CLARIFICATION ON THE COMPANY’S THIRD QUARTER FINANCIAL STATEMENTS ENDED 30 SEPTEMBER 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 third quarter financial statements ended 30 September 2019 (“3QFY2019”).

**SGX Query 1**

Please provide details of the nature of the right-of-use assets of $118.1 million in the 3QFY2019 unaudited results and reasons for the significant balance.

**Company’s response**

The details of the nature of the right-of-use assets of $118.1 million as at 30 September 2019 were as follow:

<table>
<thead>
<tr>
<th>S$'000</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land use rights</td>
<td>116,347</td>
</tr>
<tr>
<td>Office premises and others</td>
<td>1,775</td>
</tr>
<tr>
<td>Total</td>
<td>118,122</td>
</tr>
</tbody>
</table>

The land use rights were classified as prepaid leases as at 31 December 2018. Due to the adoption of SFRS(I) 16 *Leases*, which came into effect beginning 1 January 2019, the land use rights were re-classed as right-of-use assets as at 30 September 2019. There was no significant increase from 31 December 2018 to 30 September 2019.

**SGX Query 2**

Please disclose the factors leading to the material usage of proceeds of the net increase of $100 million, when comparing the new bank loans raised of $294.3 million and repayment of bank borrowings of $194.6 million.
**Company’s response**

The material usage of proceeds of the net increase of $100 million, when comparing the new bank loans raised of $294.3 million and repayment of bank borrowings of $194.6 million in 3Q2019, was mainly due to the financing of the following investment projects, as well as the working capital for the group, particularly membrane manufacturing.

a. Lanzhou project  
b. Wuji project  
c. Nantong Guoqi project  
d. Hubei Xiaochang project

**SGX Query 3**

Please provide an explanation for the 61.2% decrease in engineering business from $122.9 million in 3Q2018 to $47.7 million in 3Q2019 and elaborate on the material factors that affected the business.

**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 3QFY2019 relative to the corresponding period ended 30 September 2018 (“3QFY2018”) was mainly due to the higher engineering projects being executed during 3QFY2018.

**SGX Query 4**

Please elaborate on the foreign currency exchange loss of $26 million and the material factors that affected the major underlying items which resulted in the material foreign exchange loss.

Please provide a breakdown of whether these losses have been realized or are unrealized.
Company’s response

Breakdown of realized and unrealized foreign currency exchange loss:

<table>
<thead>
<tr>
<th></th>
<th>$'million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Realized foreign currency exchange loss</td>
<td>3.0</td>
</tr>
<tr>
<td>Unrealized foreign currency exchange loss</td>
<td>23.0</td>
</tr>
<tr>
<td>Total</td>
<td>26.0</td>
</tr>
</tbody>
</table>

The unrealized foreign currency exchange loss of S$23.0 million was mainly due to the revaluation of the USD denominated bank loan of approximately USD463.8 million to RMB as at 30 September 2019.

SGX Query 5

It was disclosed in paragraph 8 that Employee benefits expense increased to $23.3 million from $13.5 million, an increase of $9.8 million or 73.0%. It was explained that this increase was mainly due to the share transfer to reward key employees in Memstar USA. Please elaborate on the key achievements of this entity that the performance milestones are set.

Company’s response

The performance milestones included the following:

1) Commencement of RO/NF membrane production;
2) Increase global sales of UF/MF membranes with the setting up of global sales network;
3) File new patent and to develop new intellectual property to drive sustainable technology competitiveness.

The key employees of Memstar USA have achieved certain portions of the performance targets and received the agreed incentive amount.

BY ORDER OF THE BOARD

Lotus Isabella Lim Mei Hua
Company Secretary
1 November 2019