in the Code as well as all other relevant circumstances and facts. No member of the Nominating Committee should participate in the deliberation in respect of his own status as an Independent Director. The Nominating Committee has confirmed the independence of all the Independent Non-Executive Directors based on the results of the annual assessment.

In assessing the performance of each individual Director, the Nominating Committee considers whether he has multiple board representations and other principal commitments, and is able to and has adequately carried out his duties as a Director notwithstanding such commitments. The Nominating Committee is satisfied that sufficient time and attention to the affairs of the Company has been given by those Directors who have multiple board representations.

To address the competing time commitments that are faced when Directors serve on multiple boards, the Nominating Committee has reviewed and the Board has determined and set that as a general rule, the maximum number of listed company board appointments be not more than six (6) companies. However, any Directors may hold more than six (6) listed company board representations should the Nominating Committee be satisfied and is of the view that such Directors are able to devote sufficient time and attention to the affairs of the Company after taking into account their individual circumstances, contributions, responsibilities and other principal commitments. Non-Executive Directors may consult the Chairman of the Nominating Committee before accepting any appointments as Directors. Currently, none of the Directors holds more than six (6) directorships in listed companies.

Directors are encouraged to attend relevant training programmes conducted by the relevant institutions and organisations. The cost of such training will be borne by the Company.

# CORPORATE GOVERNANCE REPORT

Article 104 of the Company's Articles of Association requires one-third of the Directors to retire from office at least once every three years at an Annual General Meeting ("AGM"). Article 106 of the Company's Articles of Association provides that the retiring Directors are eligible to offer themselves for re-election.

The Nominating Committee recommended to the Board that Mr Lin Baiyin and Mr Lee Gee Aik be nominated for re-election at the forthcoming AGM. In making the recommendations, the Nominating Committee has considered the Directors' overall contributions and performances. Neither Mr Lin Baiyin and Mr Lee Gee Aik had participated in reviewing, recommending and approving his or her own re-election.

Mr Lin Baiyin will, upon re-election, remain as the Executive Chairman and Chief Executive Officer of the Board.

Mr Lee Gee Aik, who has served the Board as an Independent Non-Executive Director since 21 June 2010, will not be seeking re-election and will retire at the conclusion of the Annual General Meeting to be held on 27 April 2015. Upon his retirement, he will cease to be the Chairman of the Audit Committee and a member of each the Nominating Committee and the Remuneration Committee. He will also cease to be the lead Independent Director. His replacement for each Committee and the lead Independent Director position will be announced in due course.

The date of initial appointment and last re-election of each Director, together with their directorships in other listed Companies are set out below:

| Name | Appointment | Date of initial Appointment | Date of last re-election | Directorship in other listed companies |
|---|---|---|---|---|
| Lin Baiyin<br>Age: 48 | Executive Chairman and Chief Executive Officer | 28 December 2006 | 29 April 2013 | NIL |
| Zang Linying<br>Age: 51 | Executive Director | 28 December 2006 | 25 April 2014 | NIL |
| Lee Gee Aik<br>Age: 56 | Lead Independent Non-Executive Director | 21June 2010 | 30 April 2012 | **Present Directorship**<br>E2-Capital Holdings Limited<br>Anchun International Holdings Ltd<br>Ley Choon Group Holdings Limited<br>**Past Directorships (in the last three preceding years)**<br>Sinostar Pec Holdings Limited |
| Mak Yen-Chen Andrew<br>Age: 45 | Independent Non-Executive Director | 21 June 2010 | 25 April 2014 | **Present Directorship**<br>Far East Group Limited<br>Falcon Energy Group Limited<br>**Past Directorships (in the last three preceding years)**<br>NIL |
| Zhai Guihua<br>Age: 60 | Independent Non-Executive Director | 21June 2010 | 29 April 2013 | NIL |

Key information on the individual directors and their shareholdings in the Company are set out on pages 13 and 14 of this Annual report.

# CORPORATE GOVERNANCE REPORT

**Board Performance**

**Principle 5:** ***There should be a formal assessment of the effectiveness of the board as a whole and its board committees and the contribution of each director to the effectiveness of the board.***

The Nominating Committee had adopted processes for the evaluation of the Board's performance and effectiveness as a whole and the performance of the board committees and the individual Directors, based on performance criteria set by the Board. For the evaluation of the performance of the Board and the board committees, the assessment criteria include return on assets, return on equity and the Company's share price performance. Such indicators allow the Company to make comparisons with its industry peers and are linked to long-term shareholders' value.

The assessment process involves and includes inputs from Board members, applying the performance criteria of the Nominating Committee and approved by the Board. These inputs are collated and reviewed by the Chairman of the Nominating Committee, who presents a summary of the overall assessment to the Nominating Committee for review. Areas where the Board's performance and effectiveness could be enhanced and recommendations for improvements are then submitted to the Board for discussions and, where appropriate, approval for implementation.

The individual performance criteria include qualitative and quantitative factors such as performance of principal functions and fiduciary duties, level of participation at meetings and attendance record.

The Nominating Committee has assessed the current Board's performance to-date and is of the view that the performance of the Board as a whole was satisfactory.

**Access to Information**

**Principle 6:** ***In order to fulfil their responsibilities, directors should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis so as to enable them to make informed decisions to discharge their duties and responsibilities.***

Each member of the Board has complete access to such information regarding the Group as may be required for the discharge of his duties and responsibilities. Prior to each Board meeting, the members of the Board are each provided with board papers and all relevant materials and information (including background and explanatory statements, financial statements, budgets, forecasts and progress reports of the Company's business operations) necessary for them to comprehensively understand the issues to be deliberated upon and make informed decisions thereon. Directors are entitled to request from the Management and would be promptly provided with such additional information as needed to make informed decisions.

As a general rule, notices are prepared and sent by the Company Secretary to the Directors at least one week in advance of Board meetings, followed by the Board papers in order for the Directors to be adequately prepared for the meetings. Key management personnel, if required, will attend Board meetings to address queries from the Directors. The Directors also have unrestricted access to the Company's key management personnel. Requests for the Company's information by the Board are dealt with promptly.

The Directors have separate and independent access to the Company Secretary. The Company Secretary and/or his representatives attend/s all Board meetings and ensures that Board procedures and the provisions of applicable laws, the Companies Act, the Articles of Association and the Listing Rules are followed. The Company Secretary also assists with the circulation of Board papers, updates the Directors on changes in laws and regulations relevant to the Company as well as advises the Board on all governance matters. The appointment and removal of the Company Secretary are subject to the Board's approval.

The Board (whether as individual members or as a group) has direct access to independent professional advisers, where so requested by the Board, at the expense of the Group.

# CORPORATE GOVERNANCE REPORT

## REMUNERATION MATTERS

### Procedures for Developing Remuneration Policies

**Principle 7:** ***There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.***

The Remuneration Committee of the Company comprises entirely Non-Executive and Independent Directors:

| | | |
|---|---|---|
| - | Mr Mak Yen-Chen Andrew | Chairman, Independent Non-Executive Director |
| - | Mr Lee Gee Aik | Lead Independent Non-Executive Director |
| - | Ms Zhai Guihua | Independent Non-Executive Director |

The Remuneration Committee has in place written terms of reference which clearly set out its authority and duties.

The responsibilities of the Remuneration Committee are:

- to recommend to the Board a framework of remuneration for the Board and key management personnel, including but not limited to Director's fees, salaries, allowances, bonuses, options and benefits in kind;

- to recommend specific remuneration packages for each director, including the Chairman;

- to review the remuneration of key management personnel;

- to perform an annual review of the remuneration of employees related to the Directors and substantial Shareholders (if any) to ensure that their remuneration packages are in line with our staff remuneration guidelines and commensurate with their respective job scope and level of responsibilities;

- to review the level and structure of remuneration to align with the long-term interest and risk policies of the Company in order to attract, retain and motivate the Directors and key management personnel;

- to review, approve and administer the shares awarded for each Director and employees under the Company's performance share scheme;

- to review and approve any bonuses, pay increases and/or promotion for these employees; and

- to review the Group's obligations arising in the event of termination of the Executive Directors' and key management personnel's contracts of service, to ensure that such contracts of service contain fair and reasonable termination clauses which are not overly generous.

The recommendations of the Remuneration Committee have been submitted for endorsement by the entire Board of Directors. Each member of the Remuneration Committee shall abstain from voting on any resolution in respect of his remuneration package.

### Level and Mix of Remuneration

**Principle 8:** ***The level and structure of remuneration should be aligned with the long-term interest and risk policies of the company, and should be appropriate to attract, retain and motivate (a) the directors to provide good stewardship of the company, and (b) key management personnel to successfully manage the company. However, companies should avoid paying more than is necessary for this purpose.***

In setting remuneration packages, the Remuneration Committee will ensure that the Directors are adequately but not excessively remunerated as compared to the industry and comparable companies.

# CORPORATE GOVERNANCE REPORT

The remuneration for Executive Directors and key management personnel takes into account the performance of the Group and the individual. The remuneration packages include a fixed salary and a variable performance related bonus which is designed to align the interests of the Executive Directors with those of shareholders and promote the long-term success of the Group. The fees for Independent Directors are based on the effort, time spent and responsibilities of the Independent Directors, and are subject to approval at AGMs.

The Company has entered into service agreements with the Executive Directors, Mr Lin Baiyin and Ms Zang Linying. Each service agreement is valid for an initial period of three years with effect from 21 June 2010. Upon the expiry of the initial period of three years, the aforesaid service agreements have been automatically renewed on a year-to-year basis on such terms and conditions as agreed by the parties. During the continuance of the Service agreement, either party may terminate the Service Agreement at any time by giving to the other party not less than six months' prior notice in writing, or in lieu of notice, payment of an amount equivalent to six months' salary of the relevant Executive Director.

**Disclosure on Remuneration**

**Principle 9:** ***Each company should provide clear disclosure of its remuneration policy, level and mix of remuneration, and the procedure for setting remuneration in the company's annual report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key management personnel, and performance.***

The Remuneration Committee recommends to the Board a framework of remuneration for the Board, the Chief Executive Officer and key management personnel to ensure that the structure is competitive and sufficient to attract, retain and motivate senior management to run the Company successfully in order to maximize shareholders' value. The recommendations of the Remuneration Committee on the remuneration of Directors and key management personnel have been submitted for endorsement by the Board. The members of the Remuneration Committee do not participate in any decisions concerning their own remuneration.

The remuneration for the Executive Directors is based on the terms as set out in their respective service contracts entered into with the Company. Based on the terms of their service contracts which were applicable for FY2014, Mr Lin Baiyin, being the Chief Executive Officer is entitled to (i) a basic monthly salary, (ii) one month of annual wage supplement, (iii) an annual incentive bonus ("Incentive Bonus"), which is dependent on the performance of the Company and the Group, as further outlined below, (iv) a discretionary bonus, to be recommended by the Remuneration Committee and approved by the Board, (v) contributions to defined contribution plan, and (vi) personal tax paid on behalf. In the case of Ms Zang Linying, being the Finance Director, her remuneration package includes (i) a basic monthly salary, (ii) one month of annual wage supplement, (iii) a discretionary bonus, to be recommended by the Remuneration Committee and approved by the Board, (iv) contributions to defined contribution plan, and (v) personal income tax paid on behalf.

The discretionary bonus of the Executive Directors is generally awarded based on a certain number of months of their basic monthly salary, and will only be given if recommended by the Remuneration Committee and approved by the Board. In line with the market practice, it is intended as an additional tool to incentivise the Executive Directors for their contributions and efforts towards the Group's exceptional performance. So far, no discretionary bonus has been paid to both Executive Directors in FY2014 as they have not met the performance criteria.

The aggregate Incentive Bonus is calculated and based on the consolidated net profit before tax, extraordinary items and exceptional items ("NPBT") of the Group (as shown in the audited consolidated accounts of the Company and its subsidiary and associated companies from time to time) as follows:

| NPBT | Amount of incentive bonus |
|---|---|
| More than RMB100.0 million but less than RMB120.0 million | 2.5% of NPBT |
| RMB120.0 million and above | 4.0% of NPBT |

# CORPORATE GOVERNANCE REPORT

The performance conditions computed based on NPBT were benchmarked closely to market practice and the quantum of the reward is comparable to companies of the same size. No incentive bonus was paid to Mr Lin Baiyin in FY2014 as the Group only achieved a small pre-tax profit in FY2014.

The Executive Directors are also entitled to participate in the performance share scheme (known as the "Leader Environmental Performance Share Scheme"). The entitlement would be based on the achievement of certain key performance indicators for a specific time period set and approved by the Remuneration Committee. The performance share scheme offers an additional tool for the Group to craft a more balanced and innovative remuneration package that will link the Executive Directors' total remuneration to the performance of the Group. Any performance shares to be awarded to Mr Lin Baiyin will be subject to shareholders' approval.

***Remuneration of the Directors, Chief Executive Officer and Key Management Personnel***

A breakdown showing the level and mix of each individual Director's remuneration for the financial year ended 31 December 2014 is set out below:

| Remuneration band (in S$)/Name of Directors | Salary | Fees* | Bonus[1] | Other benefits[2] |
|---|---|---|---|---|
| | % | % | % | % |
| **S$250,000 to S$499,999** | | | | |
| Mr Lin Baiyin | 79.4 | – | 4.8 | 15.8 |
| **S$100,000 to S$249,999** | | | | |
| Ms Zang Linying | 80.0 | – | 4.9 | 15.1 |
| **Below S$100,000** | | | | |
| Mr Lee Gee Aik | – | 100 | – | – |
| Mr Mak Yen-Chen Andrew | – | 100 | – | – |
| Ms Zhai Guihua | – | 100 | – | – |

* *Fees paid to the Independent Non-Executive Directors during FY2014 have been approved at the last AGM held on 25 April 2014.*

[1] *No discretionary bonus or Incentive Bonus were paid to any Executive Directors. The bonus referred to in the table refers to the annual wage supplement.*

[2] *Other benefits include contributions to defined contribution plans and personal income tax paid on behalf.*

The remuneration of key management personnel generally comprises a basic salary component, contributions to defined contribution plans, personal income tax paid on behalf and one month of annual wage supplement or variable bonuses, based on the performance of the Company and the Group as a whole and individual performance and contribution.

Similarly, the key management personnel is entitled to participate in the Leader Environmental Performance Share Scheme and the award is based on the fulfilment of certain key performance indicators over a specific time frame as set by the various department heads and approved by the Remuneration Committee.

# CORPORATE GOVERNANCE REPORT

There were only four key management personnel (who are not Directors or the Chief Executive Officer) whom the Company considered to be the key executives of the Group. A breakdown showing the level and mix of each individual Key Executive's remuneration for the financial year ended 31 December 2014 is set out below:

| Name of Key Executive | Salary | Bonus[1] | Other benefits[2] | Performance shares |
|---|---|---|---|---|
| | % | % | % | % |
| **Below S$250,000** | | | | |
| Wang Xiaoyan | 85.7 | – | 14.3 | – |
| Mu Zongguang | 74.8 | – | 25.2 | – |
| Sun Weili | 74.6 | – | 25.4 | – |
| Lim Poh Yeow | 86.6 | 6.3 | 7.1 | – |

[1] *No variable bonus or performance shares were paid/awarded to any key management personnel. The bonus referred to in the table refers to the annual wage supplement.*

[2] *Other benefits include contributions to defined contribution plans and personal income tax paid on behalf.*

No variable bonus and performance shares were paid/awarded to any key management personnel in FY2014 as the key performance indicators were not met.

The Company has not disclosed exact details of the remunerations of its Executive Directors, Independent Directors and Key Executives as it is not in the best interests of the Company and the employees to disclose such details due to the sensitive nature of such information and as our industry is highly competitive in respect of the recruitment of experienced executives. The annual aggregate remuneration paid to the top four Key Executives of the Company (who are not Directors or the Chief Executive Officer) for FY2014 is S$262,000 (RMB1,274,000).

No employee who is an immediate family member of a Director was paid more than S$50,000 during FY2014. "Immediate family member" means the spouse, child, adopted child, step-child, brother, sister, and parent of such person.

***Employees' Share Option Scheme and Performance Share Scheme***

The Company has adopted an employee share option scheme (known as the "Leader Environmental ESOS") approved at an extraordinary general meeting of the Company held on 22 June 2010 to reward, attract and retain Executive Directors and capable employees by way of granting options. In addition, the Company has adopted the Leader Environmental Performance Share Scheme approved by shareholders at an extraordinary general meeting of the Company held on 30 April 2012 to reward, attract and retain Executive Directors and capable employees by way of granting share awards.

The Remuneration Committee is appointed to administer both the Leader Environmental ESOS and the Leader Environmental Performance Share Scheme, by determining the eligibility of Executive Directors and full-time employees of the Company to participate in the relevant schemes and the number of options or award of shares to be offered to each participant, in accordance with the approved guidelines of the Leader Environmental ESOS and the Leader Environmental Performance Share Scheme, respectively. No member of the Remuneration Committee shall be involved in any deliberations in respect of any options and award of shares granted to him.

The Non-Executive Directors, and the controlling shareholders of the Company or their associates, are not eligible to participate in the Leader Environmental ESOS, but allowed to participate in the Leader Environmental Performance Share Scheme. A separate resolution will be passed for each of the controlling shareholders and their associates (if any), where applicable.

Since the commencement of the Leader Environmental ESOS to the end of FY2014, no option to subscribe for shares has been granted to any eligible participant by the Company, whereas, under the Leader Environmental Performance Share Scheme, save for 4,600,000 ordinary shares which were issued to eligible employees from the Company's subsidiary in FY2013, no performance share was awarded in FY2014.

# CORPORATE GOVERNANCE REPORT

## ACCOUNTABILITY AND AUDIT

### Accountability

**Principle 10:** ***The board should present a balanced and understandable assessment of the company's performance, position and prospects.***

The Board is responsible for providing a balanced and understandable assessment of the Group's performance, position and prospects, including interim and other price-sensitive public reports, and reports to regulators (if required). Information is presented to shareholders on a timely basis through SGXNet and/or the press.

The Board is also responsible for ensuring compliance with legislative and regulatory requirements, including requirements under the Listing Rules.

The Management regularly (and as and when requested) presents the Board with the Group's quarterly financial results and prospects, annual financial statements and profit forecasts to enable the Board to discharge its duties and responsibilities. Moreover, the Board members also visit the subsidiary's office, plant and project site once a year in order to obtain further updates and understanding of the Group's business and operating environment. In this respect, the Management provides the Board with a balanced and understandable assessment of the Group's performance, position and prospects on a regular basis.

### Risk Management and Internal Controls

**Principle 11:** ***The board is responsible for the governance of risk. The board should ensure that management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the group's assets, and should determine the nature and extent of the significant risks which the board is willing to take in achieving its strategic objectives.***

The Board acknowledges that it is responsible for ensuring a sound system of internal controls to safeguard the shareholders' investments and the Group's assets. The following sets out the work performed which serve as the basis for the Board to form an opinion with regard to the adequacy of the Group's internal controls:

(i) Both the Finance Director and senior management of the Company currently assume the responsibilities of the risk management function. They regularly assess and review the Company's business and operational environment in order to identify areas of significant business and financial risks, such as credit risks, foreign exchange risks, liquidity risks and interest rate risks, as well as adopt appropriate measures to control and mitigate these risks. This is part of the on-going efforts by the Management to continuously strengthen the existing internal controls already put in place.

(ii) The Audit Committee has met with the Management and external auditors once during FY2014 to review and discuss the external auditor's audit plans. In addition, as part of the annual statutory audit on financial statements, certain internal control weaknesses that the external auditors identified during their audit have been communicated to the Audit Committee in the form of a management letter. Management will either follow up on the external auditor's recommendations in an effort to strengthen the Group's internal audit systems or explain to the external auditors the type of internal controls already in place to mitigate these risks so that the external auditors can perform additional verification works to satisfy themselves that such controls are adequate to allay their concerns.

(iii) The Board of Directors has also received assurance from Chief Executive Officer, Finance Director and Chief Financial Officer (a) that the financial records have been properly maintained and the financial statements give a true and fair view of the Group's operations and finances for the year ended 31 December 2014; and (b) regarding the effectiveness of the Group's risk management and internal control systems.

# CORPORATE GOVERNANCE REPORT

(iv) The Audit Committee had considered the following factors in their assessment of whether it would be necessary to commission a separate internal audit: (a) that the number of projects undertaken by the Group during the year are not numerous, (b) that there were no significant changes in the Group's business and operating environment in FY2014, (c) that the Group had previously engaged Ernst & Young LLP to conduct a thorough risk assessment on the Group and to develop a risk register for the Group and (d) that the Management had updated the Board on the Group's business activities, and such updates were consistent with the Audit Committee's understanding of the Group's overall business risks. In view of these, the Audit Committee considers a separate internal audit to be not cost effective and instead requested that the external auditors, as part of their external audit for FY2014, extend their scope of audit to cover internal controls on key risk areas such as purchases and revenue, payments and collections, the findings are to be highlighted in the management letter for discussion during the board meeting.

Based on the internal controls established and maintained by the Group, work performed by the independent external auditors (which did not highlight any major areas of concern requiring immediate actions by the Board), regular reviews carried out by Management and Audit Committee as well as the aforementioned assurance received from the Chief Executive Officer, Finance Director and Chief Financial Officer, the Board, with the concurrence of the Audit Committee, is of the opinion that the Group's internal controls, addressing financial, operational and compliance and information technology controls and risks management systems were adequate during the year ended 31 December 2014.

**Audit Committee**

**Principle 12:** ***The board should establish an audit committee with written terms of reference which clearly set out its authority and duties.***

The Audit Committee comprises three Non-Executive Directors, all of whom, including the Chairman, are independent:

| | | |
|---|---|---|
| - | Mr Lee Gee Aik | Chairman, Independent Non-Executive Director |
| - | Mr Mak Yen-Chen Andrew | Independent Non-Executive Director |
| - | Ms Zhai Guihua | Independent Non-Executive Director |

The Audit Committee has adopted written terms of reference defining its membership, administration and duties. The principal roles and functions of the Audit Committee are as follows:

- reviewing the audit plans of the external auditors and the internal auditors, including the results of the external and internal auditor's review and evaluation of the system of internal controls;

- reviewing the annual consolidated financial statements and the external auditor's report on those financial statements, and discussing any significant adjustments, major risk areas, changes in accounting policies, compliance with international financial reporting standards, concerns and issues arising from their audits, including any matters which the auditors may wish to discuss in the absence of management, where necessary, before submission to the Board for approval;

- reviewing the periodic consolidated financial statements comprising the profit and loss statements and the balance sheets and such other information required by the Listing Manual, before submission to the Board for approval;

- reviewing and discussing with external and internal auditors (if any), any suspected fraud, irregularity or infringement of any relevant laws, rules or regulations, which has or is likely to have a material impact on the Company's operating results or financial position and the Management's response;

- reviewing the co-operation given by the Management to the external auditors;

- reviewing the report of the internal control review to be conducted within one year after the Company's admission to the Official List of the SGX-ST and to consider and make recommendations to the Board whether to continue such reviews;

- considering the appointment and re-appointment of the external auditors and matters relating to resignation or dismissal thereof;

# CORPORATE GOVERNANCE REPORT

- reviewing and ratifying any interested person transactions falling within the scope of Chapter 9 of the Listing Manual;
- reviewing the guidelines and review procedures relating to interested person transactions and potential conflicts of interest and future interested person transactions, if any;
- reviewing any potential conflicts of interest;
- reviewing the adequacy and supervision of the finance and accounting team on an on-going basis;
- reviewing the procedures by which employees of the Group may, in confidence, report to the Chairman of the Audit Committee, possible improprieties in matters of financial reporting or other matters and ensuring that there are arrangements in place for independent investigation and follow-up actions in relation thereto;
- undertaking such other reviews and projects as may be requested by the Board, and reporting to the Board its findings from time to time on matters arising and requiring the attention of the Audit Committee; and
- undertaking generally such other functions and duties as may be required by law or the Listing Rules, and by such amendments made thereto from time to time

The Chairman of the Audit Committee, Mr Lee Gee Aik, is by profession, a Chartered Accountant. As a practising accountant, he has acquired the relevant accounting, auditing and risk management experience. The other members of the Audit Committee have many years of experience in the legal profession and in business management. The Board is of the view that the members of the Audit Committee have recent and relevant accounting or related financial management expertise or experience to discharge the Audit Committee's functions.

During FY2014, the Audit Committee chairman attended technical updates and seminars conducted by the Institute of Singapore Chartered Accountants. In addition, the Audit Committee was also briefed by the external auditors in respect of the latest changes to accounting standards and issues which have a direct impact on the financial statements.

The Audit Committee has explicit authority to investigate any matter within the terms of reference which are necessary to enable it to discharge the functions properly. The Audit Committee meets with the external auditors separately, at least once a year, without the presence of the Management to discuss the reasonableness of the financial reporting process, to review the adequacy of audit arrangements, with particular emphasis on the observations and recommendations of the external auditors, the scope and quality of their audits and the independence and objectivity of the external auditors.

The Audit Committee is responsible for conducting an annual review of the volume of audit and non-audit services provided by the external auditors to ensure that such services will not prejudice the independence and objectivity of the external auditors. For FY2014, the amount of audit fees paid to the external auditors was approximately RMB675,000. The external auditors did not provide any non-audit services to the Company.

The Company complies with Rule 712 and Rule 715 of the Listing Rules of the Singapore Exchange Securities Trading Limited in engaging Foo Kon Tan LLP (formerly known as Foo Kon Tan Grant Thornton LLP) as the external auditors of the Company. Foo Kon Tan LLP is registered with the Accounting and Corporate Regulatory Authority. Foo Kon Tan LLP is the external auditors of the Company and performs the audit of its PRC subsidiary for consolidation purposes. The Audit Committee has recommended to the Board that Foo Kon Tan LLP be nominated for re-election as external auditors at the forthcoming AGM.

The Company has put in place a whistle-blowing policy, which provides for the mechanisms by which employees and other persons may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters to the Independent Non-Executive Directors of the Company, with the objective of ensuring that arrangements are in place for the independent investigation of such matters for appropriate follow-up action. During FY2014, there were no complaints, concerns or other matters received from the channel established under the whistle-blowing policy.

# CORPORATE GOVERNANCE REPORT

**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.

## COMMUNICATION WITH SHAREHOLDERS

**Principle 14:** ***Companies should treat all shareholders fairly and equitably, and should recognise, protect and facilitate the exercise of shareholders' rights, and continually review and update such governance arrangements.***

**Principle 15:** ***Companies should actively engage their shareholders and put in place an investor relations policy to promote regular, effective and fair communication with shareholders.***

The Company is committed to treating all shareholders fairly and equitably. It recognises, protects and facilitates the exercise of shareholders' rights, and continually reviews and updates its governance arrangements.

The Company is also committed to regular and proactive communication with its shareholders in line with continuous disclosure obligations of the Company under the Listing Rules. Pertinent information has been disclosed or communicated to shareholders in a timely, fair and equitable manner through:

- quarterly, half-year and full-year results announcements which are published on the SGXNet and in news releases;
- the Company's annual reports that are prepared and issued to all shareholders;
- notices of and explanatory memoranda, for AGMs and extraordinary general meetings; and
- the Company's website at http://www.anjie.cc through which shareholders can access information on the Company.

Apart from the above communication channels, the Group has specifically entrusted the Chief Financial Officer with the responsibility of facilitating communications with shareholders and analysts and attending to their queries or concerns.

In FY2014, the Chief Financial Officer had attended several one-on-one meetings with individual high net worth investors to raise funds for the Company. Questions were mainly centred on the Group's corporate developments and financial performance which the Chief Financial Officer took the opportunity to address. If required, the Chief Financial Officer will also attend road shows organised by analysts to present corporate and financial information to potential investors.

The Company did not pay any dividends in FY2014. The Company does not have a fixed dividend policy. The form, frequency and amount of dividends will depend on the Group's earnings, general financial condition, results of operations, capital requirements, cash flow, general business condition, development plans and other factors as the directors may deem appropriate. Any proposal for the declaration of dividends will be clearly communicated to the shareholders via SGXNet.

# CORPORATE GOVERNANCE REPORT

## CONDUCT OF SHAREHOLDER MEETINGS

**Principle 16:** ***Companies should encourage greater shareholder participation at general meetings of shareholders, and allow shareholders the opportunity to communicate their views on various matters affecting the company.***

The Company sufficiently informs its shareholders of changes in the Group or its business which would be likely to materially affect the price or value of the Company's shares. The Company also ensures that its shareholders have the opportunity to participate effectively in and vote at general meetings of shareholders. In this regard, the shareholders are informed of the rules, including voting procedures, which govern the general meetings of shareholders.

AGMs are the main forum for communication with shareholders. Annual reports and notices of the AGMs are sent to or made available to all shareholders. If any shareholder is unable to attend, he is allowed to appoint up to two proxies to vote on his behalf at the meeting through proxy forms sent in advance. For resolutions to be voted by way of show of hand, only the first proxy appointed (in the event that there are two proxies appointed) shall be entitled to vote for the said resolutions. At AGMs, each distinct issue will be proposed as a separate resolution.

The members of the Audit Committee, Nominating Committee and Remuneration Committee will be present at AGMs to answer questions relating to the work of these committees. The external auditors will also endeavour to be present to address shareholders' queries about the conduct of audit and the preparation and content of the auditor's report. The Board welcomes the views of shareholders on matters affecting the Company, whether at shareholders' meetings or on an ad hoc basis.

Resolutions are as far as possible, structured separately and may be voted upon independently during the AGM. Currently, resolutions are to be passed at general meetings by hand or by poll, if required.

While acknowledging that voting by poll is integral to the enhancement of corporate governance, the Company is concerned over the cost effectiveness and efficiency of the polling procedures which may be logistically and administratively burdensome. Electronic polling may be efficient in terms of speed but may not be cost effective. Nevertheless, the Board will adhere to the requirements of the Listing Manual under which all resolutions are to be voted by poll for general meetings held on and after 1 August 2015.

## DEALINGS IN SECURITIES

In compliance with Rule 1207(19) of the Listing Rules on best practices on dealing in securities, the Company has issued circulars to its Directors and officers informing that its Directors, Executive Officers and any other persons as determined by the Management, must not deal in the Company's shares during the period of two weeks before the release of quarterly results and one month before the release of the full-year results.

The Company has reminded its Directors and Executive Officers that it is an offence under the Securities and Futures Act (Chapter 289) for a listed issuer or its officers to deal in the listed issuer's securities as well as securities of other listed issuers when the officers are in possession of unpublished material price-sensitive information in relation to those securities. Directors and Executive Officers are reminded and expected to observe insider-trading laws at all times even when dealing in securities within permitted trading periods. Employees who attend management committee meetings have to observe the "closed window" periods.

The Company has further reminded its Directors and Executive Officers not to deal in the Company's securities on short-term considerations.

The Board confirms that for FY2014, the Company has complied with Rule 1207(19) of the Listing Rules.

## NON-AUDIT FEES

There was no non-audit service rendered by the Group's external auditors, Foo Kon Tan LLP in FY2014 and therefore no non-audit fees were paid to them.

# CORPORATE GOVERNANCE REPORT

## MATERIAL CONTRACTS

There are no material contracts entered into by the Company and its subsidiary during the 2014 or still subsisting as at 31 December 2014 which involved the interests of any of the Directors or controlling shareholders of the Company.

## INTERESTED PERSON TRANSACTIONS

There are no interested person transactions entered into by the Group during FY2014 under review in accordance with Rule 907 of the Listing Rules.

## CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility forms an integral part in the formulation of our business strategy and the Group endeavors to strike a balance between pursuing profitability and building a sustainable and better environment for our stakeholders through the following initiatives.

The Management believes that they play a pivotal role in curbing environmental pollution in the PRC and remains committed in their efforts in delivering quality industrial wastegas and wastewater systems that can satisfy the country's stringent emission requirements. On numerous occasions, we had rejected contracts that went against our business ethics and will continue to do so in future, notwithstanding the profitability of those contracts.

To constantly deliver quality products and services, we have in-place a strict quality control system, which are fine-tuned regularly to meet the demands of ever changing business needs, and we believe this is our key critical success factor in securing numerous recurring contracts from customers. Our quality control procedures ensure that our environmental protection systems and technologies are in accordance with our customers' specifications and requirements, and also comply with the industry's and country's emission standards. Such values are also embraced by our research and development department as they continuously leverage on new technology and innovation to improve existing products. Our hard work had paid off in FY2014. In FY2014, we had developed and patented our dust elimination technology (entailing a pulsating rotary positioning mechanism that can effectively and efficiently remove dust particles). For our efforts, we were rewarded with a successful registration of an invention patent for a twenty-year period and a contract to provide this technology to an established customer from the oil and gas industry. Such recognitions would motivate us to do more for the environment.

The Group also promotes a healthy and safe working environment for the workers at the various project sites. The Management has set a zero-accident target for all project managers before the start of any projects. A safety officer is appointed to ensure that the workers adhere to the safety rules and regulations at all times. The workers must be equipped with the right tools and equipment before they embark on any construction works. Consumption of alcohol is strictly prohibited during working hours so that workers can stay focussed to complete their given tasks within stipulated deadlines.

As part of a green footprint campaign in the work place, the department heads regularly encourage their department staff to play their part in avoiding unnecessary wastages resulting from their daily usage of water, paper and electricity in the office. The department heads will lead by example in demonstrating how these little things that we do in our daily life can make a difference in improving the environment so that the staff will put in more conscious efforts towards achieving the campaign's objective.

# CORPORATE GOVERNANCE REPORT

## USE OF PROCEEDS

As at 31 December 2014, the net proceeds from the Company's initial public offering have been utilised as follows:

| Usage of IPO proceeds | Amount allocated RMB'000 | Amount utilised RMB'000 | Change in use of the proceeds RMB'000 | Amount utilised RMB'000 | Balance RMB'000 |
|---|---|---|---|---|---|
| Increase and enhance research and development activities | 15,107 | (14,182) | (925) | – | – |
| Investment in capital expenditures | 3,021 | (120) | (2,901) | – | – |
| To increase in sales and marketing activities in the representative offices | 3,021 | (1,895) | (1,126) | – | – |
| To secure and undertake large scale environmental projects | 50,358 | (50,358) | – | – | – |
| General working capital | 6,654 | (6,654) | 4,952 | (4,531) | 421 |
| **Total** | 78,161 | (73,209) | – | (4,531) | 421 |

For full details regarding the change in use of the IPO proceeds of RMB4,952,000, please refer to the Company's announcement dated 14 June 2013.

The amount of RMB4.5 million was utilized for the payments of operating expenses of the subsidiary.

**Private placement on 25 August 2014**

| Usage of private placement proceeds | RMB'000 |
|---|---|
| Gross proceeds received, earmarked as working capital for the Company | 5,823 |
| **Amount utilised as follows:** | |
| Directors' remunerations, Directors' fees and staff payroll and related costs | (2,137) |
| Compliance costs | (1,138) |
| Insurance | (45) |
| Legal fees incurred on the renewal of bank loans | (27) |
| Printing and courier charges | (124) |
| Others * | (419) |
| Exchange gain | 29 |
| Balance as at 31 December 2014 | 1,962 |

* Others comprised of office rental, travelling and entertainment expenses.

# DISCLOSURE GUIDE

| Guideline | Questions | How the Company complied? |
|---|---|---|
| General | (a) Has the Company complied with all the principles and guidelines of the Code? If not, please state the specific deviations and the alternative corporate governance practices adopted by the Company in lieu of the recommendations in the Code.<br><br>(b) In what respect do these alternative corporate governance practices achieve the objectives of the principles and conform to the guidelines in the Code? | (a) The Company has complied with all the principles and guidelines of the Code, except for the requirement of full disclosure on remuneration to the Directors. Please refer to the explanation under Guideline 9.2 below.<br><br>(b) Not applicable. |
| **Board Responsibility** | | |
| Guideline 1.5 | What are the types of material transactions which require approval from the Board? | The Board's functions include approving matters such as corporate strategy and business plans, corporate restructuring, mergers and acquisitions, major investments and divestments, material acquisitions and disposals of assets and major corporate policies on key areas of operations.<br><br>The Company did not enter into any major transaction or business proposal out of the ordinary course of business. |
| **Members of the Board** | | |
| Guideline 2.6 | (a) What is the Board's policy with regard to diversity in identifying director nominees?<br><br>(b) Please state whether the current composition of the Board provides diversity on each of the following – skills, experience, gender and knowledge of the Company, and elaborate with numerical data where appropriate. | (a) The Board believes in having an appropriate balance and diversity of skills, experience, gender and knowledge.<br><br>(b) The Nominating Committee is of the view that the current Board comprises directors who as a group provide an appropriate balance and diversity of skills, experience, gender and knowledge to the Group. The Directors also provide core competencies such as accounting or finance, business or management or legal experience, industry knowledge, strategic planning experience and customer-based experience or knowledge required for the Board to be effective. |

# DISCLOSURE GUIDE

| Guideline | Questions | How the Company complied? |
|---|---|---|
| | (c) What steps has the Board taken to achieve the balance and diversity necessary to maximize its effectiveness? | (c) The Nominating Committee has put in place a formal and transparent process for all appointments to the Board. It has adopted written terms of reference defining its membership, administration and duties. As part of the process for the selection, appointment and re-appointment of Directors, the Nominating Committee takes into consideration the following issues: composition, diversity and progressive renewal of the Board and each Director's competencies, commitment, contribution and performance (including attendance at meetings). |
| Guideline 4.6 | Please describe the board nomination process for the Company in the last financial year for (i) selecting and appointing new directors and (ii) re-electing incumbent directors. | No new Directors were appointed in FY2014. Regarding the re-appointment of incumbent Directors, please refer to the nomination process and considerations described under Guideline 2.6 above. |
| Guideline 1.6 | (a) Are new directors given formal training? If not, please explain why. | (a) A formal letter will be sent to newly appointed Directors upon their appointment setting out the duties and obligations of such new Directors. The Board ensures that any incoming Director will be given an orientation on the Group's business strategies and operations and governance practices to facilitate the effective discharge of their duties. No new Directors were appointed in FY2014. |
| | (b) What are the types of information and training provided to (i) new directors and (ii) existing directors to keep them up-to-date? | (b) Directors have been and will be encouraged to attend seminars and receive training to improve themselves in the discharge of their duties as Directors. The Group will work closely with professionals to provide its Directors with updates on changes to relevant laws, regulations and accounting standards.<br><br>Directors are also provided with an insight into the Group's operational facilities and periodically meet with the Management to gain a better understanding of the Group's business operations. The Board as a whole is updated on risks management and the key changes in the relevant regulatory provisions which have an important bearing on the Group and the Directors' obligations to the Group. |

# DISCLOSURE GUIDE

| Guideline | Questions | How the Company complied? |
|---|---|---|
| Guideline 4.4 | (a) What is the maximum number of listed company board representations that the Company has prescribed for its directors? What are the reasons for this number? | (a) The Board has determined and set that as a general rule, the maximum number of listed company board appointments be not more than six (6) companies. However, any Directors may hold more than six (6) listed company board representations should the Nominating Committee be satisfied and is of the view that such Directors are able to devote sufficient time and attention to the affairs of the Company after taking into account their individual circumstances, contributions, responsibilities and other principal commitments. |
| | (b) If a maximum number has not been determined, what are the reasons? | (b) Not applicable. |
| | (c) What are the specific considerations in deciding on the capacity of directors? | (c) In considering the re-appointment of Directors, their competencies as well as their commitment, contribution and performance (including attendance at meetings) during the financial year will be considered. |
| **Board Evaluation** | | |
| Guideline 5.1 | (a) What was the process upon which the Board reached the conclusion on its performance for the financial year? | (a) Please refer to the board evaluation process described under the section entitled “Board Performance” in the Corporate Governance Report. |
| | (b) Has the Board met its performance objectives? | (b) Yes. The Nominating Committee has assessed the current Board’s performance to-date and is of the view that the performance of the Board as a whole was satisfactory. |
| **Independence of Directors** | | |
| Guideline 2.1 | Does the Company comply with the guideline on the proportion of independent directors on the Board? If not, please state the reasons for the deviation and the remedial action taken by the Company. | Yes. As the Executive Chairman and the Chief Executive Officer is the same person, the requirement of the Code that at least half the Board comprises Independent Directors is satisfied as there are three Independent Non-Executive Directors on the Board. |

# DISCLOSURE GUIDE

| Guideline | Questions | How the Company complied? |
|---|---|---|
| Guideline 2.3 | (a) Is there any director who is deemed to be independent by the Board, notwithstanding the existence of a relationship as stated in the Code that would otherwise deem him not to be independent? If so, please identify the director and specify the nature of such relationship.<br><br>(b) What are the Board's reasons for considering him independent? Please provide a detailed explanation. | (a) No.<br><br>(b) Not applicable. |
| Guideline 2.4 | Has any independent director served on the Board for more than nine years from the date of his first appointment? If so, please identify the director and set out the Board's reasons for considering him independent. | No. |
| **Disclosure on Remuneration** | | |
| Guideline 9.2 | Has the Company disclosed each director's and the CEO's remuneration as well as a breakdown (in percentage or dollar terms) into base/fixed salary, variable or performance-related income/ bonuses, benefits in kind, stock options granted, share-based incentives and awards, and other long-term incentives? If not, what are the reasons for not disclosing so? | The Company has disclosed a breakdown of each Director's and the CEO's remuneration (in percentage terms) into base/fixed salary, variable or performance-related income/ bonuses, benefits in kind, but did not disclose the exact details of their remuneration as it is not in the best interests of the Company and the employees to disclose such details due to the sensitive nature of such information and as the industry which the Company is in is highly competitive in respect of the recruitment of experienced executives. |
| Guideline 9.3 | (a) Has the Company disclosed each key management personnel's remuneration, in bands of S$250,000 or in more detail, as well as a breakdown (in percentage or dollar terms) into base/fixed salary, variable or performance-related income/ bonuses, benefits in kind, stock options granted, share-based incentives and awards, and other long-term incentives? If not, what are the reasons for not disclosing so?<br><br>(b) Please disclose the aggregate remuneration paid to the top five key management personnel (who are not directors or the CEO). | (a) Yes. Please refer to the section entitled "Disclosure on Remuneration" in the Corporate Governance Report.<br><br>(b) The annual aggregate remuneration paid to the top four Key Executives of the Company (who are not Directors or the Chief Executive Officer) for FY2014 is S$262,000 (RMB1,274,000). |

# DISCLOSURE GUIDE

| Guideline | Questions | How the Company complied? |
|---|---|---|
| Guideline 9.4 | Is there any employee who is an immediate family member of a director or the CEO, and whose remuneration exceeds S$50,000 during the year? If so, please identify the employee and specify the relationship with the relevant director or the CEO. | No. |
| Guideline 9.6 | (a) Please describe how the remuneration received by executive directors and key management personnel has been determined by the performance criteria.<br><br>(b) What were the performance conditions used to determine their entitlement under the short-term and long-term incentive schemes?<br><br>(c) Were all of these performance conditions met? If not, what were the reasons? | (a) Please refer to the section entitled "Disclosure on Remuneration" in the Corporate Governance Report.<br><br>(b) Please refer to the section entitled "Disclosure on Remuneration" in the Corporate Governance Report.<br><br>(c) Please refer to the section entitled "Disclosure on Remuneration" in the Corporate Governance Report. |
| **Risk Management and Internal Controls** | | |
| Guideline 6.1 | What types of information does the Company provide to independent directors to enable them to understand its business, the business and financial environment as well as the risks faced by the Company? How frequently is the information provided? | Please refer to the section entitled "Access to Information" in the Corporate Governance Report. |
| Guideline 13.1 | Does the Company have an internal audit function? If not, please explain why. | No. Please refer to the explanation set out under the section entitled "Internal Audit" in the Corporate Governance Report. |
| Guideline 11.3 | (a) In relation to the major risks faced by the Company, including financial, operational, compliance, information technology and sustainability, please state the bases for the Board's view on the adequacy and effectiveness of the Company's internal controls and risk management systems.<br><br>(b) In respect of the past 12 months, has the Board received assurance from the CEO and the CFO as well as the internal auditor that: (i) the financial records have been properly maintained and the financial statements give true and fair view of the Company's operations and finances; and (ii) the Company's risk management and internal control systems are effective? If not, how does the Board assure itself of points (i) and (ii) above? | (a) Please refer to the section entitled "Risk Management and Internal Controls" in the Corporate Governance Report.<br><br>(b) Yes. Please refer to the section entitled "Risk Management and Internal Controls" in the Corporate Governance Report. |

# DISCLOSURE GUIDE

| Guideline | Questions | How the Company complied? |
|---|---|---|
| Guideline 12.6 | (a) Please provide a breakdown of the fees paid in total to the external auditors for audit and non-audit services for the financial year.<br><br>(b) If the external auditors have supplied a substantial volume of non-audit services to the Company, please state the bases for the Audit Committee's view on the independence of the external auditors. | (a) The fees paid to external auditors for audit services in FY2014 amounted to approximately RMB675,000. There were no fees paid to external auditors for non-audit services in FY2014.<br><br>(b) Not applicable. The external auditors have not provided any non-audit services to the Company. |
| **Communication with Shareholders** | | |
| Guideline 15.4 | (a) Does the Company regularly communicate with shareholders and attend to their questions? How often does the Company meet with institutional and retail investors?<br><br>(b) Is this done by a dedicated investor relations team (or equivalent)? If not, who performs this role?<br><br>(c) How does the Company keep shareholders informed of corporate developments, apart from SGXNET announcements and the annual report? | (a) Please refer to the section entitled "Communication with Shareholders" in the Corporate Governance Report.<br><br>(b) The Group has specifically entrusted the Chief Financial Officer with the responsibility of facilitating communications with shareholders and analysts and attending to their queries or concerns.<br><br>(c) Please refer to the section entitled "Communication with Shareholders" in the Corporate Governance Report. |
| Guideline 15.5 | If the Company is not paying any dividends for the financial year, please explain why. | The Company did not pay any dividends in FY2014. The Company does not have a fixed dividend policy. The form, frequency and amount of dividends will depend on the Group's earnings, general financial condition, results of operations, capital requirements, cash flow, general business condition, development plans and other factors as the Directors may deem appropriate. |

# DIRECTORS' REPORT

The directors submit this annual report to the members together with the audited consolidated financial statements of the Group and statement of financial position and statement of changes in equity of the Company for the financial year ended 31 December 2014.

## Directors

The directors of the Company in office at the date of this report are:

Lin Baiyin
Zang Linying
Lee Gee Aik
Mak Yen-Chen Andrew
Zhai Guihua

## Arrangements to enable directors to acquire shares or debentures

During and at the end of the financial year, neither the Company nor its subsidiary was a party to any arrangement of which the object was to enable the directors to acquire benefits through the acquisition of shares in or debentures of the Company or of any other corporate body, other than as disclosed in this report.

## Directors' interest in shares or debentures

According to the Register of Directors' Shareholdings kept by the Company under Section 164 of the Companies Act, Cap. 50, none of the directors who held office at the end of the financial year had any interest in the shares or debentures of the Company or its related corporations, except as follows:

| | Number of ordinary shares | | | | | |
|---|---|---|---|---|---|---|
| | Shares registered in the name of director | | | Shares in which director is deemed to have an interest | | |
| **Director** | **As at 1.1.2014** | **As at 31.12.2014** | **As at 11.3.2015** | **As at 1.1.2014** | **As at 31.12.2014** | **As at 11.3.2015** |
| Lin Baiyin | 1,000,000 | 1,000,000 | 1,000,000 | 207,304,000 | 207,304,000 | 207,304,000 |

## Directors' contractual benefits

Since the end of the previous financial year, no director has received or has become entitled to receive a benefit under a contract which is required to be disclosed under Section 201(8) of the Companies Act, Cap. 50, except as disclosed in the accompanying financial statements and in this report, and except that Mr Lin Baiyin has entered into a service agreement with the ultimate holding company, and has received remuneration in that capacity.

## Share options granted

No options were granted during the financial year to take up unissued shares of the Company or of its subsidiary. No shares were issued by virtue of the exercise of options. There were no unissued shares under option at the end of the financial year.

## Leader Performance Share Scheme

No shares have been granted to any of the Company's directors, controlling shareholders or their associates in 2014.

| | No. of ordinary shares | | Amount | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 RMB'000 | 2013 RMB'000 |
| Employees | – | 4,600,000 | – | 2,070 |
| Total | – | 4,600,000 | – | 2,070 |

## Audit committee

The audit committee at the end of the financial year comprises the following members:

Lee Gee Aik (Chairman)
Mak Yen-Chen Andrew (Member)
Zhai Guihua (Member)

The Audit Committee performs the functions set out in Section 201B(5) of the Companies Act, Cap. 50, the SGX Listing Manual and the Code of Corporate Governance. In performing these functions, the Audit Committee reviewed the following:

(i) overall scope of both the internal and external audits and the assistance given by the Company's officers to the auditors. It met with the Company's internal and external auditors to discuss the results of their respective examinations and their evaluation of the Company's system of internal accounting controls;

(ii) the audit plan of the Company's independent auditor and any recommendations on internal accounting controls arising from the statutory audit;

(iii) the quarterly financial information and the statement of financial position of the Company and the consolidated financial statements of the Group for the financial year ended 31 December 2014 as well as the auditor's report thereon;

(iv) effectiveness of the Company's material internal controls, including financial, operational, information technology and compliance controls and risk management via reviews carried out by the internal auditors;

(v) met with the external auditor, other committees, and management in separate executive sessions to discuss any matters that these groups believe should be discussed privately with the Audit Committee;

(vi) reviewed legal and regulatory matters that may have a material impact on the financial statements, related compliance policies and programmes and any reports received from regulators;

(vii) reviewed the cost effectiveness and the independence and objectivity of the external auditor;

(viii) reviewed the nature and extent of non-audit services provided by the external auditor;

(ix) recommended to the board of directors the external auditor to be nominated, approved the compensation of the external auditor, and reviewed the scope and results of the audit;

(x) reported actions and minutes of the Audit Committee to the board of directors with such recommendations as the Audit Committee considered appropriate; and

(xi) interested person transactions (as defined in Chapter 9 of the Listing Manual of the Singapore Exchange).

# DIRECTORS' REPORT

### Audit committee (Cont'd)

The Audit Committee has full access to management and is given the resources required for it to discharge its functions. It has full authority and the discretion to invite any director or executive officer to attend its meetings. The Audit Committee also recommends the appointment of the external auditor and reviews the level of audit and non-audit fees.

The Audit Committee is satisfied with the independence and objectivity of the external auditor and has recommended to the Board of Directors that the auditor, Foo Kon Tan LLP, be nominated for re-appointment as auditor at the forthcoming Annual General Meeting of the Company.

Full details regarding the Audit Committee are provided in the Report on Corporate Governance.

### Independent auditor

The independent auditor, Foo Kon Tan LLP, Chartered Accountants, has expressed its willingness to accept re-appointment.

### OTHER INFORMATION REQUIRED BY THE SGX-ST

**Material information**

Apart from the Service Agreements between the Executive Directors and the Company, there is no material contract to which the Company or its subsidiary, is a party which involve directors' interests subsisted or have been entered into during the financial year.

**Interested person transactions**

There was no interested person transaction as defined in Chapter 9 of the SGX-ST Listing Manual conducted during the financial year except as disclosed under Note 29 to the consolidated financial statements.

On behalf of the Directors

LIN BAIYIN

ZANG LINYING

Dated: 11 March 2015

# STATEMENT BY DIRECTORS

In the opinion of the directors, the accompanying statements of financial position, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and statement of changes in equity of the Company, together with the notes thereon, are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2014 and of the results of the business, changes in equity and cash flows of the Group and changes in equity of the Company for the financial year ended on that date, and at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Directors

LIN BAIYIN

ZANG LINYING

Dated: 11 March 2015

# INDEPENDENT AUDITOR'S REPORT

To The Members of Leader Environmental Technologies Limited

## Report on the Financial Statements

We have audited the accompanying financial statements of Leader Environmental Technologies Limited ("the Company") and its subsidiary ("the Group"), which comprise the statements of financial position of the Group and the Company as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group and statement of changes in equity of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 45 to 91.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act , Chapter 50 (the "Act"), and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss account and balance sheets and to maintain accountability of assets.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements of the Group and the statement of financial position, and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2014, and the results, changes in equity and cash flows of the Group and statement of changes in equity of the Company for the financial year ended on that date.

## Report on other Legal and Regulatory Requirement

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Foo Kon Tan LLP
Public Accountants and
Chartered Accountants

Singapore,
11 March 2015

# STATEMENTS OF FINANCIAL POSITION

As at 31 December 2014

| | Note | The Group | | The Company | |
|---|---|---|---|---|---|
| | | 31 December 2014 | 31 December 2013 | 31 December 2014 | 31 December 2013 |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **ASSETS** | | | | | |
| **Non-Current Assets** | | | | | |
| Property, plant and equipment | 4 | 10,469 | 11,386 | 4 | 6 |
| Intangible assets | 5 | 6,966 | 5,538 | – | – |
| Club membership | 6 | 763 | 810 | – | – |
| Investment in subsidiary | 7 | – | – | 152,494 | 152,494 |
| Investment in associates | 8 | 3,715 | 5,578 | 4,845 | 5,913 |
| | | 21,913 | 23,312 | 157,343 | 158,413 |
| **Current Assets** | | | | | |
| Gross amount due from customers for contract work-in-progress | 9 | 17,207 | 19,585 | – | – |
| Inventories | 10 | 1,747 | 2,372 | – | – |
| Trade and other receivables | 11 | 205,926 | 206,184 | 41,629 | 40,554 |
| Prepayments | 12 | 175,188 | 169,313 | 178 | 139 |
| Bank deposits pledged | 13 | 62,172 | 500 | – | – |
| Cash and cash equivalents | 14 | 75,051 | 52,987 | 1,945 | 557 |
| | | 537,291 | 450,941 | 43,752 | 41,250 |
| **Total assets** | | 559,204 | 474,253 | 201,095 | 199,663 |
| **EQUITY AND LIABILITIES** | | | | | |
| **Capital and Reserves** | | | | | |
| Share capital | 15 | 211,449 | 205,834 | 211,449 | 205,834 |
| PRC statutory common reserve | 16 | 31,748 | 31,230 | – | – |
| Merger reserve | 17 | (454) | (454) | – | – |
| Retained profits/(loss) | | 77,110 | 77,532 | (12,270) | (8,024) |
| **Total equity** | | 319,853 | 314,142 | 199,179 | 197,810 |
| **Non-Current Liabilities** | | | | | |
| Deferred tax liabilities | 18 | 4,643 | 4,643 | – | – |
| **Current Liabilities** | | | | | |
| Gross amount due to customers for contract work-in-progress | 9 | 1,772 | 1,542 | – | – |
| Trade and other payables | 20 | 39,927 | 47,564 | 492 | 259 |
| Loans and borrowings | 19 | 172,600 | 80,000 | – | – |
| Other liabilities | 21 | 19,148 | 26,362 | 1,424 | 1,594 |
| Income tax payable | | 1,261 | – | – | – |
| | | 234,708 | 155,468 | 1,916 | 1,853 |
| **Total liabilities** | | 239,351 | 160,111 | 1,916 | 1,853 |
| **Total equity and liabilities** | | 559,204 | 474,253 | 201,095 | 199,663 |

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2014

| The Group | Note | Year ended 31 December 2014 RMB'000 | Year ended 31 December 2013 RMB'000 |
|---|---|---|---|
| Revenue | 3 | 72,387 | 36,548 |
| Cost of sales | | (50,207) | (31,568) |
| Gross profit | | 22,180 | 4,980 |
| Financial income | 22 | 178 | 87 |
| Other income | 23 | 416 | 516 |
| Selling and distribution expenses | | (1,468) | (1,534) |
| Administrative expenses | | (12,009) | (18,878) |
| Finance costs | 22 | (6,474) | (6,148) |
| Other expenses | 23 | (78) | (79,533) |
| Share of results of associate companies | | (795) | (1,758) |
| Profit/(loss) before taxation | 24 | 1,950 | (102,268) |
| Taxation | 25 | (1,854) | (877) |
| Profit/(loss) for the year and representing total Comprehensive income/(expense) attributable to owners of the Company * | | 96 | (103,145) |
| Earnings/(loss) per share | | | |
| - Basic and diluted (RMB cents) | 26 | 0.02 | (20.25) |

* There are no other comprehensive income and expense items for both financial years.

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

# STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 31 December 2014

| The Group | Share capital | PRC statutory common reserve | Merger reserve | Retained profits | Total equity |
|---|---|---|---|---|---|
| | ← Attributable to owners of the Company → | | | | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2014 | 205,834 | 31,230 | (454) | 77,532 | 314,142 |
| Profit for the year, representing total comprehensive income for the year | – | – | – | 96 | 96 |
| Issuance of new ordinary shares (Note 15) | 5,823 | – | – | – | 5,823 |
| Share issuance expenses (Note 15) | (208) | – | – | – | (208) |
| Appropriation of profit to reserve | – | 518 | – | (518) | – |
| At 31 December 2014 | 211,449 | 31,748 | (454) | 77,110 | 319,853 |
| At 1 January 2013 | 194,015 | 31,230 | (454) | 180,677 | 405,468 |
| Loss for the year, representing total comprehensive expense for the year | – | – | – | (103,145) | (103,145) |
| Grant of shares under LET Performance share scheme | 2,070 | – | – | – | 2,070 |
| Issuance of new ordinary shares (Note 15) | 9,749 | – | – | – | 9,749 |
| At 31 December 2013 | 205,834 | 31,230 | (454) | 77,532 | 314,142 |

| The Company | Share capital | (Accumulated loss)/ retained profits | Total equity |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2014 | 205,834 | (8,024) | 197,810 |
| Loss for the year, representing total comprehensive expense for the year | – | (4,246) | (4,246) |
| Issuance of new ordinary shares (Note 15) | 5,823 | – | 5,823 |
| Share issuance expenses (Note 15) | (208) | – | (208) |
| At 31 December 2014 | 211,449 | (12,270) | 199,179 |
| At 1 January 2013 | 194,015 | 731 | 194,746 |
| Loss for the year, representing total comprehensive expense for the year | – | (8,755) | (8,755) |
| Grant of shares under LET Performance share scheme | 2,070 | – | 2,070 |
| Issuance of new ordinary shares (Note 15) | 9,749 | – | 9,749 |
| At 31 December 2013 | 205,834 | (8,024) | 197,810 |

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2014

| The Group | Year ended 31 December 2014 RMB'000 | Year ended 31 December 2013 RMB'000 |
|---|---|---|
| Cash Flows from Operating Activities | | |
| Profit/(loss) before taxation | 1,950 | (102,268) |
| Adjustments for: | | |
| Fair value of shares issued pursuant to LET Performance Share scheme | – | 2,070 |
| Inventories written down | – | 265 |
| Depreciation of property, plant and equipment | 827 | 928 |
| Gain on disposal of property, plant and equipment (Note A) | (190) | (271) |
| Amortisation of intangible assets and club membership | 1,227 | 1,205 |
| Trade receivables written off | – | 79,098 |
| Finance costs | 6,474 | 6,148 |
| Interest income | (178) | (87) |
| Impairment loss on investment in associate | – | 1,423 |
| Share of results of associates | 795 | 335 |
| Unrealised exchange loss | 56 | 93 |
| Operating profit/(loss) before working capital changes | 10,961 | (11,061) |
| Decrease in gross amount due from customers for contract work-in-progress | 2,378 | 25,775 |
| Decrease in inventories | 625 | 653 |
| Decrease in trade and other receivables | 1,326 | 22,668 |
| Increase in prepayments | (5,875) | (30,470) |
| Increase in gross amount due to customers for contract work-in-progress | 230 | 1,542 |
| Decrease in trade and other payables | (7,584) | (9,321) |
| Decrease in other liabilities | (7,214) | (2,278) |
| Cash used in operations | (5,153) | (2,492) |
| Interest paid | (6,474) | (6,148) |
| Interest income received | 178 | 87 |
| Income tax paid | (593) | (357) |
| Net cash used in operating activities | (12,042) | (8,910) |
| **Cash Flows from Investing Activities** | | |
| Purchase of property, plant and equipment | (5) | (96) |
| Investment in associate | – | (4,874) |
| Additions to intangible assets | (2,608) | – |
| Net cash used in investing activities | (2,613) | (4,970) |
| **Cash Flows from Financing Activities** | | |
| Proceeds from issuance of new ordinary shares pursuant to the private placement | 5,823 | 9,749 |
| Share issuance expenses | (208) | – |
| Proceeds from loans and borrowings | 172,600 | 80,000 |
| Repayments of loans and borrowings | (80,000) | (80,000) |
| Proceeds from bills payable - net | 232 | – |
| (Increase)/decrease in bank deposits pledged | (61,672) | 834 |
| Net cash generated from financing activities | 36,775 | 10,583 |
| Net increase/(decrease) in cash and cash equivalents | 22,120 | (3,297) |
| Exchange differences on translation of cash and cash equivalents | (56) | (64) |
| Cash and cash equivalents at beginning of year | 52,987 | 56,348 |
| Cash and cash equivalents at end of year (Note 14) | 75,051 | 52,987 |

Note A:

The net proceeds on disposals of property, plant and equipment amounting to RMB285,000 (2013: RMB1,026,000) have been offset against the balances owing to trade creditors as part settlement for trade payable balances.

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

## 1 General information

The financial statements of the Group and the Company for the financial year ended 31 December 2014 were authorised for issue in accordance with a resolution of the directors on the date of the Statement by Directors.

The Company was incorporated as a limited liability company and domiciled in Singapore and is listed on the Singapore Exchange.

The registered office of the Company is located at 36 Armenian Street #06-12, Singapore 179934, and the principal place of business of the Group is located in Room 1303, No. 5445 Lin He Street, Economic Development Zone, Changchun City, Jilin Province, The People's Republic of China ("PRC"), Postal Code: 130033.

## 2(a) Basis of preparation

The financial statements are prepared in accordance with Singapore Financial Reporting Standards ("FRS") including related Interpretations to FRS ("INT FRS") promulgated by the Accounting Standards Council ("ASC"). The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The financial statements are presented in Renminbi ("RMB") which is the Company's functional currency. All financial information presented in RMB has been rounded to the nearest thousand, unless otherwise stated.

**Critical accounting estimates and judgments**

The preparation of the financial statements in conformity with FRS requires the use of judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

The critical accounting estimates and assumptions used and areas involving a significant degree of judgment are described below:

**Critical assumptions used in applying accounting policies**

Construction contracts (Note 9)

**Revenue**

The Group recognises contract revenue by reference to the stage of completion of the contract activity at each end of the reporting period, when the outcome of a construction contract can be estimated reliably. The stage of completion is measured by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. Significant assumptions are required to estimate the total contract costs and the recoverable variation works that will affect the stage of completion and the contract revenue respectively. The estimates are made based on past experience and knowledge of the project engineers. The carrying amounts of assets and liabilities arising from construction contracts at each end of the reporting period are disclosed in Note 9 to the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

## 2(a) Basis of preparation (Cont'd)

**Critical assumptions used in applying accounting policies (Cont'd)**

Construction contracts (Note 9) (Cont'd)

Significant judgment is also required to assess allowance made for foreseeable losses, if any, where the contract costs incurred for any project exceeds its contract sum.

If the revenue on uncompleted contracts at the reporting year end date had been higher/lower by 10% from management's estimates, the Group's profit would have been higher/lower by RMB7,921,000 (2013: RMB6,367,000).

**Cost**

Contract costs include the costs attributable to a contract for the period from the date of securing the contract to the final completion of the contract. However, costs that relate directly to a contract and are incurred in securing the contract are also included as part of the contract costs if they can be separately identified and measured reliably and it is probable that the contract will be obtained. When costs incurred in securing a contract are recognised as an expense in the period in which they are incurred, they are not included in contract costs when the contract is obtained in a subsequent period.

If the contract cost of uncompleted contracts to be incurred had been higher/lower by 10% from management's estimates, the Group's profit would have been lower/higher by RMB6,037,000(2013: RMB5,061,000).

Significant assumptions are required to estimate the total contract costs and the recoverable variation works that will affect the stage of completion and the contract revenue respectively. In estimating the total costs for construction contracts, management makes reference to information such as:

(a) Current offers from contractors and suppliers;

(b) Recent offers agreed with contractors and suppliers; and

(c) Professional estimation on construction and material costs.

Impairment of property, plant and equipment (Note 4)

The Company and the Group assesses annually whether property, plant and equipment have any indication of impairment in accordance with the accounting policy. The recoverable amounts of property, plant and equipment have been determined based on the higher of the value-in-use of the asset and the fair value less costs to sell. The value-in-use calculation requires the Group to estimate the future cash flows expected from the cash-generating units and an appropriate discount rate in order to calculate the present value of the future cash flows. Management has evaluated the recoverability of the investment based on such estimates. The fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incidental costs for disposing the asset. These calculations require the use of judgment and estimates.

Allowance for inventory obsolescence (Note 10)

The Group reviews the ageing analysis of inventories at each reporting date, and makes provision for obsolete and slow moving inventory items identified that are no longer suitable for sale. The net realisable value for such inventories are estimated based primarily on the latest invoice prices and current market conditions. Possible changes in these estimates could result in revisions to the valuation of inventories.

If the net realisable value of the inventory increase/decrease by 10% from management's estimates, the Group's profit will increase/decrease by RMB175,000 (2013: RMB237,000). The carrying amount of the inventory is disclosed in Note 10 to the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

## 2(a) Basis of preparation (Cont'd)

**Critical assumptions used in applying accounting policies (Cont'd)**

Depreciation of property, plant and equipment (Note 4)

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of the property, plant and equipment to be within 5 to 30 years. The carrying amounts of the Group's and the Company's property, plant and equipment as at 31 December 2014 are RMB10,469,000 and RMB4,000 (2013: RMB11,386,000 and RMB6,000) respectively. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised. If depreciation on property, plant and equipment increases/decreases by 10% from management, the Group's profit for the year will decrease/increase by approximately RMB83,000 (2013: RMB93,000).

Allowance for bad and doubtful debts (Note 11)

Allowances for bad and doubtful debts are based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment and allowance for bad and doubtful debts requires the use of judgment and estimates. Where the expected outcome is different from the original estimate, such difference will impact carrying value of trade and other receivables and doubtful debt expenses in the period in which such estimate has been changed.

If the net present values of estimated cash flows had been lower by 10% from management's estimates for all past due loans and receivables, the allowance for impairment of the Group would have been higher by RMB20,593,000 (2013: RMB20,618,000). However, the Group does not foresee any impairment in trade and other receivables, other than as disclosed in Note 11.

**Significant judgment made in applying accounting policies**

Income tax (Notes 18 and 25)

The Group has exposures to income taxes in Singapore and China. Significant judgment is involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The carrying amount of the Group's tax payables and deferred tax liabilities as at 31 December 2014 amounted to approximately RMB5,904,000 (2013: RMB4,643,000).

Determination of functional currency

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiary. In determining the functional currencies of the entities in the Group, judgment is required to determine the currency that mainly influences sales prices for goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services. The functional currencies of the entities in the Group are determined based on management's assessment of the economic environment in which the entities operate and the entities' process of determining sales prices.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

## 2(a) Basis of preparation (Cont'd)

**Significant judgment (Cont'd)**

Going concern

As of 31 December 2014, the Group has cash balances and cash on hand of RMB137,223,000, including bank deposits pledged of RMB62,172,000. As of that date, it has bank loans of RMB172,600,000. The Group has reported a profit before tax of RMB1,950,000 and a net cash used in operating activities of RMB12,042,000 for the year ended 31 December 2014. The Group is of the view that it will have sufficient cash resources to repay the bank loans when due for the following reasons:

- the Group has net current assets of RMB302,583,000 as at 31 December 2014 which is able to support its working capital requirements. The Group is actively monitoring the collections from its customers;
- the Group is exploring the availability of external financing. In particular, the Group believes that short-term bank loans secured by the Group's non-current assets and the fundamental underlying business of the Group is available;
- the Group had renewed its loans successfully in prior years on the back of its good business fundamentals and reputation in the market and believes that it will continue to be able to do so when they are due;
- the Group continues to implement measures to improve the liquidity of the Group's liquidity condition, including but not limited to actively monitoring the collections from trade receivables, tightening its costs and will only commence projects when it is confident of customers' ability to make repayments;
- the management is also actively looking for potential opportunities in mergers and acquisitions activities so as to diversify into other complementary environmental businesses that would provide stable income and liquidity to the Group;
- with the potential acquisition activities, management has a plan for raising equity if required;
- the Group has prepared a cash flow forecast for the 12 months after year end and expects to generate sufficient cash flows on the back of the above-mentioned operating and future fund raising plans, and management has a reasonable expectation that the Group has adequate resources to repay its loans when they are due and to be in operations for the foreseeable future.

## 2(b) Interpretations and amendments to published standards effective in 2014

On 1 January 2014, the Group adopted the new and amended FRSs that are mandatory for application from that date. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS. This includes the following FRSs which are relevant to the Group:

| Reference | Description |
|---|---|
| Revised FRS 27 | *Separate Financial Statements* |
| Revised FRS 28 | *Investments in Associates and Joint Ventures* |
| FRS 110 | *Consolidated Financial Statements* |
| FRS 111 | *Joint Arrangements* |
| FRS 112 | *Disclosure of Interests in Other Entities* |

**2(b) Interpretations and amendments to published standards effective in 2014 (Cont'd)**

The adoption of these new and amended FRSs and INT FRS in current year did not have a material impact on the financial statements of the Group in the period of their initial adopted except for the following:

FRS 110 Consolidated Financial Statements and Revised FRS 27 Separate Financial Statements

FRS 110 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by FRS 110 will require management to exercise significant judgment to determine whether entities are controlled and therefore are required to be consolidated by the Group, compared with the requirements that were in FRS 27. Therefore, FRS 110 may change which entities are consolidated within a group. The revised FRS 27 was amended to address accounting for subsidiaries, jointly controlled entities and associates in the separate financial statements.

The Group has reassessed of which entities the Group controls and there are no resulting changes required.

FRS 111 Joint Arrangements and Revised FRS 28 Investments in Associates and Joint Ventures

FRS 111 classifies joint arrangements either as joint operations or joint ventures. Joint operation is a joint arrangement whereby the parties that have rights to the assets and obligations for the liabilities whereas joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

FRS 111 requires the determination of joint arrangement's classification to be based on the parties' rights and obligations under the arrangement, with the existence of a separate legal vehicle no longer being the key factor. FRS 111 disallows proportionate consolidation and requires joint ventures to be accounted for using the equity method. The revised FRS 28 was amended to describe the application of equity method to investments in joint ventures in addition to associates.

FRS 111 Joint Arrangements and Revised FRS 28 Investments in Associates and Joint Ventures are effective for financial periods beginning on or after 1 January 2014.

The Group has reassessed the classification of joint arrangements and there are no resulting changes required.

FRS 112 Disclosure of Interests in Other Entities

FRS 112 is a new standard on disclosure requirements for all forms of interest in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. FRS 112 requires an entity to disclose information that helps users of its financial statements to evaluate the nature and risks associated with its interests in other entities and the effects of those interests on its financial statements.

FRS 112 Disclosure of Interests in Other Entities is effective for financial periods beginning on or after 1 January 2014.

As this is a disclosure standard it will have no impact to the financial position and financial performance of the Group when applied.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

## 2(c) FRS issued but not yet effective

The following are the new or amended FRS and INT FRS issued but not yet effective but may be early adopted for the current financial year:

| Reference | Description | Effective date (Annual periods beginning on or after) |
|---|---|---|
| FRS 19 | *Defined Benefit Plan: Employee Contribution* | 1 July 2014 |
| Improvements to FRSs (January 2014) | | |
| - FRS 16 | *Property, Plant and Equipment* | 1 July 2014 |
| - FRS 24 | *Related Party Transaction* | 1 July 2014 |
| - FRS 38 | *Intangible Assets* | 1 July 2014 |
| - FRS 40 | *Investment Property* | 1 July 2014 |
| - FRS 102 | *Share-based Payment* | 1 July 2014 |
| - FRS 103 | *Business Combinations* | 1 July 2014 |
| - FRS 108 | *Operating Segments* | 1 July 2014 |
| - FRS 113 | *Fair Value Measurement* | 1 July 2014 |
| - FRS 19 | *Employee Benefits* | 1 January 2016 |
| - FRS 34 | *Interim Financial Reporting* | 1 January 2016 |
| - FRS 105 | *Non-current Assets Held for Sale and Discontinued Operations* | 1 January 2016 |
| - FRS 107 | *Financial Instruments: Disclosures* | 1 January 2016 |
| FRS 27 | *Amendments to FRS 27: Equity Method in Separate Financial Statements* | 1 January 2016 |
| FRS 16, FRS 38 | *Amendments to FRS 16 and FRS 38: Clarification of Acceptable Methods of Depreciation and Amortisation* | 1 January 2016 |
| FRS 16, FRS 41 | *Amendments to FRS 16 and FRS 41: Agriculture: Bear Plants* | 1 January 2016 |
| FRS 110, FRS 28 | *Amendments to FRS 110 and FRS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* | 1 January 2016 |
| FRS 111 | *Amendments to FRS 111: Accounting for Acquisitions of Interests in Joint Operations* | 1 January 2016 |
| FRS 114 | *Regulatory Deferral Accounts* | 1 January 2016 |
| FRS 109 | *Financial Instruments* | 1 January 2018 |
| FRS 115 | *Revenue from Contracts with Customers* | 1 January 2017 |

The directors of the Group do not anticipate that the adoption of the above new or amendments to FRSs in future periods will have a material impact on the financial statements of the Group in the period of their initial adoption except for the following:

Improvements to FRSs (January 2014) Related Party Disclosures

Improvements to FRSs (January 2014) Related Party Disclosures clarify that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The improvements to FRSs (January 2014) FRS 24 Related Party Disclosures are effective from annual periods beginning on or after 1 July 2014. As this is a disclosure standard, it will not have any impact on the financial performance or the financial position of the Company when implemented.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

## 2(c) FRS issued but not yet effective (Cont'd)

Improvements to FRS (January 2014) Operating Segments

The Improvements to FRSs (January 2014) Operating Segments clarifies that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly. In addition, the entity is required to disclose the judgments made by management in applying the aggregation criteria to operating segments. As this is a disclosure standard, it will not have any impact on the financial statements.

FRS 109 (January 2014) Financial Instruments

FRS 109 Financial Instruments replaces FRS 39 and it is a package of improvements introduced by FRS 109 includes a logical model for:

- classification and measurement,
- a single, forward – looking "expected loss" impairment model and
- a substantially reformed approach to hedge accounting

FRS 109 is effective for annual periods beginning on or after 1 January 2018.

FRS 115 Revenue from Contracts with Customers

FRS 115 Revenue from Contracts with Customers requires the entity to recognise revenue which depict transfer of promised goods or services to customers in an amount that reflects the consideration (payment) to which the entity expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements. FRS 115 is effective for annual periods beginning on or after 1 January 2017. The directors are still assessing its impact but which cannot be ascertained presently.

## 2(d) Significant accounting policies

**Business combination**

The consolidated financial statements relate to the Company and its subsidiary (together referred to as the "Group"). The results of subsidiary acquired or disposed of during the year, if any, are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

## 2(d) Significant accounting policies (Cont'd)

**Business combination (Cont'd)**

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred; b) the recognised amount of any non-controlling interest in the acquiree; and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognised in profit or loss immediately.

Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative year presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity and any gain or loss arising is recognised directly in equity.

All transaction costs incurred in relation to the business combination are expensed to the statement of profit or loss and other comprehensive income.

A single uniform set of accounting policies is adopted by the combined entity. Therefore, the combined entity recognised the assets, liabilities and equity of the combining entities or businesses at the carrying amounts in the consolidated financial statements of the controlling party or parties prior to the common control combination.

Where accounting policies of subsidiary do not conform with those of the Group, adjustments are made on combination when the amounts involved are considered significant to the Group.

**Intangible assets**

Intangible assets are accounted for using the cost model with the exception of goodwill. Capitalised costs are amortised on a straight-line basis over their estimated useful lives for those considered as finite useful lives. After initial recognition, they are carried at cost less accumulated amortisation and accumulated impairment losses, if any. In addition, they are subject to annual impairment testing. Indefinite life intangibles are not amortised but are subject to annual impairment testing.

Intangible assets are written off where, in the opinion of the directors, no further future economic benefits are expected to arise.

Patents

Costs relating to patents which are acquired from a third party and internally developed dust elimination technology with pulsating rotary positioning mechanism to clean dust are capitalised and amortised on straight-line basis over its useful life of eight years and ten years respectively.

## 2(d) Significant accounting policies (Cont'd)

**Intangible assets (Cont'd)**

Research and development costs

Research costs are expensed as incurred, except for development costs which relates to the design and testing of new or improved materials, products or processes which are recognised as an asset to the extent that it is expected that such assets will generate future economic benefits.

Development costs are accounted for using the cost model whereby capitalised costs are amortised on a straight-line basis over their estimated useful life of 6 years.

Capitalised costs that are directly attributable to the development phase are recognised as intangible assets provided that they meet the following recognition requirements:

- demonstration of technical feasibility of the prospective product or processes for sale
- the intangible asset will generate probable economic benefits through sale
- sufficient technical, financial and other resources are available for completion
- the intangible asset can be reliably measured.

Directly attributable costs include direct raw material, employee costs incurred on product development with an appropriate portion of relevant overheads. However, until completion of the development of the products or processes, the assets are subject to impairment testing only. Amortisation commences upon the launch of the sales of the products or from the date the processes is put into use.

Club membership

Club membership was acquired separately and is amortised on a straight-line basis over its finite useful life of 20 years.

**Property, plant and equipment and depreciation**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is computed utilising the straight-line method to allocate the depreciable amount of the assets over their estimated useful lives as follows:

| | |
|---|---|
| Commercial properties | 30 years |
| Plant and machinery | 10 years |
| Motor vehicles | 5-10 years |
| Office equipment | 5 years |

The cost of property, plant and equipment includes expenditure that is directly attributable to the acquisition of the items. Dismantlement, removal or restoration costs are included as part of the cost of property, plant and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent expenditure relating to property, plant and equipment that have been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the standard of performance of the asset before the expenditure was made, will flow to the Group and the cost can be reliably measured. Other subsequent expenditure is recognised as an expense during the financial year in which it is incurred.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

## 2(d) Significant accounting policies (Cont'd)

**Property, plant and equipment and depreciation (Cont'd)**

For acquisitions and disposals during the financial year, depreciation is provided from the month of acquisition and to the month before disposal respectively. Fully depreciated property, plant and equipment are retained in the books of accounts until they are no longer in use.

Depreciation methods, useful lives and residual values are reviewed, and adjusted as appropriate, at each reporting date as a change in estimates.

**Investment in subsidiary**

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

Investment in subsidiary is stated in the Company's statement of financial position at cost less accumulated impairment losses. Accounting policies of the subsidiary have been changed where necessary to ensure consistency with the policies adopted by the Group.

**Investment in associates**

An associate is an entity over which the Group has the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

The Group account for its investments in associates using the equity method from the date on which it becomes an associate.

On acquisition of the investment, any excess of the cost of the investment over the Group's share of the net fair value of the investee's identifiable assets and liabilities is accounted as goodwill and is included in the carrying amount of the investment. Any excess of the Group's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the entity's share of the associate's profit or loss in the period in which the investment is acquired.

Under the equity method, the investment in associates are carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates. The profit or loss reflects the share of results of operations of the associates. Distributions received from associates reduce the carrying amount of the investment. Where there has been a change recognised in other comprehensive income by the associates, the Group recognises its share of such changes in other comprehensive income. Unrealised gains and loss resulting from transaction between the Group and the associate are eliminated to the extent of the interest in the associates.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss, on the Group's investment in associate. The Group determines at the end of each reporting period whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

## 2(d) Significant accounting policies (Cont'd)

**Investment in associates (Cont'd)**

The financial statements of the associates are prepared as the same reporting date as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Upon loss of significant influence or joint control over the associate, the Group measures the retained interest at fair value. Any difference between the fair value of the aggregate of the retained interest and proceeds from disposal and the carrying amount of the investment at the date the equity method was discontinued is recognised in profit or loss.

The Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would have been required if that associate or joint venture had directly disposed of the related assets or liabilities.

When an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

If the Group's ownership interest in an associate is reduced, but the Group continues to apply the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

**Financial assets**

Financial assets, other than hedging instruments, can be divided into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the financial assets were acquired. The designation of financial assets is re-evaluated and classification may be changed at the reporting date with the exception that the designation of financial assets at fair value through profit or loss is not revocable.

All financial assets are recognised on their trade date – the date on which the Group and the Company commit to purchase or sell the asset. Financial assets are initially recognised at fair value, plus directly attributable transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value.

De-recognition of financial instruments occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at end of each reporting period whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to recognise the asset and settle the liability simultaneously.

Non-compounding interest and other cash flows resulting from holding financial assets are recognised in profit or loss when received, regardless of how the related carrying amount of financial assets is measured.

As at 31 December 2014, the Group carries loans and receivables on the statements of financial position. The Group does not have financial assets at fair value through profit or loss, held for maturity investments or available-for-sale financial assets at 31 December 2014.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

## 2(d) Significant accounting policies (Cont'd)

**Financial assets (Cont'd)**

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Loans and receivables include trade and other receivables, related party balances and cash and cash equivalents. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. If there is objective evidence that the asset has been impaired, the financial asset is measured at the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. The impairment or writeback is recognised in the profit or loss.

Loans and receivables comprise trade and other receivables and cash and cash equivalents.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, unpledged bank deposits, and short-term, highly liquid investments which are readily convertible to cash and which are subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents are presented net of bank overdrafts, if any, which are repayable on demand and which form an integral part of cash management.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis, and includes all costs in bringing the inventories to their present location and condition. In the case of manufactured products, cost includes all direct expenditure and production overheads based on the normal level of activity.

Provision is made for obsolete, slow-moving and defective inventories in arriving at the net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

**Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares are deducted against the share capital account.

**Financial liabilities**

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognised as an expense in "finance costs" in the profit or loss. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

## 2(d) Significant accounting policies (Cont'd)

**Financial liabilities (Cont'd)**

Borrowings are recognised initially at fair value of proceeds received less attributable transaction costs, if any. Borrowings are subsequently stated at amortised cost which is the initial fair value less any principal repayments. Any difference between the proceeds (net of transaction costs) and the redemption value is taken to the profit or loss over the period of the borrowings using the effective interest method. The interest expense is chargeable on the amortised cost over the period of the borrowings using the effective interest method.

Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the amortisation process.

Borrowings which are due to be settled within 12 months after the end of reporting period are included in current liabilities in the statements of financial position even though the original terms were for a period longer than twelve months and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the end of reporting period. Borrowings to be settled within the Group's normal operating cycle are classified as current. Other borrowings due to be settled more than twelve months after the end of reporting period are included in non-current borrowings in the statements of financial position.

Financial liabilities comprise trade and other payables, loans and borrowings and other liabilities.

**Trade and other payables**

Trade and other payables are initially measured at fair value, and subsequently measured at amortised cost, using the effective interest method.

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest method.

<u>Financial guarantees</u>

The Company has issued corporate guarantees to banks for bank borrowings of its subsidiary. These guarantees are financial guarantee contracts as they require the Company to reimburse the banks if the subsidiary fails to make principal or interest payments when due in accordance with the terms of their borrowings.

Financial guarantee contracts are initially recognised at their fair value plus transaction costs in the statements of financial position.

Financial guarantee contracts are subsequently amortised to the profit or loss over the period of the subsidiary's borrowings, unless the Company has incurred an obligation to reimburse the bank for an amount higher than the unamortised amount. In this case, the financial guarantee contracts shall be carried at the expected amount payable to the bank. The fair value of the financial guarantees is insignificant.

**Operating leases**

Rentals on operating leases are charged to the profit or loss on a straight-line basis over the lease term. Lease incentives, if any, are recognised as an integral part of the net consideration agreed for the use of the leased asset. Penalty payments on early termination of lease, if any, are recognised in profit or loss when incurred. Contingent rents, if any, are mainly determined as a percentage of revenue in excess of a specified amount during the month. They are charged to the profit or loss when incurred.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

## 2(d) Significant accounting policies (Cont'd)

**Employee benefits**

Defined contribution plans – pension obligations

The Group and the Company participate in the defined contribution national pension schemes as provided by the laws of the countries in which it has operations. In particular, the PRC incorporated company in the Group contributes to certain staff pension benefits, a defined contribution plan regulated and managed by PRC regulations, which applies to the majority of the employees. The Company in Singapore makes contribution to the Central Provident Fund Scheme in Singapore, a defined contribution pension scheme. The contributions to national pension scheme are charged to the profit or loss in the period to which the contributions relate.

Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. Accrual is made for the unconsumed leave as a result of services rendered by employees up to the end of reporting period.

Share-based payments

The group issues equity-settled and cash-settled share-based payments to certain employees.

Equity-settled share-based payments are measured at fair value of the equity instruments at the date of grant.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of equity instruments that will eventually vest. At the end of each reporting period, the Group revises its estimates of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity settled employee benefits reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

Key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity. Directors and certain managerial personnel are considered key management personnel.

**Income taxes**

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of reporting period.

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting or taxable profit or loss at the time of the transaction.

## 2(d) Significant accounting policies (Cont'd)

**Income taxes (Cont'd)**

A deferred income tax liability is recognised on temporary differences arising on investments in subsidiaries, and associated companies, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. A deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be recognised.

Deferred income tax is measured:

(i) at the tax rates that are expected to apply when the related deferred income tax asset is recognised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the date of the financial position; and

(ii) based on the tax consequence that will follow from the manner in which the Group expects, at the date of the financial position, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income taxes are recognised as income or expense in the profit or loss, except to the extent that the tax arises from a business combination or a transaction which is recognised either in other comprehensive income or directly in equity. Deferred tax arising from a business combination is adjusted against goodwill on acquisition.

**Value-added tax ("VAT")**

Revenues, expenses and assets are recognised net of the amount of VAT except:

- where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables on the statements of financial position.

**Related parties**

A related party is defined as follows:

a) A person or a close member of that person's family is related to the Group and Company if that person:

   (i) has control or joint control over the Company;

   (ii) has significant influence over the Company; or

   (iii) is a member of the key management personnel of the Group or Company or of a parent of the Company.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

## 2(d) Significant accounting policies (Cont'd)

**Related parties (Cont'd)**

b) An entity is related to the Group and the Company if any of the following conditions applies:

(i) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) both entities are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

**Impairment of non-financial assets**

The carrying amounts of the Group's and the Company's non-financial assets subject to impairment are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

If it is not possible to estimate the recoverable amount of the individual asset, then the recoverable amount of the cash-generating unit to which the assets belong will be identified.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Individual assets or cash-generating units that include intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value-in-use, based on an internal discounted cash flow evaluation.

All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

Any impairment loss is charged to the profit or loss unless it reverses a previous revaluation in which case it is charged to equity.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

## 2(d) Significant accounting policies (Cont'd)

**Impairment of non-financial assets (Cont'd)**

With the exception of goodwill,

- An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount or when there is an indication that the impairment loss recognised for the asset no longer exists or decreases.
- An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.
- A reversal of an impairment loss on a revalued asset is credited directly to equity under the heading revaluation surplus. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in the profit or loss, a reversal of that impairment loss is recognised as income in profit or loss.

**Revenue recognition**

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue excludes goods and services taxes or value-added taxes and is arrived at after deduction of trade discounts. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

<u>Construction contracts</u>

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. When the outcome of a construction contract can be estimated reliably, contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognised as incurred unless they create an asset related to future contract activity.

The stage of completion is assessed by reference to surveys of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in profit or loss.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable those costs will be recoverable. Contracts costs are recognised when incurred. When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised by using the percentage of completion method. Contract costs comprise materials, direct labour, sub-contractors' cost and an appropriate proportion of overheads.

The percentage of completion is based on the contract costs incurred to-date to the estimated total costs for the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately, irrespective of whether or not work has commenced.

The aggregated costs incurred and the profit/(loss) recognised on each contract are compared against progress billings up to the financial year end. Where costs incurred and recognised profit (less recognised losses) exceed progress billings, the balance is shown as gross amount due from customers for "construction work-in-progress". Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as due to customers for "contract work-in-progress". Advances from customers are presented as "other liabilities" in the statement of financial position.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

## 2(d) Significant accounting policies (Cont'd)

**Revenue recognition (Cont'd)**

Design and technical services

Revenue from design and technical services is recognised by reference to the stage of completion at the end of reporting period. Stage of completion is determined by reference to actual costs incurred to date as a percentage of total budgeted costs for each contract. Where the outcome cannot be measured reliably, revenue is recognised to the extent of the expenses that are recoverable.

Operation and maintenance

Revenue from operation and maintenance services is recognised when the services are completed.

Interest income

Interest income is recognised on a time-apportioned basis using the effective interest rate method.

Dividend income

Dividend income from investments is recognised gross when the right to receive the dividend has been established.

**Functional and presentation currency**

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The financial statements of the Group and the Company are presented in RMB, which is also the functional currency of the Company.

**Conversion of foreign currencies**

Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates at the dates of the transactions. Currency translation differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the reporting period are recognised in the profit or loss.

However, in the consolidated financial statements, currency translation differences arising from borrowings in foreign currencies and other currency instruments designated and qualifying as net investment hedges and net investment in foreign operations, are recognised in other comprehensive income and accumulated in the currency translation reserve.

When a foreign operation is disposed of or any borrowings forming part of the net investment of the foreign operation are repaid, a proportionate share of the accumulated translation differences is reclassified to profit or loss, as part of the gain or loss on disposal.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined. Non-monetary items that are measured at historical cost in foreign currencies are translated using the exchange rates at the date of the transactions.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

## 2(d) Significant accounting policies (Cont'd)

### Conversion of foreign currencies (Cont'd)

Group entities

The results and financial positions of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) Assets and liabilities are translated at the closing exchange rates at the end of reporting period;

(ii) Income and expenses for each statement presenting profit or loss and other comprehensive income (i.e. including comparatives) shall be translated at exchange rates at the dates of transactions; and

(iii) All resulting currency translation differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve.

### Dividends

Final dividends proposed by the directors are not accounted for in shareholders' equity as an appropriation of retained profits, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability. Interim dividends, if any, are simultaneously proposed and declared, because the articles of association of the Company grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised directly as a liability when they are proposed and declared.

### Government Grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an income, it is recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses, the related costs for which the grant is intended to compensate. Grants related to income are presented as a credit in profit or loss, under the heading of "Other Income". Where the grant relates to an asset, the fair value is recognised as deferred capital grant on the statement of financial position and is amortised to profit or loss over the expected useful life of the relevant asset by equal annual installments.

### Operating segments

For management purposes, operating segments are organised based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers are directly accountable to the managing director who regularly reviews the segment results in order to allocate resources to the segments and to assess segment performance.

### Financial instruments

Financial instruments carried on the statements of financial position include cash and cash equivalents, financial assets and financial liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. These instruments are recognised when contracted for.

Disclosures on financial risk management objectives and policies are provided in Note 31.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

## 3 Principal activities and revenue

The principal activity of the Company is investment holding. The principal activity of the subsidiary is disclosed in Note 7 to the financial statements. Revenue by significant categories is as follows:

| The Group | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Contract revenue | 48,970 | 20,558 |
| Rendering of services | 23,417 | 15,990 |
| | 72,387 | 36,548 |

## 4 Property, plant and equipment

| The Group | Commercial properties<br>RMB'000 | Machinery and equipment<br>RMB'000 | Motor vehicles<br>RMB'000 | Office equipment<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|---|
| Cost | | | | | |
| At 1 January 2013 | 7,749 | 1,163 | 5,947 | 755 | 15,614 |
| Additions | – | – | – | 96 | 96 |
| Disposals | – | – | (1,603) | – | (1,603) |
| At 31 December 2013 | 7,749 | 1,163 | 4,344 | 851 | 14,107 |
| Additions | – | – | – | 5 | 5 |
| Disposals | – | – | (190) | – | (190) |
| At 31 December 2014 | 7,749 | 1,163 | 4,154 | 856 | 13,922 |
| Accumulated depreciation | | | | | |
| At 1 January 2013 | 219 | 84 | 1,917 | 421 | 2,641 |
| Depreciation for the year | 242 | 76 | 529 | 81 | 928 |
| Disposals | – | – | (848) | – | (848) |
| At 31 December 2013 | 461 | 160 | 1,598 | 502 | 2,721 |
| Depreciation for the year | 242 | 105 | 393 | 87 | 827 |
| Disposals | – | – | (95) | – | (95) |
| At 31 December 2014 | 703 | 265 | 1,896 | 589 | 3,453 |
| **Net book value** | | | | | |
| At 31 December 2014 | 7,046 | 898 | 2,258 | 267 | 10,469 |
| At 31 December 2013 | 7,288 | 1,003 | 2,746 | 349 | 11,386 |

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

## 4 Property, plant and equipment (Cont'd)

| The Company | Office equipment RMB'000 |
|---|---|
| Cost | |
| At 1 January 2013 and 1 January 2014 | 11 |
| At 31 December 2013 and 31 December 2014 | 11 |
| Accumulated depreciation | |
| At 1 January 2013 | 3 |
| Depreciation for the year | 2 |
| At 31 December 2013 | 5 |
| Depreciation for the year | 2 |
| At 31 December 2014 | 7 |
| Net book value | |
| At 31 December 2014 | 4 |
| At 31 December 2013 | 6 |

## 5 Intangible assets

| The Group | Patents RMB'000 | Deferred development costs RMB'000 | Total RMB'000 |
|---|---|---|---|
| Cost | | | |
| At 1 January 2013 and 31 December 2013 | 370 | 6,641 | 7,011 |
| Additions: | 2,608 | – | 2,608 |
| At 31 December 2014 | 2,978 | 6,641 | 9,619 |
| Accumulated amortisation | | | |
| At 1 January 2013 | 259 | 55 | 314 |
| Amortisation for the year | 46 | 1,113 | 1,159 |
| At 31 December 2013 | 305 | 1,168 | 1,473 |
| Amortisation for the year | 67 | 1,113 | 1,180 |
| At 31 December 2014 | 372 | 2,281 | 2,653 |
| Net book value | | | |
| At 31 December 2014 | 2,606 | 4,360 | 6,966 |
| At 31 December 2013 | 65 | 5,473 | 5,538 |

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

## 5 Intangible assets (Cont'd)

Amortisation expense included in profit or loss is analysed as follows:

| The Group | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Amortisation expense charged to: | | |
| Administrative expenses | 1,180 | 1,159 |

Patents

The Group has a patent in relation to a dust precipitator system. The patent was transferred to the Group via a patent transfer agreement entered into between Anjie Environmental and Gao You Li (a third party) on 31 May 2007 and supplemented by a supplemental agreement dated 18 August 2007 pursuant to which Gao You Li transferred his rights to the patent to Anjie Environmental for a consideration of RMB370,000. As at 31 December 2014, the patent has a remaining tenure of 5 months (2013: 17 months).

In 2014, the new addition to patent of RMB2,608,000 (2013: Nil) relates to internally developed new dust elimination technology with pulsating rotary positioning mechanism to clean dust and this invention patent is registered successfully on 10 December 2014 with a 20 year validity period. Due to the continuous technological advancement in this fast changing air pollution industry, amortisation is accelerated over a 10 year period instead. As at 31 December 2014, the patent has a remaining tenure of 119 months (2013: Nil).

Deferred development costs

Deferred development costs relate to technological effectiveness improvement project for dust elimination and desulphurisation system segments. The development has undergone commercial sale and amortisation of the deferred development costs has been made from the month of the commencement of the sale since 2012. The deferred development costs have an average amortisation period of 47 months (2013: 59 months) as at 31 December 2014.

## 6 Club membership

| **The Group** | **Club membership**<br>RMB'000 |
|---|---|
| Cost | |
| At 1 January 2013 | 930 |
| Additions: | |
| - internal development | – |
| At 31 December 2013 and 2014 | 930 |
| Accumulated amortisation | |
| At 1 January 2013 | 74 |
| Amortisation for the year | 46 |
| At 31 December 2013 | 120 |
| Amortisation for the year | 47 |
| At 31 December 2014 | 167 |
| Net book value | |
| At 31 December 2014 | 763 |
| At 31 December 2013 | 810 |

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

## 6 Club membership (Cont'd)

Club membership

The Group bought a golf club membership in May 2011 for RMB930,000. As at 31 December 2014, the membership has a remaining useful life of 197 months (2013: 209 months).

## 7 Investment in subsidiary

| The Company | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Quoted equity shares, at cost | 152,494 | 152,494 |
| Amount owing to subsidiary (Note 20) | 174 | 126 |
| Amount owing by subsidiary (Note 11) | 40,560 | 40,554 |

The subsidiary is:

| Name | Country of incorporation/ principal place of business | Proportion of ownership interest and voting rights held 2014 % | 2013 % | Principal activities |
|---|---|---|---|---|
| Held by the Company: | | | | |
| Jilin Anjie Environmental Engineering Co., Ltd. ("Anjie Environmental") [1] | People's Republic of China | 100 | 100 | Research and development, design, manufacture and installation of environmental protection systems and provision of technical consulting and support services of environmental protection technologies and systems |

1 Audited by Zhong Lei Certified Public Accountants LLP, Jilin Branch, People's Republic of China, and audited by Foo Kon Tan LLP for consolidation purposes.

The non-trade amount owing to the subsidiary relates to payments made on behalf of the Company, is unsecured, interest-free and repayable on demand. The non-trade amount owing by its subsidiary represents dividends declared in prior years and is unsecured, interest-free and repayable on demand. These carrying amounts approximate their fair values.

The non-trade amount owing by and to the subsidiary is denominated in RMB.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

## 8 Investment in associates

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Equity investments | | | | |
| At 1 January | 5,578 | 2,557 | 5,913 | 2,557 |
| Addition | – | 4,874 | – | 4,874 |
| Impairment loss | | | | |
| - current year | – | (1,423) | – | (1,423) |
| - prior year | – | (66) | – | (66) |
| Share of results cumulative | | | | |
| - current year | (795) | (335) | – | – |
| Exchange loss | – | (29) | – | (29) |
| Transfer to other receivables as a result of cessation of significant influence | (1,068) | – | (1,068) | – |
| At 31 December | 3,715 | 5,578 | 4,845 | 5,913 |

The associates are:

| Name | Country of incorporation/ principal place of business | Effective percentage of equity held 2014 | 2013 | Principal activities |
|---|---|---|---|---|
| Pioneer Membrane Pte. Ltd [1] | Singapore Republic | – | 20% | Research on membrane applications, membrane manufacturing and other engineering works and trading, supply, installation and commission of water and waste treatment plants |
| Nano Sun Pte Ltd [2] | Singapore Republic | 20% | 20% | Develop and market the technology of producing and fabricating TiO2 membrane and microsphere for purposes of purification of water |

1 Previously audited by Ernst & Young LLP, Singapore
2 S S Lee PAC was first appointed upon the company's incorporation; replaced by Wan Associates on 2 March 2015

For the current financial year, the Group recognised its share of Nano Sun Pte Ltd's operating results based on its management accounts drawn up to 31 December 2014. The associated company's financial year end, previously agreed to be 31 March 2015, was subsequently changed to 31 October 2014.

At an Extraordinary General Meeting held on 14 November 2014, it was agreed by the shareholders to place Pioneer Membrane Pte. Ltd under Members' Voluntary Liquidation and the liquidator, Boardroom Corporate & Advisory Services Pte Ltd was appointed to deal with the liquidation affairs of the company. Accordingly, the remaining cost of investment in associate which is equivalent to the amount of monies escrowed under the Company's bank account was reclassified to other receivables since the Company and the Group no longer held any significant influence over that associate as at 31 December 2014.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

## 8 Investment in associates (Cont'd)

Subsequent to year end, the escrowed monies of RMB1,068,000 (S$210,000) was released to the Group on 15 January 2015 in accordance with the shareholders' agreement dated 8 October 2012.

Summarised financial information of individually immaterial associates is as follows:

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| **Pioneer Membrane Pte. Ltd** | | |
| Revenue | – | – |
| Loss from continuing operations | – | (3,610) |
| Post-tax loss from discounted operations | – | – |
| Loss for the year | | (3,610) |
| Other comprehensive income for the year | – | – |
| Total comprehensive income for the year | – | (3,610) |

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| **Nano Sun Pte Ltd** | | |
| Revenue | 233 | – |
| Loss from continuing operations | (3,975) | (1,820) |
| Post-tax loss from discounted operations | – | – |
| Loss for the year | (3,975) | (1,820) |
| Other comprehensive income for the year | – | – |
| Total comprehensive income for the year | (3,975) | (1,820) |

## 9 Gross amount due from / (to) customers for contract work-in-progress

| **The Group** | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Contract costs incurred to date | 60,367 | 50,614 |
| Recognised profits less recognised losses to date | 18,846 | 13,060 |
| | 79,213 | 63,674 |
| Progress billings | (63,778) | (45,631) |
| | 15,435 | 18,043 |
| Presented as: | | |
| Gross amount due from customers for contract work-in-progress | 17,207 | 19,585 |
| Gross amount due to customers for contract work-in-progress | (1,772) | (1,542) |
| | 15,435 | 18,043 |
| Advances received on construction contracts (Note 21) | 13,967 | 34 |
| Retention receivables from construction work-in-progress included in gross amount due from customers | 2,952 | 4,400 |

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

## 10 Inventories

| The Group | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Raw materials | 1,747 | 2,372 |
| **Income statement:** | | |
| Cost of inventories included in cost of sales | 31,210 | 15,226 |
| Inventories written-down to net realisable value | – | 265 |

During the financial years ended 31 December 2014, there was no inventory written down (2013: RMB265,000) and allowance for inventory obsolescence.

## 11 Trade and other receivables

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2014<br>RMB'000 | 2013<br>RMB'000 | 2014<br>RMB'000 | 2013<br>RMB'000 |
| Trade receivables | 164,150 | 165,349 | – | – |
| Retention receivables | 28,262 | 34,222 | – | – |
| Bills receivables | 4,396 | 3,503 | – | – |
| Other receivables | 9,118 | 3,110 | 1,069 | – |
| Amount due from subsidiary (Note 7) | – | – | 40,560 | 40,554 |
| Total | 205,926 | 206,184 | 41,629 | 40,554 |

Trade receivables are non-interest bearing and are generally on 150 days' terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

During the financial year, the Group has entered into an agreement with Bank of Jilin Co., Ltd to factor certain of its trade receivables of RMB2,600,000 with a customer. The agreement is for a 6 month period and is with recourse that in the event the customer fails to settle the factored debts, the Group will be liable to repay the principal and interest. Accordingly, the factor did not qualify for derecognition and the Group continue to recognise the receivables as financial assets.

The following were the Group's financial assets that were factored to a bank. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and associated liabilities. These financial assets and liabilities are carried at amortised cost in the Group's consolidated statement of financial position.

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2014<br>RMB'000 | 2013<br>RMB'000 | 2014<br>RMB'000 | 2013<br>RMB'000 |
| Carrying amount of factored assets | 2,600 | – | – | – |
| Carrying amount of associated liabilities (Note 19) | (2,600) | – | – | – |
| Net position | – | – | – | – |

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

## 11 Trade and other receivables (Cont'd)

In determining the recoverability of trade and other receivables, the Group considers any change in the credit quality of the trade receivables from the date credits were initially granted (including the initial contract work in progress stage) up to the end of the reporting period. In addition, management evaluates the adequacy of the allowance for doubtful trade receivables by analysing trade receivables collections trends, historical bad debts, customer concentrations, customer creditworthiness, the date of completion of the construction contracts, the credit tightening measures by the PRC government, and the changes in customer payment terms and general financial conditions of the customers.

As a result of its evaluations, management has not written off any bad debts as of 31 December 2014 (2013: RMB79.098 million) which were deemed uncollectable. Accordingly, the directors believe that there are no further bad debts or credit allowances required in respect of the remaining trade receivables including those receivables that are past due but not impaired.

Retention receivables relate to amounts (ranging from 5% to 10% of the contract sums or agreed amounts with customers) withheld by customers normally for a period of one year as a form of warranty against defects in the construction projects. Bills receivables are non-interest bearing and have maturity periods of approximately 90 days. The amount due from subsidiary, is non-trade in nature, relates to dividends receivable from Anjie Environmental and is unsecured, non-interest bearing and repayable on demand (refer to Note 7).

Financial assets that are neither past due nor impaired

Trade receivables, retention receivables, bills receivables, other receivables and amount due from subsidiary that are neither past due nor impaired are substantially companies with good collection track record with the Group are as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Current | 56,380 | 53,693 | 41,629 | 40,554 |

Receivables that are past due but not impaired

The Group has trade receivables amounting to RMB149,546,000 (2013: RMB152,491,000) that are past due at the end of reporting period but not impaired. These receivables are unsecured and the analysis of their ageing at the end of reporting period is as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Trade receivables past due but not impaired: | | | | |
| 121 days to 365 days | 4,850 | 3,674 | – | – |
| More than 365 days | 144,696 | 148,817 | – | – |
| Current | 149,546 | 152,491 | – | – |

The Group has not recognised an allowance for doubtful receivables in the current year as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

Trade and retention receivables that are individually determined to be impaired at the end of reporting period relate to debtors that are in significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

## 11 Trade and other receivables (Cont'd)

Included in other receivables relates to an amount recoverable from Pioneer Membrane Pte Ltd of RMB1,068,000 (2013: Nil) which was reclassified from investment in associate since the Company and the Group no longer held any significant influence over the company as Pioneer Membrane Pte Ltd was placed under Members' Voluntary liquidation during the financial year. Other than this, other receivables are unsecured, non-interest bearing and repayable on demand. Subsequent to the year end, the amount of RMB1,068,000 (S$210,000) was fully received in January 2015.

Other than amount recoverable from Pioneer Membrane Pte Ltd which was denominated in Singapore dollar, trade and other receivables are denominated in RMB.

## 12 Prepayments

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Prepaid operating expense | 491 | 468 | 178 | 139 |
| Advances to trade suppliers | 173,050 | 167,083 | – | – |
| Advances to non-trade suppliers | 1,647 | 1,762 | – | – |
| | 175,188 | 169,313 | 178 | 139 |

The advances to trade suppliers relate to advance payments made to suppliers of raw materials for contracts scheduled for the following financial year.

The advances to trade suppliers are made without the supplier invoices obtained at the point when the expenses were incurred. The advances to trade suppliers will be reclassified and recognised as project costs upon the receipt of supplier invoices. Advances are made to suppliers for the following reasons:

- the items purchased from suppliers must be customised to meet the needs of specific projects. Suppliers would require advances in order to commit to the production of these customised items.
- 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 Anjie Environmental 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.

Based on management's assessment, Anjie Environmental's focus in financial year 2014 was on debt recovery and cash flow management; it only commenced projects when it is confident of customers' ability to make repayments. Many projects that were successfully bidded have yet to commence, for which the contracts were signed in prior years. Despite contracts not yet commenced, management has a policies and processes in place to continuously monitor the financial creditworthiness and ability of the trade suppliers to whom it has made advances to in their ability to perform their obligations under contract and is of the view no impairment was considered necessary as at 31 December 2014.

## 13 Bank deposits pledged

Bank deposits pledged amounting to RMB62,172,000 (2013: RMB 500,000) as at 31 December 2014 are held in a designated bank account as security to obtain additional loans of RMB60,000,000 (2013: Nil) and bills payable facilities of RMB232,000 (2013: Nil).

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

## 14 Cash and cash equivalents

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Cash on hand | 1,672 | 526 | – | – |
| Cash at bank | 135,551 | 52,961 | 1,945 | 557 |
| | 137,223 | 53,487 | 1,945 | 557 |

For the purpose of the consolidated cash flow statement, the year-end cash and bank balances comprise the following:

| | Note | The Group | |
|---|---|---|---|
| | | 2014 | 2013 |
| | | RMB'000 | RMB'000 |
| Cash at bank and on hand | | 137,223 | 53,487 |
| Less: Bank deposits pledged | 13 | (62,172) | (500) |
| | | 75,051 | 52,987 |

Cash and cash equivalents denominated in foreign currencies are as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Singapore dollars | 2,366 | 991 | 1,945 | 557 |

The weighted average effective interest rates as at 31 December 2014 for the Group and the Company were 0.35% (2013: 0.39%) and 0.20% (2013: 0.15%) per annum respectively.

## 15 Share capital

| The Group and The Company | No. of ordinary shares | | Amount | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | | | RMB'000 | RMB'000 |
| Issued and fully paid, with no par value | | | | |
| Balance at beginning of year | 527,959,000 | 491,612,000 | 205,834 | 194,015 |
| Grant of shares under LET Performance share scheme | – | 4,600,000 | – | 2,070 |
| Issue of new ordinary shares pursuant to the private placement | 24,000,000 | 31,747,000 | 5,823 | 9,749 |
| Share issuance expenses | | | (208) | – |
| Balance at end of year | 551,959,000 | 527,959,000 | 211,449 | 205,834 |

No new shares (2013: 4,600,000 ordinary shares worth RMB2,070,000) issued to employees of the subsidiary under the Performance Share Scheme.

On 25 August 2014, the Company undertook a private placement which comprised the placement of 24,000,000 new ordinary shares amounting to RMB5,823,000 in the capital of the Company at S$0.05 for each new share.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

## 16 PRC statutory common reserve

In accordance with the Foreign Enterprise Law applicable to the subsidiary in the People's Republic of China ("PRC"), the subsidiary is required to make appropriation to a Statutory Common Reserve ("SCR"). At least 10% of the statutory after tax profits as determined in accordance with the applicable PRC accounting standards and regulations must be allocated the SCR until the cumulative total of the SCR reaches 50% of the subsidiary's registered capital. Subject to approval from the relevant PRC authorities, the SCR may be used to offset any accumulated losses or increase the registered capital of the subsidiary. The SCR is not available for dividend distribution to shareholders.

| The Group | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Balance at beginning of the year | 31,230 | 31,230 |
| Appropriation of profit to reserve | 518 | – |
| Balance at end | 31,748 | 31,230 |

## 17 Merger reserve

This represents the difference between the consideration paid and the paid-in capital of the subsidiary based on the pooling of interest method.

## 18 Deferred tax liabilities

| The Group | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Balance at beginning | 4,643 | 4,123 |
| Charged to income statement (Note 25) | – | 520 |
| Balance at end | 4,643 | 4,643 |

Deferred tax liabilities are to be settled after one year.

On 22 February 2008, the State Administration of Taxation of China issued a circular Caishui [2008] No.001, which imposes withholding tax on distribution of dividends from post 1 January 2008 profits to foreign investors. Accordingly, no deferred tax liabilities arise from undistributed profits of the Company's PRC subsidiary accumulated up till 31 December 2007. Provision for deferred tax liabilities however, would be required on profits accumulated from 1 January 2008 onwards.

Deferred tax liabilities arise as a result of:

| The Group | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Withholding tax on undistributed profits of PRC subsidiary | 4,643 | 4,643 |

Withholding tax pertains to the PRC withholding tax on the portion of the distributable profits derived by the Group's subsidiary in the PRC, Anjie Environmental, in the current financial year which is expected to be distributed out as dividends to its shareholders. The Group has provided for withholding tax based on the dividends that would be required to be proposed or paid by Anjie Environmental under business conditions to meet its operational needs and shareholders' expectation.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

## 18 Deferred tax liabilities (Cont'd)

**Unrecognised tax loss**

At the end of the financial year, Anjie Environmental does not have any estimated tax loss (2013: RMB3,162,000) that is available for offset against future profits, for which no deferred tax asset is recognised due to uncertainty of its recoverability. The use of the tax loss is subject to the agreement of the tax authorities.

## 19 Borrowings

| The Group | 2014 | 2013 |
|---|---|---|
| | RMB'000 | RMB'000 |
| **Current** | | |
| Bank loans | 172,600 | 80,000 |

The bank loan amounts of RMB30 million and RMB50 million were fully repaid and renewed on 11 December 2014 and 16 December 2014 respectively with weighted average effective interest rate of 6.0% (2013: 7.2%) per annum at the end of reporting period.

As part of the bank's initiative to support environmental businesses in Jilin Changchun, further bank loans of RMB20 million and RMB10 million (2013: Nil) are disbursed on 26 January 2014 and 13 March 2014 respectively, followed by another two more tranches of bank loans of RMB30 million each on 26 December 2014. These loans have an effective interest rate of 5.7% per annum at the end of reporting period. Bank loans include factored receivables of RMB 2.6 million with recourse. Refer to note 11.

The loans of RMB110 million (2013: RMB80 million) are mainly secured by corporate guarantees from Leader Environmental Technologies Limited and personal guarantees provided by the Executive Chairman and Chief Executive Officer of the Company and his spouse, while the last two tranches of loan amounts of RMB30 million each are secured by bank deposits pledged of RMB62 million. Fair value of the guarantee is considered immaterial.

The carrying amounts of current borrowings approximate their fair values.

## 20 Trade and other payables

| | Note | The Group | | The Company | |
|---|---|---|---|---|---|
| | | 2014 | 2013 | 2014 | 2013 |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Trade payables | | 36,425 | 44,272 | – | – |
| Bills payable | | 232 | – | – | – |
| Other payables | | 3,270 | 3,292 | 318 | 133 |
| Amount due to subsidiary (Note 7) | | – | – | 174 | 126 |
| Net trade and other payables | | 39,927 | 47,564 | 492 | 259 |
| Other liabilities | 21 | 19,148 | 26,362 | 1,424 | 1,594 |
| | | 59,075 | 73,926 | 1,916 | 1,853 |

Trade payables are non-interest bearing. Trade payables are normally settled on 90 days' terms while other payables have an average term of three months.

The amount due to subsidiary is non-trade in nature, unsecured, non-interest bearing, repayable on demand and is to be settled in cash.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

## 21 Other liabilities

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Accrued purchases | 2,953 | 23,507 | – | – |
| Accrued salary and related expenses | 728 | 769 | 483 | 557 |
| Advances from customers | 13,967 | 34 | – | – |
| Accrued operating expenses | 942 | 1,037 | 941 | 1,037 |
| Accrued welfare expenses | 558 | 1,015 | – | – |
| | 19,148 | 26,362 | 1,424 | 1,594 |

## 22 Financial income and costs

| **The Group** | **2014** | **2013** |
|---|---|---|
| | RMB'000 | RMB'000 |
| Financial income: | | |
| Interest income from bank balances | 178 | 87 |
| Financial costs: | | |
| Interest expense on bank loans | (6,474) | (6,148) |

## 23 Other income/(expenses)

| **The Group** | **2014** | **2013** |
|---|---|---|
| | RMB'000 | RMB'000 |
| Other income: | | |
| Gain on disposal of property, plant and equipment | 190 | 271 |
| Rental income | 226 | – |
| Others | – | 245 |
| | 416 | 516 |
| Other expenses: | | |
| Inventory written down (Note 10) | – | (265) |
| Trade receivables written off (Note 11) | – | (79,098) |
| Contribution to the PRC Flood Prevention Fund | (37) | (64) |
| Exchange loss | (41) | (106) |
| | (78) | (79,533) |

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

## 24 Profit/(loss) before taxation

| The Group | Note | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|---|
| Profit/(loss) before taxation has been arrived at after charging/(crediting): | | | |
| Audit fee: | | | |
| - auditors of the Company | | 675 | 631 |
| Non-audit fee: | | | |
| - Other auditors | | – | 222 |
| Depreciation of property, plant and equipment | 4 | 827 | 928 |
| Amortisation of intangible assets and club membership | 5 & 6 | 1,227 | 1,205 |
| Fair value of shares issued pursuant to LET Performance Share scheme | | – | 2,070 |
| Impairment loss on investment in associate | | – | 1,423 |
| Trade receivables written off | | – | 79,098 |
| Share of results of associates | | 795 | 335 |
| Operating lease expenses | | 1,040 | 1,374 |
| Employee compensation* | 27 | 8,553 | 11,415 |

* Includes remuneration of directors and key management personnel as disclosed in Note 29 to the financial statements.

## 25 Taxation

| The Group | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Current taxation | 1,854 | – |
| Under provision in respect of previous year | – | 357 |
| Deferred taxation (Note 18) | | |
| - withholding tax on undistributed earnings of subsidiary | – | 520 |
| | 1,854 | 877 |

The tax expense on the results of the financial year varies from the amount of income tax determined by applying the Singapore statutory rate of income tax on Group's profit as a result of the following:

| The Group | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Profit/(loss) before taxation | 1,950 | (102,268) |
| Tax at the domestic rates applicable to profits/(loss) in the countries concerned[1] | 487 | (25,567) |
| Difference in foreign tax rate | 538 | 768 |
| Tax effect on non-deductible expenses | 85 | 20,149 |
| Effect of loss not available for offset against future profits – the Company | 722 | 1,488 |
| Effect of loss not recognised as deferred tax assets (Note18) – the Subsidiary | – | 3,162 |
| Under provision in respect of previous year | – | 357 |
| Withholding tax on undistributed earnings of subsidiary | – | 520 |
| Others | 22 | – |
| | 1,854 | 877 |

1 The above reconciliation is prepared by aggregating separate reconciliations for each national jurisdiction.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

## 25 Taxation (Cont'd)

The nature of expenses that are not deductible for tax purposes is as follows:

| The Group | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Purchases not supported by value added tax invoices | 40 | 24 |
| Entertainment expenses incurred over and above the amount deductible under the PRC tax regulations | 41 | 284 |
| Inventories written down and trade receivables written off | – | 19,841 |
| Others | 4 | – |
| | 85 | 20,149 |

Leader Environmental Technologies Limited (the "Company")

The Company is incorporated in Singapore and is subject to a tax rate of 17% for the financial years ended 31 December 2014 and 2013. It has no taxable income for the financial year ended 31 December 2014. The loss for 2014 is not deductible against future profits under current tax legislation.

Jilin Anjie Environmental Engineering Co., Ltd. ("Anjie Environmental")

The corporate income tax rate applicable to Anjie Environmental is 25% (2013: 25%) for the financial year ended 31 December 2014. There is no unrecognised tax loss (gross) in 2014 (2013: RMB12,648,000).

## 26 Earnings per share

The earnings/(loss) per share is calculated based on the consolidated loss attributable to owners of the Company divided by the weighted average number of shares in issue of 535,292,333 (2013: 509,250,593) shares during the financial year. The basic and diluted loss per share of the Group are the same as there were no potential dilutive ordinary shares outstanding as at 31 December 2014 and 2013.

The following table reflects the profit or loss and share data used in the computation of earnings/(loss) per share for the years ended 31 December:

| The Group | 2014 | 2013 |
|---|---|---|
| Profit/(loss) for the year attributable to owners of the Company (RMB'000) | 96 | (103,145) |
| Weighted average number of ordinary shares | 535,292,333 | 509,250,593 |
| Basic and diluted earnings/(loss) per share (RMB cents) | 0.02 | (20.25) |

## 27 Employee benefits

| The Group | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Employee benefits expenses (including directors) | | |
| Directors' fees | 556 | 561 |
| Salaries and bonuses | 6,930 | 7,261 |
| Contribution to defined contribution plans | 1,042 | 1,522 |
| Share-based payments (LET performance share scheme) | – | 2,070 |
| Other short-term benefits | 25 | 1 |
| | 8,553 | 11,415 |

## 27 Employee benefits (Cont'd)

Leader Performance Share Scheme

No new shares (2013: 4,600,000 ordinary shares worth RMB2,070,000) are issued to employees of the subsidiary under the Performance Share Scheme as approved by shareholders at the Extraordinary General Meeting of the Company convened on 30 April 2012.

| The Group | No. of ordinary shares 2014 | 2013 | Amount 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|---|
| Employees | – | 4,600,000 | – | 2,070 |
| Directors | – | – | – | – |
| Total | – | 4,600,000 | – | 2,070 |

## 28 Commitments

Operating lease commitments - as lessee

The Group has entered into commercial leases on rental of offices and factories. The leases have an average tenure of between one to three years with the option to renew for a further period of two years at prevailing market prices. No contingent rent provision is included in the contracts. There are no restrictions placed upon the Group by entering into these leases.

At the end of reporting period, the Company and the Group were committed to making the following rental payments in respect of non-cancellable operating leases of office and factory with an original term of more than one year:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Not later than one year | 945 | 970 | 282 | 288 |
| Later than one year but not later than five years | 189 | 757 | – | – |
| | 1,134 | 1,727 | 282 | 288 |

## 29 Significant related party transactions

Compensation of directors and key management personnel

The remunerations of directors and other members of key management during the year were as follows:

| The Group | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Directors' fees | 556 | 561 |
| Salaries, bonuses and other short-term benefits | 3,531 | 4,721 |
| Contribution to defined contribution plans | 320 | 276 |
| | 4,407 | 5,558 |

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

## 29 Significant related party transactions (Cont'd)

Other members of key management comprise CFO, Production and Procurement Manager, Sales Manager, and Administration and Human Resource Manager. The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trend. There is no LET Performance share included in the salaries, bonuses and other short-term benefits (2013: RMB720,000).

## 30 Operating segments

For management purposes, the Group is organised into the following reportable operating segments as follows:-

(i) Industrial wastages treatment segment mainly provides treatment solutions for the elimination of dust and desulphurisation from the emission of industrial wastage.

(ii) Industrial wastewater treatment segment provides treatment solutions for the removal and reduction of pollutants in the wastewater, mainly to lower the chemical oxygen (COD) and biochemical oxygen (BOD) from the emission of industrial wastewater.

(iii) Design, technical services and other segments comprise mainly technical drawings (including the technology to be applied to the systems) as well as the specifications of the systems to be manufactured and installed.

(iv) Operation and maintenance segment relates to operational and maintenance services to the customers on the projects and equipment constructed by the Group. This was introduced since the year ended 31 December 2012 as certain customer requested for such services to be provided by the Group.

There are no operating segments that have been aggregated to form the above reportable operating segments.

The Chief Executive Officer monitors the operating results of its operating segments for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as set out below, is measured differently from operating profit or loss in the consolidated financial statements.

Group financing and income taxes are managed on a group basis and are not allocated to operating segments.

The chief operating decision maker reviews the results of the segment using segment gross profit. Segment assets, liabilities, investment in associates, non-current assets and other expenses are not disclosed as they are not regularly provided to the chief operating decision maker.

## 30 Operating segments (Cont'd)

(a) By business

| | Dust elimination | Desulphurisation | Industrial wastewater | Operation and maintenance | Design techncial & others | Total |
|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **2014** | | | | | | |
| **Revenue** | | | | | | |
| Sales to external customers | 22,202 | 6,411 | 20,357 | 22,417 | 1,000 | 72,387 |
| **Results** | | | | | | |
| Segment gross profit | 5,632 | 2,261 | 5,033 | 8,263 | 991 | 22,180 |
| **2013** | | | | | | |
| **Revenue** | | | | | | |
| Sales to external customers | 5,932 | – | 14,626 | 15,990 | – | 36,548 |
| **Results** | | | | | | |
| Segment gross profit | 1,081 | (135) | 1,608 | 2,426 | – | 4,980 |

(b) Geographical information

No geographical information is provided as the principal assets employed by the Group are located in the PRC and the Group's revenue and profits are derived primarily from customers in the PRC.

(c) Information about major customers

During the financial year ended 31 December 2014, revenue from three (2013: three) major customers amounted to RMB22.4 million, RMB9.5 million and RMB8.5 million (2013: RMB16 million, RMB11.9 million and RMB2 million), arising from sales by the operation and maintenance and industrial wastewater segment. In FY2013, the sales derived from these major customers were from the industrial wastewater and operation and maintenance segment.

## 31 Financial risk management objectives and policies

The Group and the Company have documented financial risk management policies. These policies set out the Group's and the Company's overall business strategies and its risk management philosophy. The Group and the Company are exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks included credit risk, liquidity risk, interest rate risk and foreign currency risk. The Group's and the Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise adverse effects from the unpredictability of financial markets on the Group's and the Company's financial performance through a system of internal controls set by the management.

The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk.

There has been no change to the Company's and the Group's exposure to these financial risks or the manner in which it manages and measures the risk. Market risk exposures are measured using sensitivity analysis indicated below.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

## 31 Financial risk management objectives and policies (Cont'd)

### 31.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates.

The Group's and the Company's exposure to interest rate risk arises primarily from their bank balances and borrowings. The Group and the Company do not enter into derivative financial instruments contracts to hedge interest rate risk. The Group's and the Company's policy is to obtain the most favourable interest rates available.

Sensitivity analysis for interest rate risk

At the end of reporting period, if RMB interest rates had been 50 (2013: 50) basis points higher/lower with all other variables held constant, the Group's profit net of tax would have been RMB375,000 (2013: RMB265,000) lower/higher, arising mainly as a result of higher/lower interest income on floating rate bank balances. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment, showing a significantly higher volatility compared to prior years.

### 31.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the Group or the Company to incur a financial loss. The Group's and the Company's exposure to credit risk arises primarily from trade and other receivables. For trade receivables, the Group and the Company adopt the policy of dealing only with customers of appropriate credit history, and obtaining sufficient security where appropriate to mitigate credit risk. For other financial assets, the Group and the Company adopt the policy of dealing only with high credit quality counterparties.

The Group's and the Company's objective is to seek continual growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. It is the group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis.

Exposure to credit risk

As the Company and the Group do not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the statement of financial position, except as follows:

The Group's and the Company's major classes of financial assets are bank deposits and trade and other receivables. Cash is held with reputable financial institutions.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

## 31 Financial risk management objectives and policies (Cont'd)

### 31.2 Credit risk (cont'd)

Credit risk concentration profile

The Group determines concentrations of credit risk by monitoring the industry sector profile of its trade receivables on an on-going basis. The credit risk concentration profile of the Group's trade receivables at the end of the reporting period is as follows:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| **The Group** | RMB'000 | % of total | RMB'000 | % of total |
| **By industry sector** | | | | |
| Steel | 13,726 | 8.4 | 14,202 | 8.6 |
| Environmental | 50,994 | 31.1 | 53,494 | 32.4 |
| Heat supply | 2,180 | 1.3 | 4,492 | 2.7 |
| Investment management | 1,338 | 0.8 | 1,274 | 0.8 |
| Energy | 83,212 | 50.7 | 86,040 | 52.0 |
| Others | 12,700 | 7.7 | 5,847 | 3.5 |
| | 164,150 | 100.0 | 165,349 | 100.0 |

As at 31 December 2014, 2 (2013: 2) of trade receivables individually exceed 5% of the Group's total assets.

In all sales contracts entered into with the Group's customers, the payment terms are based on each stage or milestone of the project. Generally, the payment terms are as follows:

(a) upon signing of a contract, an advance payment between nil to 30% of the total contract value;

(b) upon delivery of equipment and systems to customers, between nil and 60% of the contract value;

(c) after the installation and commissioning of equipment and systems, the issue of the project completion report by Anjie Environmental and acceptance by customers which usually include the issue of a detailed inspection report by the Environmental Protection Quality Inspection Station, between 90% and 95% of the contract value; and

(d) retention sum of generally between 5% and 10% of the contract value withheld by the customer for a one-year period against any defects.

Majority of the secured contracts to-date were under the above payment terms. Depending on negotiations with the customers, the other contracts also provide for payment terms based on fixed number of instalments, and specified amounts and dates for each of the instalment payments; or payment terms which are based on fixed agreed amounts for each of the progressive payments payable upon completion of each stage or milestone of a contract. In addition, depending on negotiations with and requests from the customers, some of the contracts also provide for retention monies to be based on an agreed sum with the customers and/or the defects liability period to be extended to two years, or defects liability period of certain components of the systems (such as the fabric filter bags) to be extended to up to three years.

For small scale projects which are relatively less complex, the credit term extended to the customers for the advance payments and progress claims is generally 60 to 90 days from the date of issuance of the notification of payment and progress billings respectively. For large scale projects which require more than a year to complete or projects which are technically more complex, longer credit terms of up to 150 days to the customers will be extended as more time is required by the customers to process the payments. Based on past experience, the customers generally take between 20 days and 90 days to pay the advance payments and progress billings. Some of the customers may pay even before the issue of notification of payments to them.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

## 31 Financial risk management objectives and policies (Cont'd)

### 31.3 Liquidity risk

Liquidity risk is the risk that the Group and the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments that are settled by delivering cash or other financial asset. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

The table below analyses the maturity profile of the Company's and the Group's financial liabilities based on contractual undiscounted cash flows:

| The Group | Note | 1 year or less 2014 RMB'000 | 1 year or less 2013 RMB'000 |
|---|---|---|---|
| Non-derivative financial liabilities | | | |
| Loans and borrowings | | 179,074 | 86,148 |
| Trade and other payables | 20 | 39,927 | 47,564 |
| Other liabilities | 21 | 19,148 | 26,362 |
| Total undiscounted financial liabilities | | 238,149 | 160,074 |
| **The Company** | | | |
| Non-derivative financial liabilities | | | |
| Trade and other payables | 20 | 492 | 259 |
| Other liabilities | 21 | 1,424 | 1,594 |
| Corporate guarantee | | 110,000 | 80,000 |
| Total undiscounted financial liabilities | | 111,916 | 81,853 |

The Group and the Company ensure that there are adequate funds to meet all its obligations in a timely and cost effective manner. The Management aims at maintaining flexibility in funding by keeping committed credit facilities as disclosed in Note 19. Management had successfully renewed its banking facilities with the bank loans of RMB30 million and RMB50 million maturing 16 December 2014 and 24 December 2014 respectively. Management believes that it will have the necessary liquidity by scaling its business activities, collections from trade and other receivables and/or raising funds as it deemed appropriate. Refer to note 2(a) on going concern assumption.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

## 31 Financial risk management objectives and policies (Cont'd)

### 31.4 Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises when transactions are denominated in foreign currencies.

The Group's operations are primarily conducted in the PRC in RMB. Currently, the PRC government imposes control over foreign currencies. RMB, the official currency in the PRC, is not freely convertible. Enterprises operating in the PRC can enter into exchange transactions through the People's Bank of China or other authorised financial institutions.

The Group and the Company holds cash and bank balances denominated in foreign currencies for working capital purposes. At the end of reporting period, such foreign currency balances (mainly SGD) amounted to RMB2,366,000 (2013: RMB991,000) for the Group.

There is no formal hedging policy with respect to foreign currency exposure. Exposure to foreign currency risk is monitored on an on-going basis and the Group endeavours to keep the net exposure at an acceptable level.

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity to a reasonably possible change in the SGD against RMB, with all other variables held constant, of the Group's profit before tax and equity:

| The Group | 2014 Profit before taxation | 2014 Equity | 2013 Loss before taxation | 2013 Equity |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| SGD against RMB | | | | |
| - strengthened by 5% (2013: 5%) | 126 | 126 | 52 | 52 |
| - weakened by 5% (2013: 5%) | (126) | (126) | (52) | (52) |

## 32 Capital risk management objectives and policies

The Group's objectives when managing capital are:

(a) To safeguard the Group's ability to continue as going concern;

(b) To support the Group's the stability and growth;

(c) To provide capital for the purpose of strengthening the Group's the risk management capability; and

(d) To provide an adequate return to shareholders.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group currently does not adopt any formal dividend policy.

There were no changes in the Group's approach to capital management during the year.

The Company and its subsidiary are not subject to externally imposed capital requirements.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

## 32 Capital risk management objectives and policies (Cont'd)

Gearing has a significant influence on the Group's capital structure and the Group monitor capital using a gearing ratio. The Group's goal in capital management is to maintain a capital-to-overall financing structure ratio between 10% and 36% (2013: 10% and 30%), a 5% increase to take into consideration of the slow recovery of trade receivables. The gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as the sum of bank borrowings, trade and other payables and other liabilities less cash and cash equivalents.

Total capital is calculated as equity plus net debt.

| The Group | Note | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|---|
| Loans and borrowings | 19 | 172,600 | 80,000 |
| Trade and other payables | 20 | 39,927 | 47,564 |
| Other liabilities | 21 | 19,148 | 26,362 |
| Less: Cash and cash equivalents | 14 | (75,051) | (52,987) |
| | | 156,624 | 100,939 |
| Equity attributable to owners of the parent | | 319,853 | 314,142 |
| Less: PRC statutory common reserve | 16 | (31,748) | (31,230) |
| Total capital | | 288,105 | 282,912 |
| Capital and net debt | | 444,729 | 383,851 |
| Gearing ratio | | 35.2% | 26.3% |

## 33 Fair value measurement

### 33.1 Fair value

Definition of fair value

FRSs define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Measurement of fair value of non-financial assets

The carrying amount of the financial assets and financial liabilities with a maturity of less than one year is assumed to approximate their fair values.

The Group and the Company does not anticipate that the carrying amounts recorded at the end of the reporting period would be significantly different from the values that would eventually be received or settled.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

## 33 Fair value measurement (cont'd)

### 33.2 Financial instruments by category

**Accounting classifications of financial assets and financial liabilities**

The carrying amounts of financial assets and financial liabilities in each category are as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Financial assets** | | | | |
| Loans and receivables | | | | |
| Trade and other receivables | 205,926 | 206,184 | 41,629 | 40,554 |
| Cash and bank balances | 137,223 | 53,487 | 1,945 | 557 |
| | 343,149 | 259,671 | 43,574 | 41,111 |
| **Financial liabilities** | | | | |
| Other liabilities | | | | |
| Loans and borrowings | 172,600 | 80,000 | – | – |
| Trade and other payables | 38,358 | 45,481 | 492 | 259 |
| Other liabilities | 19,148 | 26,362 | 1,424 | 1,594 |
| | 230,106 | 151,843 | 1,916 | 1,853 |

## 34 Subsequent events

(a) On 27 January 2015, Anjie Environmental has entered into a framework agreement for the potential acquisition of equity interest of not less 90% in Nanjing Guanyang New Energy Co; Ltd from its existing shareholders, namely, Messrs Chen Kun and Shi Hai Bo. An initial deposit of RMB2 million was paid to the vendors and the deposit amount will be secured by share pledges over the Vendors' interests in Nanjing Guanyang. The acquisition is pending due diligence, valuation and finalisation of the definitive share transfer agreements.

(b) As a continuous support to promising environmental companies in Changchun City, PRC, a further loan amount of RMB17 million was approved subsequent to the year end by China Merchants Bank to Anjie Environmental for working capital purpose. The loan tenure is for one year commencing from 29 January 2015 to 29 January 2016 with an annual interest rate of 5.6%.

# SHAREHOLDERS' STATISTICS

As at 16th March 2015

| | | |
|---|---|---|
| Class of Shares | : | Ordinary shares |
| Number of Ordinary Shares in issue | : | 551,959,000 |
| Number of Ordinary Shareholders | : | 1,519 |
| Voting Rights | : | 1 vote for 1 share |

| Analysis of Shareholdings<br>Range of Shareholdings | No. of<br>Shareholders | % | No. of Shares | % |
|---|---|---|---|---|
| 1 - 99 | – | – | – | – |
| 100 – 1,000 | 12 | 0.79 | 12,000 | – |
| 1,001 - 10,000 | 322 | 21.20 | 2,483,200 | 0.45 |
| 10,001 - 1,000,000 | 1,149 | 75.64 | 102,911,800 | 18.65 |
| 1,000,001 and above | 36 | 2.37 | 446,552,000 | 80.90 |
| | 1,519 | 100.00 | 551,959,000 | 100.00 |

Based on information available to the Company as at 16 March 2015, 62.26% of the issued ordinary shares of the Company is held by the public and therefore Rule 723 of the Listing Manual issued by the Singapore Exchange Securities Trading Limited is complied with.

### Top 20 Shareholders list

| No. | Name of Shareholder | No. of<br>Shares Held | % |
|---|---|---|---|
| 1 | JINGOLD RESOURCES LIMITED | 207,304,000 | 37.56 |
| 2 | RAFFLES NOMINEES (PTE) LTD | 42,169,700 | 7.64 |
| 3 | GOH BEE LAN | 27,305,000 | 4.95 |
| 4 | XU HAN | 27,122,000 | 4.91 |
| 5 | QIU YUHUA | 23,192,000 | 4.20 |
| 6 | CIMB SECURITIES (S) PTE LTD | 10,653,000 | 1.93 |
| 7 | OCBC SECURITIES PRIVATE LTD | 10,389,000 | 1.88 |
| 8 | MAYBANK NOMINEES (S) PTE LTD | 9,423,000 | 1.71 |
| 9 | PHILLIP VENTURES ENTERPRISE FUND 2 LTD | 8,880,000 | 1.61 |
| 10 | WANG DONGMING | 6,258,000 | 1.13 |
| 11 | TAN KUANG HUI | 5,500,000 | 1.00 |
| 12 | TEO YI-DAR (ZHANG YIDA) | 5,200,000 | 0.94 |
| 13 | JI YANPENG | 5,191,000 | 0.94 |
| 14 | PHILLIP SECURITIES PTE LTD | 4,999,500 | 0.91 |
| 15 | LIU ENHUI | 4,727,000 | 0.86 |
| 16 | MAYBANK KIM ENG SECURITIES PTE LTD | 4,584,000 | 0.83 |
| 17 | DBS NOMINEES PTE LTD | 3,888,000 | 0.70 |
| 18 | NEE LUNG-YUAN | 3,400,000 | 0.62 |
| 19 | YANG YUGUANG | 3,076,000 | 0.56 |
| 20 | SIM BEE NAN SHERRY | 3,000,000 | 0.54 |
| | | 416,261,200 | 75.42 |

# SHAREHOLDERS' STATISTICS

As at 16th March 2015

## SUBSTANTIAL SHAREHOLDERS

(As recorded in the Register of Substantial Shareholders as at 16 March 2015)

| | No. of Shares | | |
|---|---|---|---|
| | **Direct Interests** | **Deemed Interests** | **%** |
| Jingold Resources Limited | 207,304,000 | – | 37.56 |
| Lin Baiyin[1] | 1,000,000 | 207,304,000 | 37.74 |

(1) Jingold Resources is an investment holding company incorporated in the BVI and is owned by Lin Baiyin (our Executive Chairman and CEO). By virtue of Section 7 of the Companies Act, Cap. 50., Lin Baiyin is deemed interested in the Shares held by Jingold Resources in our Company.

# NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Leader Environmental Technologies Limited (the "Company") will be held at RELC International Hotel, Level 5, Room 502, 30 Orange Grove Road, Singapore 258352, on Monday, 27 April 2015 at 10.00 a.m. to transact the following businesses:

## ORDINARY BUSINESS:

**1.** To receive and adopt the Audited Accounts for the financial year ended 31 December 2014 together with the reports of the Directors and the Auditors thereon. **(Resolution 1)**

**2.** To re-elect Mr Lin Bai Yin, a Director retiring pursuant to Article 104 of the Company's Articles of Association. **(See Explanatory Note (i))** **(Resolution 2)**

**3.** To note the retirement of Mr Lee Gee Aik, a Director retiring pursuant to Article 104 of the Company's Articles of Association. Mr Lee has decided not to seek re-election and will retire as a Director at the conclusion of the Annual General Meeting. **(See Explanatory Note (ii))**

**4.** To approve the payment of S$108,000 as directors' fees to the Independent Non-Executive Directors for the financial year ending 31 December 2015 and to pay the directors' fees in arrears on a quarterly basis over the financial year 2015. **(Resolution 3)**

**5.** To re-appoint Messrs Foo Kon Tan LLP as the Auditors of the Company and to authorise the Directors to fix their remuneration. **(Resolution 4)**

## SPECIAL BUSINESS:

To consider and, if thought fit, to pass with or without modification, the following resolutions as Ordinary Resolutions:

**6. AUTHORITY TO ALLOT AND ISSUE SHARES** **(Resolution 5)**

Pursuant to section 161 of the Companies Act, that authority be and is hereby given to the Directors to:

(a) (i) issue shares in the capital of the Company ("Shares") whether by way of rights, bonus or otherwise; and/or

(ii) make or grant offers, agreements or options (collectively, "Instruments") that might or would require Shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into Shares, at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may, in their absolute discretion, deem fit; and

# NOTICE OF ANNUAL GENERAL MEETING

(b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue Shares in pursuance of any Instrument made or granted by the Directors while this Resolution was in force,

provided that:

(1) the aggregate number of Shares to be issued pursuant to this Resolution (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed fifty per cent. (50%) of the total number of issued shares in the capital of the Company excluding treasury shares (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of Shares to be issued other than on a pro rata basis to shareholders of the Company (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) shall not exceed twenty per cent. (20%) of the total number of issued shares in the capital of the Company excluding treasury shares (as calculated in accordance with sub-paragraph (2) below);

(2) (subject to such manner of calculation as may be prescribed by the Singapore Exchange Securities Trading Limited (“SGX-ST”) for the purpose of determining the aggregate number of Shares that may be issued under sub-paragraph (1) above, the percentage of issued Shares shall be based on the total number of issued Shares in the capital of the Company excluding treasury shares at the time this Resolution is passed, after adjusting for:

(i) new Shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time this Resolution is passed; and

(ii) any subsequent bonus issue or consolidation or subdivision of Shares;

(3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Articles of Association for the time being of the Company; and

(4) (unless revoked or varied by the Company in General Meeting) the authority conferred by this Resolution shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier. **(See Explanatory Note (iii))**

**7. AUTHORITY TO GRANT OPTIONS AND TO ALLOT AND ISSUE SHARES UNDER LEADER ENVIRONMENTAL EMPLOYEE SHARE OPTION SCHEME** **(Resolution 6)**

Pursuant to section 161 of the Companies Act (Chapter 50), that authority be and is hereby given to the Directors of the Company to offer and grant options in accordance with the provisions of the Leader Environmental Employee Share Option Scheme (the “ESOS”) and to allot and issue from time to time such number of Shares in the Company as may be required to be issued pursuant to the exercise of the options under the ESOS, provided always that the aggregate number of Shares to be issued pursuant to the ESOS, PSS (as defined hereunder) and any other share-based schemes of the Company shall not exceed fifteen per cent. (15%) of the issued share capital of the Company excluding the treasury shares at any time and from time to time. **(See Explanatory Note (iv))**

# NOTICE OF ANNUAL GENERAL MEETING

**8. AUTHORITY TO GRANT AWARDS AND TO ALLOT AND ISSUE SHARES UNDER THE LEADER ENVIRONMETAL PERFORMANCE SHARE SCHEME** **(Resolution 7)**

Pursuant to section 161 of the Companies Act (Chapter 50), that authority be and is hereby give to the Directors to grant awards in accordance with the provisions of the Leader Environmental Performance Share Scheme ("PSS") and allot and issue from time to time such number of Shares as may be required to be allotted and issued pursuant to the terms and conditions under the PSS, provided always that the aggregate number of shares to be issued pursuant to the PSS, ESOS and any other share-based schemes of the Company shall not exceed fifteen per cent. (15%) of the issued share capital of the Company excluding the treasury shares at any time and from time to time. **(see Explanatory Note (v))**

**9.** To transact any other business that may be transacted at the Annual General Meeting.

By Order of the Board

Chia Foon Yeow
Company Secretary

10 April 2015

**Notes:-**

(i) A member of the Company entitled to attend and vote at the above Meeting may appoint not more than two proxies to attend and vote instead of him.

(ii) Where a member appoints two proxies, he shall specify the proportion of his shareholding to be represented by each proxy in the instrument appointing the proxies. A proxy need not be a member of the Company.

(iii) If the member is a corporation, the instrument appointing the proxy must be under seal or the hand of an officer or attorney duly authorised.

(iv) The instrument appointing a proxy must be deposited at the office of the Share Registrar, M&C Services Private Limited, at 112 Robinson Road, #05-01, Singapore 068902 not less than 48 hours before the time appointed for holding the above Meeting.

**EXPLANATORY NOTES:**

(i) Mr Lin Baiyin will, upon re-election as Director of the Company, remain as the Executive Chairman and Chief Executive Officer of the Company.

(ii) Mr Lee Gee Aik will retire as a Director of the Company at the conclusion of the Annual General Meeting. Upon Mr Lee's retirement, he will cease to be the Chairman of the Audit Committee and a member of each the Nominating Committee and the Remuneration Committee. He will also cease to be the lead Independent Director. His replacement for each Committee and the lead Independent Director position will be announced in due course.

(iii) Resolution 5 is to empower the Directors to issue shares in the capital of the Company and to make or grant instruments (such as warrants or debentures) convertible into shares, and to issue shares in pursuance of such instruments, up to a number not exceeding 50 per cent. (50%) of the total number of issued shares excluding treasury shares in the capital of the Company, of which up to twenty per cent. (20%) of the total number of issued shares (excluding treasury shares) may be issued other than on a pro rata basis to shareholders. For the purpose of determining the aggregate number of shares that may be issued, the percentage of issued shares shall be based on the total number of issued shares excluding treasury shares in the capital of the Company at the time that Resolution 6 is passed, after adjusting for (a) new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time that Resolution 6 is passed, and (b) any subsequent bonus issue or consolidation or subdivision of shares.

# NOTICE OF ANNUAL GENERAL MEETING

(iv) Resolution 6, if passed, will empower the Directors to grant options in accordance with the provisions of the ESOS and to allot and issue Shares thereunder (and together with Shares allotted and issued under the PSS and any other share-based scheme) up to an aggregate amount not exceeding fifteen per cent. (15%) of the issued share capital of the Company excluding treasury shares at any time and from time to time.

(v) Resolution 7, if passed, will empower the Directors to grant award of shares in accordance with rules of the PSS, as the case may be, and to allot and issue Shares thereunder (and together with Shares allotted and issued under the ESOS and any other share-based scheme) up to an aggregate amount not exceeding fifteen per cent. (15%) of the issued share capital of the Company excluding treasury shares at any time and from time to time.

**Personal Data Privacy**

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents or service providers) for the purpose of the processing, administration and analysis by the Company (or its agents or service providers) of proxies and representatives appointed for the Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Annual General Meeting (including any adjournment thereof), and in order for the Company (or its agents or service providers) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents or service providers), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents or service providers) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

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**LEADER ENVIRONMENTAL TECHNOLOGIES LIMITED**
(Incorporated in the Republic of Singapore)
Company Registration No. 200611799H

## ANNUAL GENERAL MEETING
**Proxy form**

**Important:**
1 For investors who have used their CPF monies to buy the Shares, this report is forwarded to them at the request of their CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.
2 This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

I/We, ______________________________ (Name)

of ______________________________ (Address)

being a member/members of Leader Environmental Technologies Limited (the "Company") hereby appoint:

| **Name** | **Address** | **NRIC/Passport No.** | **Proportion of Shareholdings (%)** |
|---|---|---|---|
| | | | |

and/or (delete as appropriate)

| **Name** | **Address** | **NRIC/Passport No.** | **Proportion of Shareholdings (%)** |
|---|---|---|---|
| | | | |

as my/our proxy/proxies to vote for me/us on my/our behalf, at the Annual General Meeting of the Company ("AGM"), to be held at RELC International Hotel, Level 5, Room 502, 30 Orange Grove Road Singapore 258352, on Monday, 27 April 2015 at 10.00 a.m. and at any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the Resolutions to be proposed at the AGM as indicated hereunder. If no specific direction as to voting is given, the proxy/proxies will vote or abstain from voting at his/their discretion, as he/they will on any other matter arising at the AGM.

| **No.** | **Resolutions relating to:** | **For*** | **Against*** |
|---|---|---|---|
| 1 | Adoption of the Audited accounts for the financial year ended 31 December 2014 together with the reports of the Directors and the Auditor thereon. | | |
| 2 | Re-election of Mr Lin Baiyin as Executive Director of the Company. | | |
| 3 | Approval of proposed directors' fees of S$108,000 to the Independent Non-executive Directors for the financial year ending 31 December 2015 and the payment thereof on a quarterly basis in arrears. | | |
| 4 | Re-appointment of Messrs Foo Kon Tan LLP as external auditors of the Company. | | |
| 5 | Authority for Directors to allot and issue shares pursuant to Section 161 of the Companies Act, Cap. 50. | | |
| 6 | Authority for Directors to offer and grant options and to issue and allot shares under the Leader Environmental Employee Share Option Scheme. | | |
| 7 | Authority for Directors to grant awards and to allot and issue shares under the Leader Environmental Performance Share Scheme. | | |

* Please indicate your vote "For" or "Against" with a tick (✓) within the box provided.

Dated this __________ day of ____________________ , 2015.

| **TOTAL NUMBER OF SHARES IN :** | |
|---|---|
| (a) CDP Register | |
| (b) Register of Members | |

______________________________
Signature(s) of Shareholder(s) or
Common Seal of Corporate Shareholder

**(Important: Please read the notes overleaf before completing this form)**

**Notes**

1. A member entitled to attend and vote at the Meeting is entitled to appoint one or two proxies to attend and vote in his stead.

2. Where a member appoints more than one proxy, the proportion of the shareholding to be represented by each proxy shall be specified in this proxy form. If no proportion is specified, the Company shall be entitled to treat the first named proxy as representing the entire shareholding and any second named proxy as an alternate to the first named or at the Company's option to treat this proxy form as invalid.

3. A proxy need not be a member of the Company.

4. Please insert the total number of shares held by you. If you have shares entered against your name in the Depository Register (as defined in section 130A of the Companies Act, Cap. 50 of Singapore), you should insert that number of shares. If you have shares registered in your name in the Register of Members of the Company, you should insert that number of shares. If you have shares entered against your name in the Depository Register and registered in your name in the Register of Members, you should insert the aggregate number of shares. If no number is inserted, this proxy form will be deemed to relate to all the shares held by you.

5. This proxy form must be deposited at the office of the Share Registrar, M&C Services Private Limited, at 112 Robinson Road #05-01 Singapore 068902, not less than 48 hours before the time set for the meeting.

6. This proxy form must be under the hand of the appointor or of his attorney duly authorised in writing. Where this proxy form is executed by a corporation, it must be executed either under its common seal or under the hand of its attorney or a duly authorised officer.

7. Where this proxy form is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with this proxy form, failing which this proxy form shall be treated as invalid.

8. The Company shall be entitled to reject an instrument of proxy which is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified on the instrument of proxy. In addition, in the case of Shares entered in the Depository Register, the Company may reject an instrument of proxy if the member, being the appointor, is not shown to have Shares entered against his name in the Depository Register as at 48 hours before the time appointed for holding the meeting, as certified by The Central Depository (Pte) Limited to the Company.

**Personal Data Privacy**

By submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 10 April 2015.

**Leader Environmental Technologies Limited**

(Company Registration No.: 200611799H)

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