



Regulatory Action

25 September 2020

SGX RegCo reprimands China Environment Ltd., its former Directors and its former Chief Financial Controller

Public Reprimand: Breaches of Listing Rules

1. Singapore Exchange Regulation (“**SGX RegCo**”) reprimands China Environment Ltd [中国环保有限公司] (the “**Company**”, together with its subsidiaries, the “**Group**”), Mr. Huang Min [黄敏] (former Executive Chairman); Mr. Wu Jida [吴继达] (former Executive Director and former Chief Executive Officer); and Mr. Chiar Choon Teck (former Chief Financial Officer) for breaches of the Listing Rules.
2. Based on the Independent Auditor’s Reports issued by RT LLP dated 26 April 2019 on the Company’s restated financial statements for the financial year ended 31 December 2013 (“**FY2013**”) and financial year ended 31 December 2014 (“**FY2014**”) (“**Independent Auditor’s Reports**”), SGX RegCo noted the following incidents of non-compliance with the Listing Rules:
 - a) Listing Rule 703(1)(a) requires an issuer to announce any information known to the issuer concerning it or any of its subsidiaries or associated companies which is necessary to avoid the establishment of a false market in the issuer’s securities. Appendix 7.1 paragraph 3 clarifies that a false market may exist if information is not made available that would, or would be likely to, influence persons who commonly invest in securities in deciding whether or not to subscribe for, or buy or sell the securities.

The Company’s Annual Reports dated 13 March 2014 and 1 April 2015 contained false and misleading financial statements due to non-existent trade receivables.

The Company also failed to disclose a corporate guarantee of RMB 20M extended by a wholly-owned subsidiary to a bank for a loan granted to a third party (“**Undisclosed Corporate Guarantee**”) in June 2015.

- b) Listing Rule 720(1) read with Listing Rule 210(5)(b) requires directors and management to possess character and integrity expected of directors and management of listed issuers.

Mr. Huang Min (former Executive Chairman) and Mr. Wu Jida (former Executive Director and Chief Executive Officer) were the legal representative and general manager respectively, of the relevant subsidiary, which had provided the Undisclosed Corporate Guarantee and recorded the non-existent trade receivables for FY2013 and FY2014. Mr. Chiar Choon Teck (former Chief Financial Officer) was mainly responsible for the Company’s financial statements for FY2013 and FY2014. As such, SGX RegCo is of the view that they have failed to demonstrate

the character and integrity expected of directors and management of listed issuers, and are in breach of Listing Rule 720(1) read with Listing Rule 210(5)(b).

SGX-listed companies are advised to consult SGX RegCo before they appoint Mr. Huang Min; Mr. Wu Jida; and Mr. Chiar Choon Teck as a director and/or executive officers.

3. SGX RegCo has referred the case on the non-existent trade receivables and false and misleading financial statements to the relevant authorities.

Details of Listing Rules breaches

Background

4. The listing rules breaches relate to the following:
 - a. Misleading and Inaccurate financial statements for FY2013 and FY2014 arising from non-existent trade receivables

The Company disclosed its audited financial statements for FY2013 and FY2014 in its annual reports dated 13 March 2014 and 1 April 2015 respectively. The then external auditors, Baker Tilly TFW LLP, issued unqualified audit opinions on these financial statements.

On 16 June 2016, the Company disclosed via SGXNet that the Accounting and Corporate Regulatory Authority (“ACRA”) had required the Company to restate its financial statements for FY2013 and FY2014. The Company was the subject of ACRA's Financial Reporting Surveillance Programme and had been issued an advisory letter for non-compliances with SFRS 11: Construction Contracts relating to recognition of revenue and trade receivables.

The Company has obtained shareholders’ approval to appoint RT LLP as the new external auditors on 16 September 2016.

On 26 April 2019, the Company announced that RT LLP, had issued a disclaimer of opinion on its revised financial statements for FY2013 and FY2014. Based on the Independent Auditor’s Reports, the board had revised its consolidated financial statements for FY2013 and FY2014 to reflect the reversal of non-existent revenue and the associated costs of sales as well as trade receivables. The 5 major trade receivables, which were non-existent, were (i) Nanning Youji Technology Co Ltd; (ii) Anhui Shengyun Mechanical Co. Ltd; (iii) Shanxi Electric Environment Engineering; (iv) Changshu City Environment and (v) Chongmei International Engineering.

The Independent Auditor’s Reports for the revised financial statements for FY2013 and FY2014 disclose, amongst others, the following:

- 1) Nanning Youji Technology Co Ltd (“**NNYJ**”) [南宁市友济科技有限公司] and Anhui Shengyun Mechanical Co. Ltd (“**AHSY**”) [安徽盛运机械股份有限公司]

On 21 September 2016, the Company announced that it had obtained legal opinion from a PRC legal firm that the trade receivables due from AHSY and NNYJ were non-existent. RT LLP had on 17 and 18 November 2016 undertook a surprise site visit to AHSY and NNYJ.

RT LLP was unable to locate NNYJ’s physical place of operations based on the address indicated in the confirmation request letter. Prior to the site visit, RT LLP had received an unqualified trade receivable confirmation from NNYJ via courier from PRC. Based on RT LLP’s findings of the inconsistency between the trade receivable confirmation and failure to establish the

existence of NNYJ, the Board had concluded that the balance of RMB 341.69 million due from NNYJ as at 31 December 2015 (substantially brought forward balances from FY2014 and FY2013) was likely to be non-existent.

Similarly, RT LLP's surprise site visit to AHSY office also found discrepancies on the outstanding balance of RMB 163.84 million as at 31 December 2015. It was unable to locate AHSY's financial controller or any key finance personnel purportedly responsible for the trade receivable confirmation received via courier prior to the site visit. As an alternative procedure, RT LLP left a new confirmation request letter with AHSY's Finance Department and was surprised to receive a second confirmation indicating Nil balance as at 31 December 2015. Based on RT LLP's findings, the Board had concluded that the balance of RMB 163.84 million due from AHSY as at 31 December 2015 (the bulk of which was also brought forward balance from FY2014 and FY2013) was likely to be non-existent.

The Board had also concluded that the 2 outstanding trade receivables from NNYJ (FY2014: RMB 310.94 million; FY2013: RMB 15.75 million) and AHSY (FY2014: RMB 66.36 million; FY2013: RMB 67.65 million) were also non-existent.

- 2) Shanxi Electric Environment Engineering ("Shanxi Electric") [山西省电力环保设备工程有限公司], Changshu City Environment ("Changshu") [常熟市华能环保工程有限公司] and Chongmei International Engineering ("Chongmei") [中煤国际工程集团北京华宇工程有限公司]

In view of the findings from the site visits to NNYJ and AHSY, RT LLP conducted site visits to 3 other customers, namely Shanxi Electric, Changshu, and Chongmei. The finance manager of Shanxi Electric had informed RT LLP that the outstanding trade receivable from Shanxi Electric should be approximately RMB 22 million as at 31 December 2015 as compared to RMB 70 million recorded by the Company. Based on RT LLP's findings of the inconsistency between the trade receivable confirmation previously received and response from the finance manager from the site visit, the Board was of the view that the trade receivable from Shanxi Electric amounting to RMB 70.04 million for financial year ended 31 December 2015 ("FY2015") was likely to be grossly overstated.

During the auditors' site visits, they were unable to establish the veracity of the trade receivables due from Changshu and Chongmei. It was discovered that Changshu's name at the address during their site visit was indicated as 江苏鑫華能環保工程股份有限公司 instead of 常熟市华能环保工程有限公司, whereas the operation and marketing manager of Chongmei who had purportedly confirmed the balance denied that he had signed on the confirmation for FY2015. Based on RT LLP's findings, and upon further investigation by the Company, the Board had concluded that both Changshu and Chongmei, which made up approximately 5.72% and 2.04% respectively of the total trade receivables of RMB 786.13 million as at 31 December 2015 were non-existent.

The Board had also concluded that the outstanding trade balance from these 3 major trade receivables, Shanxi Electric (FY2014: RMB 2.43 million; FY2013: RMB 53.19 million), Changshu (FY2014: RMB 63.34 million; FY2013: RMB 57.81 million) and Chongmei (FY2014: RMB 22.04 million; FY2013: RMB 4.34 million) were also non-existent.

Based on the Company's FY2014 Annual Report dated 26 April 2019, adjustments were made to the Group's financial statements for FY2013 and FY2014.

	As previously stated	Adjustments	As Revised
	RMB'000	RMB'000	RMB'000
Trade and bill receivables for FY2013	491,520	(198,729)	292,791
Trade and bill receivables for FY2014	660,133	(474,898)	185,235

b. Undisclosed Corporate Guarantee

The Company's wholly-owned subsidiary, Fujian Dongyuan Environmental Protection Co., Ltd ("FJDY") had extended a guarantee in June 2015 to Bank of China in relation to a loan of RMB 20 million to Bengbu Xingyuan Environmental Protection Technology Co., Ltd ("BBXY").

On 25 November 2016, the Company announced that Bank of China has filed a civil suit against FJDY for the corporate guarantee. In response to SGX queries dated 2 December 2016, the Company disclosed that it was not aware that the former Board of directors had given any approval for this Corporate Guarantee. Mr. Huang Min was the legal representative at the relevant time.

On 7 June 2017, the Company announced that judgement was awarded to Bank of China and FJDY shall be liable for the RMB20 million corporate guarantee.

Listing Rules Breaches by the Company

- Based on the Independent Auditor's Reports and the Company's announcements, SGX RegCo is of the view that the Company has breached Listing Rule 703(1)(a) for (i) disclosure of false and misleading audited financial statements for FY2013 and FY2014; and (ii) failing to disclose the corporate guarantee extended by its wholly-owned subsidiary to a bank in June 2015 for a loan of RMB 20 million to a third party.
- As a result, the Company failed to ensure that the announcements were factual and accurate. The Company also did not announce information known to itself concerning it or any of its subsidiaries or associated companies which is necessary to avoid the establishment of a false market in the Company's securities.

Listing Rules Breaches by former Executive Chairman

- Mr Huang Min did not respond to the show cause letter issued in relation to his breaches of Listing Rules.
- Mr Huang Min, in his capacity as the former Executive Chairman, had caused the Company to breach Listing Rule 703(1)(a) for the materially misstated audited financial statements for FY2013 and FY2014 arising from non-existent trade receivables, as well as inaccurate financial statements arising from undisclosed corporate guarantee.
- Mr Huang Min, in his capacity as the former Executive Chairman, had exercised control over the operations and management of the Company and its subsidiaries. SGX RegCo was informed that Mr. Huang Min held the legal seals necessary for the Company to conclude contracts with third parties. The non-existent trade receivables were recorded by the Company's wholly-owned subsidiary, FJDY, in which Mr Huang Min was appointed as the legal representative.

10. As stated in the Company's announcement of 30 July 2018, the Company and FJDY have concluded a settlement with Mr Huang Min, including a payment by Mr Huang Min (and his family) to the Company of a settlement sum of \$1.2 million and a full and final settlement of all claims between the parties. The Company and its subsidiary, FJDY's claim against Mr Huang Min relates to, amongst others, his breach of fiduciary duties and/or fraud in relation to alleged non-existent trade receivables from AHSY and NNYJ that were recorded in FJDY.
11. Taking into consideration (i) Mr Huang Min's role as the Executive Chairman of the Company, (ii) his appointment as the legal representative of FJDY, which recorded the non-existent trade receivables and granted the Undisclosed Corporate Guarantee, and (iii) his lack of cooperation by failing to respond to the Exchange's show cause letter, SGX RegCo is of the view that Mr Huang Min has failed to demonstrate the character and integrity expected of the directors and management of listed issuers, in breach of Listing Rule 720(1) read with Listing Rule 210(5).

Listing Rules Breaches by former Executive Director and former Chief Executive Officer

12. Mr Wu Jida, in his capacity as the former Executive Director and former Chief Executive Officer of the Company, had caused the Company to breach Listing Rule 703(1)(a) for the materially misstated audited financial statements for FY2013 and FY2014 arising from non-existent trade receivables.
13. Mr Wu Jida, as the Chief Executive Officer of the Company, was responsible for "overseeing the daily operations of the Group" and had a duty to ensure that the financial records of the Company have been properly maintained and that the financial statements give a true and fair view of the Company's operations and finances. SGX RegCo was informed that Mr Wu Jida had exercised control over the operations and management of the Company and its subsidiaries. He held the legal seals necessary for the Company to conclude contracts with third parties. In view of the material financial misstatements for FY2013 and FY2014, SGX RegCo is of the view that Mr Wu Jida has failed to carry out his duty as the Executive Director and Chief Executive Officer of the Company.
14. Taking into consideration (i) Mr Wu's role as the Executive Director and Chief Executive Officer of the Company and (ii) his position as the General Manager of FJDY, which recorded the non-existent trade receivables, SGX RegCo is of the view that Mr Wu Jida has failed to demonstrate the character and integrity expected of the directors and management of listed issuers, in breach of Listing Rule 720(1) read with Listing Rule 210(5).

Listing Rules Breaches by former Chief Financial Officer

15. Mr Chiar Choon Teck, in his capacity as the former Chief Financial Officer of the Company, had caused the Company to breach Listing Rule 703(1)(a) for the materially misstated audited financial statements for FY2013 and FY2014 arising from non-existent trade receivables.
16. Mr. Chiar Choon Teck was responsible for "financial accounting, corporate finance and investor relations of the Group since 1 June 2010" and had a duty to ensure that the financial records of the Company have been properly maintained and that the financial statements give a true and fair view of the Company's operations and finances. In view of the material financial misstatements for FY2013 and FY2014, SGX RegCo is of the view that Mr Chair Choon Teck has failed to carry out his duty as the Chief Financial Officer of the Company.
17. Mr. Chiar Choon Teck had submitted that the trade receivables collection was in-charged by a designated person under the Sales and Marketing department, who would report directly to the Chief Executive Officer. The Chief Executive Officer was responsible to provide updates to the Audit Committee. In the absence of the Chief Executive Officer, Mr Chiar would check the status of the trade receivables with Chief Executive Officer and then reply to Audit Committee.

18. In his capacity as the Chief Financial Officer, Mr Chiar Choon Teck was the most senior finance staff. Mr Chiar had also provided assurance in the Company's Annual Reports dated 13 March 2014 and 1 April 2015 respectively that "the financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances". SGX RegCo is of the view that Mr Chiar is expected to exercise due care and diligence in the oversight of the Group's financial statements and take reasonable steps to ensure the veracity of financial statements prior to providing such assurance. On the contrary, Mr Chiar had submitted to SGX RegCo that he had relied on the former Chief Executive Officer's representations on the collectability of the trade receivables, subsequently found to be non-existent. SGX RegCo is of the view that Mr Chiar had failed to exercise the standard of care and diligence expected of a Chief Financial Officer of a listed company.
19. In light of the above, SGX RegCo is of the view that Mr Chiar Choon Teck has failed to demonstrate the character and integrity expected of the directors and management of listed issuers, in breach of Listing Rule 720(1) read with Listing Rule 210(5).

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Media Contact

Carolyn Lim
Marketing & Communications
T: +65 6236 8139
E: Carolyn.lim@sgx.com