



CITIC ENVIROTECH LTD
(Company Registration Number: 200306466G)

CLARIFICATION ON THE COMPANY'S SECOND QUARTER FINANCIAL STATEMENTS ENDED 30 JUNE 2019

The Board of Directors (the "Board") of CITIC Envirotech Ltd ("Group" or the "Company") wishes to announce the clarification set out below in respect of the Company's second quarter financial statements ended 30 June 2019.

SGX Query 1

Please provide an explanation for the decrease in engineering business and membrane system sales.

Company's response

In contrast to treatment revenue, which is stable and recurring in nature, engineering revenue and membrane systems sales are directly related to the order book of the engineering contracts as well as the progress of the execution of the engineering projects in the pipeline. Engineering contracts are one-off and lumpy in nature. The decrease in the engineering revenue and membrane systems sales during 2QFY2019 relative to the corresponding period ended 30 June 2018 ("2QFY2018") was mainly due to the higher engineering projects being executed during 2QFY2018. The engineering revenue and membrane systems sales for 2QFY2019 had increased from \$20.6 million to \$146.9 million, representing an increase of \$126.3 mil or 613.1%, as compared to 1QFY2019. The increase in engineering revenue and membrane systems sales from 1QFY2019 to 2QFY2019 was mainly due to the better progress in the execution of the engineering projects on hand.

SGX Query 2

Please provide the breakdown for Other Receivables and Prepayments for both current and non-current categories. Please also provide the Board's assessment on the recoverability of the Group's Other Receivables and Prepayments and the bases for such an assessment.

Company's response

Breakdown of other receivables and prepayments:

<u>Non-current</u>	<u>\$'000</u>
Prepayments	27,329 (Note A)
Deposit for investment project	<u>8,000</u>
	<u>35,329</u>
<u>Current</u>	<u>\$'000</u>
Deposits for projects	35,958
Prepayments and advance payments to suppliers	49,459
VAT receivable	112,157
Other receivables	<u>170,976</u> (Note B)
	<u>368,550</u>

Note A: This included a prepayment amounting to \$10,630,000 for a Transfer-Operate-Transfer ("TOT") wastewater treatment plant in Tangshan City, Hebei Province, China; and a prepayment of \$16,699,000 for a leasehold property acquired in Guangzhou, Guangdong Province, China.

Note B: This included a receivable amounting to \$124,179,000 for an environmental engineering contract on ecological restoration in Meigu County, Sichuan Province, China, that was awarded to the Group in the previous financial year; and amount due from non-controlling shareholders amounting to \$26,337,000.

In assessing the recoverability of the Group's other receivables, the Group takes into consideration the past default experience, analysis of the customers' current financial position and the prospects of the industry. Following the identification of loss allowance, the Group discusses with the relevant customers and reports on the recoverability of such debts.

The Group writes off other receivables when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings.

The Board has assessed the recoverability of the Group's other receivables and is of the view that the current provision for impairment is adequate.

SGX Query 3

Please clarify when the hazardous waste treatment was implemented in the Company and elaborate the government initiatives to introduce sustainable waste management mechanisms.

Please also provide the Board's bases on how hazardous waste treatment would become one of the key revenue drivers.

Company's response

The Company secured its first hazardous waste treatment project in Rizhao City, Shandong Province in December 2016. The Company further secured hazardous treatment projects in Xinjiang Province, Jiangsu Province, Hebei Province and Shanxi Province. Based on the projects secured so far, the total hazardous waste treatment design capacity amounts to approximately 630,000 tons per year. These investments in hazardous treatment plants, which typically takes about 2 years to construct, are expected to contribute positively towards the Company's revenue going forward.

China's 13th Five Year Plan (the "Plan") promotes a cleaner and greener economy, with strong commitments to environmental management and protection, clean energy and emissions controls, ecological protection and security, and the development of green industries. Part of the Plan's initiative is enhanced hazardous waste pollution prevention and control, and new remediation policies for hazardous waste¹. Recently, China announced a draft law to "strengthen the governance of hazardous waste by making it mandatory for each region to plan adequate disposal facilities, which may help address the uneven distribution of such facilities across the country"². CEL believes the Plan as well as the draft law present many opportunities for the Group to support China's environmental goals, including hazardous waste management.

Supported by government initiatives as growth drivers, CEL is optimistic that its hazardous waste treatment segment will continue to grow.

References:

1. China's 13th Five Year Plan: Environment

<https://www.kwm.com/en/hk/knowledge/insights/china-13th-5-year-plan-environment-sustainability-initiatives-20160414>

2. Draft law aims to revamp hazardous waste disposal

<http://www.chinadaily.com.cn/a/201906/27/WS5d141367a3103dbf1432a7f0.html>

BY ORDER OF THE BOARD

Lotus Isabella Lim Mei Hua
Company Secretary
30 July 2019