



Leader Environmental Technologies Limited

利德环保技术有限公司

(Incorporated in the Republic of Singapore on 15 August 2006)

(Company Registration Number: 200611799H)

Unaudited Results for the Second Quarter and the Six Months Ended 30 June 2012

The initial public offering (the "IPO") of Leader Environmental Technologies Limited was sponsored by Stirling Coleman Capital Limited (the "Issue Manager"). The Issue Manager assumes no responsibility for the contents of this announcement.

Unaudited Financial Statement and Dividend Announcement for the Half-year Ended 30 June 2012 of Leader Environmental Technologies Limited ("Company") and Its Subsidiary (Collectively, the "Group")

PART I - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3), HALF-YEAR AND FULL YEAR RESULTS

1(a)(i) Income statement and statement of comprehensive income, or a statement of comprehensive income, for the group together with a comparative statement for the corresponding period of immediately preceding year.

The Group's operations are principally conducted in the People's Republic of China ("PRC"). Accordingly, the consolidated financial statements have been prepared in Chinese Renminbi ("RMB"), being the functional currency of the Group.

Consolidated Statement of Comprehensive Income

	Group			Group		
	Unaudited Apr to Jun 2012 RMB'000	Unaudited Apr to Jun 2011 RMB'000	change %	Unaudited Jan to Jun 2012 RMB'000	Unaudited Jan to Jun 2011 RMB'000	change %
Revenue	10,524	31,323	-66.4%	24,863	44,651	-44.3%
Cost of sales	(5,737)	(21,609)	-73.5%	(13,212)	(24,557)	-46.2%
Gross profit	<u>4,787</u>	<u>9,714</u>	-50.7%	<u>11,651</u>	<u>20,094</u>	-42.0%
Other items of income						
Financial income	688	157	338.2%	1,297	287	351.9%
Other income	(95)	1,905	-105.0%	481	2,071	-76.8%
Other items of expense						
Selling and distribution expenses	(350)	(665)	-47.4%	(686)	(1,954)	-64.9%
Administrative expenses	(3,675)	(3,763)	-2.3%	(7,217)	(7,181)	0.5%
Financial cost	(1,457)	-	NM	(2,368)	-	NM
Other expenses	(57)	(3)	1800.0%	(57)	(4)	1325.0%
Profit before income tax	<u>(159)</u>	<u>7,345</u>	-102.2%	<u>3,101</u>	<u>13,313</u>	-76.7%
Income tax expense	(1,119)	(555)	101.6%	(2,369)	(1,479)	60.2%
Profit for the period attributable to owners of the Company	<u>(1,278)</u>	<u>6,790</u>	-118.8%	<u>732</u>	<u>11,834</u>	-93.8%
Other comprehensive income	-	-		-	-	
Total comprehensive income for the period attributable to owners of the Company	<u>(1,278)</u>	<u>6,790</u>	-118.8%	<u>732</u>	<u>11,834</u>	-93.8%

1(a)(ii) The following items (with appropriate breakdowns and explanations), if significant, must either be included in the income statement or in the notes to the income statement for the current financial period reported on and the corresponding period of immediately preceding year.

(i) Profit before income tax is arrived at after charging/(crediting) the following:

	Group			Group		
	Q2		change %	6 months		change %
	Unaudited Apr to Jun 2012 RMB'000	Unaudited Apr to Jun 2011 RMB'000		Unaudited Jan to Jun 2012 RMB'000	Unaudited Jan to Jun 2011 RMB'000	
Depreciation of property, plant and equipment	227	144	57.6%	428	287	49.1%
Amortisation of intangible assets	23	11	109.1%	73	23	217.4%
Fixed asset written off	-	5	NM	-	5	NM
Operating lease expenses	493	144	242.4%	884	277	219.1%
Interest expense	1,457	-	NM	2,368	-	NM
Interest income	(688)	(157)	338.2%	(1,297)	(287)	351.9%
Inventories recognised as an expense in cost of goods sold	6,664	10,042	-33.6%	11,289	12,270	-8.0%
Employee compensations	1,265	1,693	-25.3%	3,185	3,108	2.5%
Exchange (gain)/loss	96	237	-59.5%	(465)	71	754.9%

NM: Not meaningful

1(b)(i) Statement of financial position (for the issuer and group) together with a comparative statement as at the end of the immediately preceding year.

	Group		Company	
	Unaudited 30 Jun 2012 RMB'000	Unaudited 31 Dec 2011 RMB'000	Unaudited 30 Jun 2012 RMB'000	Unaudited 31 Dec 2011 RMB'000
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment	12,547	5,022	9	10
Intangible assets	5,776	5,849	-	-
Investment in subsidiary	-	-	152,494	152,494
	18,323	10,871	152,503	152,504
CURRENT ASSETS				
Gross amount due from customers for contract work-in-progress	401,304	382,677	-	-
Inventories	2,317	2,615	-	-
Trade and other receivables	55,774	75,266	40,556	40,549
Prepayments	164,515	77,037	795	217
Bank deposits pledged	884	529	-	-
Cash and bank balances	53,367	138,612	5,787	11,625
	678,161	676,736	47,138	52,391
TOTAL ASSETS	696,484	687,607	199,641	204,895
Equity and liabilities				
CURRENT LIABILITIES				
Loans and borrowings	77,500	47,500	-	-
Trade and other payables	71,037	77,682	474	480
Other liabilities	94,040	99,350	1,121	2,900
Provision for income tax	443	3,293	-	-
	243,020	227,825	1,595	3,380
NET CURRENT ASSETS	435,141	448,911	45,543	49,011
Non-current liabilities				
Deferred tax liabilities	4,243	3,793	-	-
TOTAL LIABILITIES	247,263	231,618	1,595	3,380
NET ASSETS	449,221	455,989	198,046	201,515
Equity attributable to owners of the Company				
Share capital	194,015	194,015	194,015	194,015
Reserves	255,206	261,974	4,031	7,500
TOTAL EQUITY	449,221	455,989	198,046	201,515
TOTAL EQUITY AND LIABILITIES	696,484	687,607	199,641	204,895

1(b)(ii) **Borrowings and debt securities (for the group) together with a comparative statement as at the end of the immediately preceding year.**

	Group	
	As at 30 Jun 2012	As at 31 Dec 2011
	RMB'000	RMB'000
Amount repayable in one year or less, or on demand		
- secured	-	-
- unsecured	77,500	47,500
	<u>77,500</u>	<u>47,500</u>
Amount repayable after one year		
- secured	-	-
- unsecured	-	-
	<u>-</u>	<u>-</u>

Details of any collateral

As at 30 June 2012, a corporate guarantee from the Company and personal guarantees were provided by the Executive Chairman cum Chief Executive Officer of the Company and his spouse relating to the short term bank loan of RMB77.5 million (31 December 2011: RMB47.5 million).

1(c) **Statement of cash flows (for the group) together with a comparative statement for the corresponding period of immediately preceding year.**

Consolidated statement cash flows

	Group	
	Unaudited 6 months ended 30.6.12	30.6.11
	RMB'000	RMB'000
Operating activities		
Profit before tax	3,101	13,313
<u>Adjustments for :</u>		
Depreciation of property, plant and equipment	428	287
Amortisation of intangible assets	73	23
Fixed asset written off	-	5
Interest income	(1,297)	(287)
Interest expense	2,368	-
Unrealised exchange gain	(312)	-
Total adjustments	1,260	28
Operating cashflows before changes in working capital	<u>4,361</u>	<u>13,341</u>
<u>Changes in working capital</u>		
Increase in gross amount due from customers for contract work-in-progress	(18,627)	(38,852)
Decrease in inventories	298	1,105
Decrease/(increase) in trade and other receivables	19,492	(774)
Increase in prepayments	(87,478)	(47,257)
(Decrease)/increase in trade and other payables	(6,645)	14,009
Decrease in other liabilities	(5,310)	(1,636)
Cash flows used in operating activities	<u>(93,909)</u>	<u>(60,064)</u>
Interest income received	1,297	287
Interest expense paid	(2,368)	-
Income taxes paid	(4,769)	(9,220)
Net cash used in operating activities	<u>(99,749)</u>	<u>(68,997)</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(7,953)	(250)
Additions to intangible assets	-	(930)
Net cash used in investing activities	<u>(7,953)</u>	<u>(1,180)</u>
Cash flows from financing activities		
Dividends paid on ordinary shares	(7,500)	(9,242)
Proceeds from issuance of new shares pursuant to the private placement	-	66,229
Proceeds from loans and borrowings	30,000	-
Share issuance expenses	-	(2,686)
Repayments of bills payable	-	(1,024)
(Increase)/decrease in bank deposits pledged	(355)	1,892
Net cash from financing activities	<u>22,145</u>	<u>55,169</u>
Net increase in cash and cash equivalents	(85,557)	(15,008)
Effect of exchange rate changes on cash and cash equivalents	312	-
Cash and cash equivalents at 1 January	<u>138,612</u>	<u>144,001</u>
Cash and cash equivalents at 30 June (Note A)	<u><u>53,367</u></u>	<u><u>128,993</u></u>

1(c) **Statement of cash flows (for the group) together with a comparative statement for the corresponding period of immediately preceding year.**

Consolidated statement of cash flows (cont'd)

	Group	
	As at 30 June	
	RMB'000	RMB'000
Note A: Cash and cash equivalents	2012	2011
Cash and bank balances	15,221	69,522
Short-term deposits	39,030	60,000
	<u>54,251</u>	<u>129,522</u>
Less: bank deposits pledged	(884)	(529)
Cash and cash equivalents	<u>53,367</u>	<u>128,993</u>

1(d) Changes in equity (for the issuer and group) together with a comparative statement for the corresponding period of immediately preceding year.

Statements of Changes in Equity

Group - Statement of changes in equity for 6 months ended 30 June 2012	Share capital RMB'000	Reserves sub-total RMB'000	PRC	Merger reserve RMB'000	Accumulated profits RMB'000	Total equity RMB'000
			statutory reserve fund RMB'000			
Balance at 1 January 2012	194,015	261,974	31,230	(454)	231,198	455,989
Total comprehensive income for the period	-	732	-	-	732	732
Appropriation to reserve	-	-	415	-	(415)	-
Dividends paid	-	(7,500)	-	-	(7,500)	(7,500)
Balance at 30 June 2012	194,015	255,206	31,645	(454)	224,015	449,221

Group - Statement of changes in equity for 6 months ended 30 June 2011	Share capital RMB'000	Reserves sub-total RMB'000	PRC	Merger reserve RMB'000	Accumulated profits RMB'000	Total equity RMB'000
			statutory reserve fund RMB'000			
Balance at 1 January 2011	130,884	226,573	25,850	(454)	201,177	357,457
Total comprehensive income for the period	-	11,834	-	-	11,834	11,834
Issue of shares	66,229	-	-	-	-	66,229
Share issue expenses	(3,098)	-	-	-	-	(3,098)
Appropriation to reserve	-	-	1,253	-	(1,253)	-
Dividends paid	-	(9,242)	-	-	(9,242)	(9,242)
Balance at 30 June 2011	194,015	229,165	27,103	(454)	202,516	423,180

1(d) **Changes in equity (for the issuer and group) together with a comparative statement for the corresponding period of immediately preceding year (cont'd)**

Statements of Changes in Equity (cont'd)

Company - Statement of changes in equity for 6 months ended 30 June 2012	Share capital RMB'000	Accumulated profits RMB'000	Total RMB'000
Balance at 1 January 2012	194,015	7,500	201,515
Total comprehensive income for the period	-	4,031	4,031
Dividends paid	-	(7,500)	(7,500)
Balance at 30 June 2012	194,015	4,031	198,046

Company - Statement of changes in equity for 6 months ended 30 June 2011	Share capital RMB'000	Accumulated profits RMB'000	Total RMB'000
Balance at 1 January 2011	130,884	8,333	139,217
Total comprehensive income for the period	-	909	909
Issue of new shares	66,229	-	66,229
Share issuance expenses	(3,098)	-	(3,098)
Dividends paid	-	(9,242)	(9,242)
Balance at 30 June 2011	194,015	-	194,015

- 1(e) **Changes in issuer's share capital (for the issuer) arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on**

Not applicable.

- 1(f) **Number of shares that may be issued on conversion of all outstanding convertibles together with a statement for the corresponding period of immediately preceding year**

Not applicable. The Company does not have any convertibles as at 30 June 2012 and 31 December 2011.

- 1(g)(i) **Number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares of the issuer together with a statement for the corresponding period of immediately preceding year**

	30 Jun 2012	31 Dec 2011
Total number of shares issued at end of period/year	<u>491,612,000</u>	<u>491,612,000</u>

The Company does not have any treasury shares as at 30 June 2012 and 31 December 2011.

- 1(g)(ii) **A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.**

Not applicable. The Company does not have any treasury shares as at 30 June 2012 and 31 December 2011.

2. **Whether the figures have been audited or reviewed, and if so which auditing standard or practice has been followed.**

The financial statements presented above have not been audited or reviewed by the Company's auditors.

3. **Where the figures have been audited or reviewed, please provide a statement on whether there are any qualifications or emphasis of matter.**

Not applicable.

4. **Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.**

The Group and the Company have adopted the same accounting policies and methods of computation in the financial statements for the current period as those in its audited consolidated financial statements as at 31 December 2011.

5. **If there have been any changes to the above, please make adequate disclosure and state the reasons for and effect of the change.**

Nil.

6. **Earnings per ordinary share of the Group for the current financial period reported on and the corresponding period of the immediately preceding year, after deducting any provision for preference dividends.**

The calculation of the basic (loss)/earnings per share is based on the Group's net (loss)/profit attributable to owners of the company for the respective periods divided by the weighted average of 491,612,000 ordinary shares for the three month and six month ended 30 June 2012, respectively (2Q2011: 474,945,333 & 1H2011: 458,278,667 ordinary shares).

	Group		Group	
	Q2		6 months	
	Apr to Jun 2012	Apr to Jun 2011	Jan to Jun 2012	Jan to Jun 2011
(Loss)/net profit after tax attributable to owners of the Company (RMB'000)	(1,278)	6,790	732	11,834
Basic (loss)/earnings per share (RMB cents per share)	(0.26)	1.43	0.15	2.58

*There were no potential dilutive options for the periods.

7. **Net asset value (for the issuer and Group) per ordinary share based on issued share capital of the issuer at the end of the:-**

- (a) **current financial period reported on; and**
 (b) **immediately preceding financial year.**

	Group		Company	
	30 June 2012	31 Dec 2011	30 Jun 2012	31 Dec 2011
Net asset value (RMB'000)	449,221	455,989	198,046	201,515
Net asset value per share (RMB cents per share)	91.38	92.75	40.29	40.99

Net asset value for the Group and Company as at 30 June 2012 and 31 December 2011 were computed based on 491,612,000 ordinary shares in issue at the end of the financial period/year respectively.

8. A review of the performance of the Group, to the extent necessary for a reasonable understanding of the Group's business. It must include a discussion of the following:-

- (a) any significant factors that affected the turnover, costs and earnings of the Group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and
- (b) any material factors that affected the cash flow, working capital, assets and liabilities of the Group during the current financial period reported on.

Review of Group Performance

Consolidated Statement of Comprehensive Income

Revenue

	2Q2012		2Q2011		1HY2012		1HY2011	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Industrial wastegas treatment								
- Dust elimination	4,703	44.7	879	2.8	5,963	24.0	879	2.0
- Desulphurisation	3,929	37.3	27,661	88.3	7,429	29.9	38,180	85.5
Industrial wastewater	1,892	18.0	683	2.2	11,471	46.1	746	1.7
Design, technical services and others	-	-	2,100	6.7	-	-	4,846	10.8
	10,524	100.0	31,323	100.0	24,863	100.0	44,651	100.0

8. A review of the performance of the Group, to the extent necessary for a reasonable understanding of the Group's business. It must include a discussion of the following:- (cont'd)

Revenue

1H2012 vs 1H2011

We adopted a more prudent approach in pursuing industrial wastegas projects which offered better margin and payment terms amidst the credit tightening measures implemented by the PRC government. Accordingly, total revenue decreased by approximately RMB19.8 million or 44.3%, from RMB44.7 million in 1H2011 to RMB24.9 million in 1H2012. The decrease was mainly attributed to the absence of revenue from design, technical services and others as opposed to RMB4.8 million of revenue recorded for such contracts in 1H2011, coupled by lower revenue recognized as a result of fewer desulphurization contracts secured of approximately RMB30.8 million. The decrease was partly offset mainly by higher revenue recorded in respect of industrial wastewater contracts and dust elimination contracts of RMB10.7 million and RMB5.1 million respectively in 1H2012.

2Q2012 vs 2Q2011

Total revenue decreased by approximately RMB20.8 million or 66.4%, from RMB31.3 million in 2Q2011 to RMB10.5 million in 2Q2012 as a result of our conservative approach. Hence, we reported lower revenue from desulphurization contracts of RMB23.7 million and zero revenue from design, technical services and others compared against RMB2.1 million of such revenue booked. The decrease was partly offset by higher revenue was recognized for dust elimination contracts and industrial wastewater contracts of RMB5.0 million in aggregate.

Gross profit and gross profit margin

With fewer large scale desulphurization contracts secured, the key growth catalyst for the Group, coupled by no contracts from design, technical services and others, total gross profit for 1H2012 dropped by approximately RMB8.4 million or 42.0% to RMB11.7 million.

Overall gross profit margin improved marginally by 1.9%, from 45.0% in 1H2011 to 46.9% in 1H2012 as the average gross profit margin contributions from desulphurisation contracts were relatively higher in 1H2012 of approximately 37.4% due to design and commissioning works performed in 2Q2012 which involved minimal costs. In addition, the dust elimination segment also enjoyed a higher average gross profit margin contributions of approximately 18.9% as the lower contributions in 1H2011 was the result of the group not charging the customer for additional works performed out of goodwill. The increase was pulled down by lower average gross profit margins contributions from industrial wastewater projects of approximately 19.5% and no contributions from design, technical services and others in 1H2012 as this business segment contributed approximately 88.6% to the gross profit margin in 1H2011.

Other items of income

Despite the lower bank deposits as at 30 Jun 2012, financial income for 1H2012 increased by approximately RMB1.0 million, from RMB0.3 million in 1H2011 to RMB1.3 million in 1H2012 as the average bank deposits placed with the banks in 1H2012 were higher than 1H2011.

Other income for 1H2012 decreased by approximately RMB1.6 million or 76.8%, from RMB2.1 million in 1H2011 to RMB0.5 million in 1H2012 due to the absence of grant received from PRC government as opposed to RMB2.0 million of such income received in 1H2011. The decrease was partly offset by higher exchange gain of RMB0.4 million resulting from the translation of the cash and bank balances which were denominated in S\$ into RMB.

Other items of expense

We incurred RMB2.4 million of interest expense in 1H2012 relating to the drawn down of the short term loans from China Merchants Bank. There was no such loan in 1H2011.

For 1H2012, selling and distribution expenses decreased by RMB1.3 million, or 64.9%, from RMB2.0 million in 1H2011 to RMB0.7 million in 1H2012 as we adopted a more cautious and selective approach in our tender for projects. As a result, entertainment with potential customers was reduced substantially.

8. A review of the performance of the Group, to the extent necessary for a reasonable understanding of the Group's business. (cont'd)

Income tax expense

Pursuant to the Restructuring Exercise in FY2006, based on the Income Tax Law of the PRC for Foreign Investments and Foreign Enterprises, the Company's PRC subsidiary, Jilin Anjie Environmental Engineering Co., Ltd, was granted full exemption from income tax for the first 2 profit-making years and a 50% reduction in income tax for the next 3 years. Accordingly, it has elected 1 January to 31 December 2007 as the first profit-making year for the purpose of determining the tax holiday period.

With effect from 1 January 2008, in line with the China Corporate Tax Law, companies which do not enjoy full tax exemptions will be subject to the corporate income tax of 25%. However, the State Administration of Taxation has allowed a transitional period to be progressively applied for foreign enterprises which operate in any of the Economic Development Zone of the PRC. Accordingly, the new corporate income tax rate applicable to Anjie Environmental Engineering Co., Ltd was 10% in 2009 and will be 11% in 2010, 12% in 2011 and 25% in 2012, after taking into account the 50% reduction in income tax from FY2009-FY2011. In addition, the Group has provided for withholding tax of 10% on the portion of the distributable profits derived by the PRC subsidiary which is expected to be distributed out as dividend.

Income tax expense increased by approximately RMB0.9 million or 60.2% from RMB1.5 million in 1H2011 to RMB2.4 million in 1H2012. This was due to the higher corporate tax rate attributable to our PRC subsidiary, from 12% to 25% as a result of the cessation of the tax incentive and adjustment for under provision of tax in FY2011.

Profit net of tax attributable to owners of the Company

The net profit after taxation attributable to owners of the Company decreased by approximately RMB11.1 million or 93.8%, from RMB11.8 million in 1H2011 to RMB0.7 million in 1H2012, as a result of an decrease in gross profit of RMB8.4 million, lower other income of RMB1.6 million, higher administrative expenses and other expenses of RMB0.1 million in aggregate, coupled by increased in financial costs and income tax of approximately RMB2.4 million and RMB0.9 million respectively. The decrease was partly offset by higher financial income of RMB1.0 million and decline in selling and distribution expenses of RMB1.3 million.

8. A review of the performance of the Group, to the extent necessary for a reasonable understanding of the Group's business. (cont'd)

Financial position

1. Non-current assets

Our non-current assets amounted to RMB18.3 million and comprised property, plant and equipment ("PPE") of RMB12.5 million and intangible assets of RMB5.8 million as at 30 June 2012. The increase of approximately RMB7.5 million in PPE in 1H2012 was due mainly to the purchase of 4 units of commercial properties to expand our R&D facilities and other fixed assets of approximately RMB7.9 million in aggregate, partly offset by depreciation of RMB0.4 million during the period.

- 1.1** Intangible assets amounted to RMB5.8 million as at 30 June 2012 after amortisation of approximately RMB73,000 in 1H2012. The patent and club membership have a remaining tenure of 35 months and 227 months as at 30 June 2012 respectively.

2. Current assets

Our current assets comprise amount due from customers for contract work-in-progress, inventories, trade and other receivables, prepayments, bank deposits pledged and cash and cash equivalents. Current assets amounted to RMB678.2 million and RMB676.7 million as at end of 30 June 2012 and 31 December 2011 respectively. Our current assets accounted for approximately 97.4% and 98.4% of our total assets as at 30 June 2012 and 31 December 2011 respectively.

- 2.1** Amount due from customers for contract work-in-progress amounted to RMB401.3 million and RMB382.7 million as at 30 June 2012 and 31 December 2011 respectively and accounted for approximately 59.2% and 56.5% of our current assets as at 30 June 2012 and 31 December 2011 respectively. The increase was mainly attributed to delay in the funding from the Environmental Bureau in the wake of the credit tightening measures and unbilled contracts work-in-progress as they were not due in accordance with the terms of the contracts.
- 2.2** Inventories decreased by approximately RMB0.3 million or 11.4%, from RMB2.6 million as at 31 December 2011 to RMB 2.3 million as at 30 June 2012, due to drawn down for projects scheduled in second half of FY2012.
- 2.3** Trade and other receivables comprise trade receivables, bills receivable, retention monies and other receivables amounted to RMB55.7 million and RMB75.3 million as at 30 June 2012 and 31 December 2011 respectively, and accounted for approximately 8.2% and 11.1% of our current assets as at the respective balance sheet dates. Trade receivables and retention monies amounted to RMB42.2 million as at 30 June 2012, representing a decrease of approximately RMB2.3 million from 31 December 2011. The decrease was due mainly to collections of outstanding debts during the period.
- 2.4** Bills receivable received from the customers for settlement of debts amounted to RMB4.8 million and RMB15.4 million as at 30 June 2012 and 31 December 2011 respectively. The decrease was mainly due to fewer bills given by the customers for the settlement of invoices.
- 2.5** Other receivables comprise VAT receivables and advances to employees for business purposes. Other receivables amounted to RMB8.7 million and RMB15.3 million as at 30 June 2012 and 31 December 2011 respectively. The decrease was in line with the decrease in business activities.
- 2.6** Prepayments comprising prepaid operating expenses of approximately RMB2.3 million, advances to trade and non-trade suppliers of approximately RMB160.6 million and RMB1.6 million respectively which amounted to RMB164.5 million in aggregate as at 30 June 2012 compared against RMB77.0 million in aggregate as at 31 December 2011. The increase of approximately RMB87.5 million was mainly attributed to advance payments to suppliers for projects scheduled in second half of FY2012.
- 2.7** Bank deposits pledged increased by approximately RMB0.4 million or 67.1%, from RMB0.5 million as at 31 December 2011 to RMB0.9 million as at 30 June 2012 due to increase in performance guarantees provided for construction contracts.
- 2.8** Cash and cash equivalents amounted to RMB53.4 million and RMB138.6 million as at 30 June 2012 and 31 December 2011 respectively, and accounted for approximately 7.9% and 20.5% of our current assets as at the respective balance sheet dates.

8. A review of the performance of the Group, to the extent necessary for a reasonable understanding of the Group's business. (cont'd)

3. Current liabilities

Our current liabilities comprise mainly loans and borrowings, trade and other payables, other liabilities, as well as provision for income tax. Our current liabilities amounted to RMB243.0 million and RMB227.8 million as at 30 June 2012 and 31 December 2011 respectively, and accounted for approximately 98.3% and 98.4% of total liabilities as at the respective balance sheet dates.

- 3.1** Loans and borrowings increased by RMB30.0 million, from RMB47.5 million as at 31 December 2011 to RMB77.5 million as at 30 June 2012 as a result of additional borrowings from the bank.
- 3.2** Trade and other payables comprise mainly trade payables, retention monies and other payables. Trade payables amounted to RMB69.1 million, representing a decrease of approximately RMB6.4 million over end of FY2011. The decrease was attributed to payments made to suppliers for raw materials.
- 3.3** Other payables comprise primarily VAT and other operating tax payables and accruals of other operating expenses. Other payables amounted to RMB1.9 million and RMB2.2 million as at 30 June 2012 and 31 December 2011 respectively. The decrease was in line with the decrease in business activities.
- 3.4** Other liabilities comprise accrued purchases, salaries and travelling expenses and advances from customers. Other liabilities amounted to RMB94.0 million and RMB99.4 million as at 30 June 2012 and 31 December 2011 respectively.
- 3.5** Accrued output VAT, purchases, salaries and related expenses, operating expenses and welfare expenses amounted to RMB90.6 million and RMB92.8 million as at 30 June 2012 and 31 December 2011 respectively. The decrease of RMB2.2 million was attributed to decrease in accrued output tax, salary and related expenses and operating expenses of RMB4.6 million in aggregate which were in line with the decrease in business activities, partly offset by an increase in accrued operating expenses of RMB2.3 million for the purpose of procuring raw materials for projects scheduled in second half of FY2012. In addition, we also accrued an additional RMB0.1 million relating to welfare expenses.
- 3.6** Advances from customers amounted to RMB3.4 million as at 30 June 2012, representing a decrease in approximately RMB3.2 million over end of FY2011. The decrease was attributed to fewer contracts signed as we adopted a more cautious approach in the light of the credit tightening measures implemented by the PRC government.
- 3.7** Provision for income tax amounted to RMB0.5 million and relate to the corporate tax payable by our PRC subsidiary on the profits for the half period ended 30 June 2012. The decrease of RMB2.8 million was attributed mainly to payment of income taxes during the period.

4. Non-current liability

As at 30 June 2012, our deferred tax liability amounted to RMB4.2 million, relating to withholding tax on undistributed profits of our PRC subsidiary pursuant to the PRC tax law.

5. Shareholder's equity

The Group's total shareholder's equity comprises share capital, PRC statutory reserve fund, merger reserve, translation reserve and accumulated profits. Between 30 June 2012 and 31 December 2011, our shareholder's equity decreased from RMB456.0 million to RMB449.2 million due mainly to dividends paid of RMB7.5 million in May 2012, partly offset by net profit recorded of RMB0.7 million in 1H2012.

8. A review of the performance of the Group, to the extent necessary for a reasonable understanding of the Group's business. (cont'd)

CASHFLOWS

In 1H2012, net cash flows from operating activities before changes in working capital amounted to approximately RMB4.4 million. Net cash flows used in operating activities amounted to approximately RMB104.1 million attributed mainly to:

- (i) an increase in gross amount due from customers for work-in-progress of approximately RMB18.6 million for additional works performed during the period;
- (ii) an increase in prepayments of approximately RMB87.5 million made to suppliers of raw materials for projects scheduled in second half of FY2012.;
- (iii) a decrease in trade and other payables of approximately RMB6.6 million which were in line with the decrease in business activities;
- (iv) an decrease in other liabilities of approximately RMB5.3 million;
- (v) payment of interest expense of approximately RMB2.4 million incurred on the loans and borrowings from China Merchant Bank; and
- (vi) payment of income taxes of approximately RMB4.8 million.

The increase was partly offset by:

- (i) a decrease in inventories of approximately RMB0.3 million as a result of the drawn down of raw materials for projects scheduled in second half of FY2012;
- (ii) a decrease in trade and other receivables of approximately RMB19.5 million which were in line with the decrease in business activities.; and
- (iii) interest income received of approximately RMB1.3 million from bank deposits placed.

Net cash outflows used in investing activities of approximately RMB7.9 million were due mainly to the purchase of purchase of property, plant and equipment during the period.

Net cash inflows from financing activities of approximately RMB22.1 million were attributed to proceeds from bank loans and borrowings of RMB30.0 million, partly offset by an increase in bank deposits pledged of RMB0.4million as performance guarantee for a construction contract and payment of dividends of RMB7.5 million.

Overall our cash and cash equivalents decreased by approximately RMB85.5 million in 1H2012, offset by the effect of exchange rate changes on cash and cash equivalents of approximately RMB0.3 million to RMB85.2 million. In the light of the foregoing, overall cash and cash equivalents decreased from RMB138.6 million as at 31 December 2011 to RMB53.4 million as at 30 June 2012.

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

Not applicable.

10. A commentary of the competitive conditions of the industry in which the group operates and any known factors that might affect the group in the next reporting period and the next 12 months has been provided.

The Chinese economy continues to experience a slowdown in 2Q2012, but there is still no abatement in the credit tightening policies so far, despite the fact that from time to time, the policy makers have revealed their intention to roll out expansionary measures to grow the economy. With the continuing delay in the disbursements of the funding from the Environmental Bureau to finance the industrial wastegas projects, we remain cautious in signing new large scale industrial wastegas contracts and took on the additional step to verify that the funding has already been remitted from the Environmental Bureau to the customer before we agree to undertake the project.

For our existing completed contracts, we also faced a slowdown in the collections from customers as they are also waiting to resolve their funding issues arising from the PRC government's implementation of the credit tightening measures. We are working closely with these customers to sort out their payment arrangements and we will do our utmost to collect the outstanding debts.

In the light of the above, we believe the next 12 months remain challenging for the industry. Hence, we will need to stay vigilant and will leverage on our established track record and experience to ride through this difficult period.

11. Dividend

(a) Current Financial Period Reported On

Any dividend recommended for the current financial period reported on?

No.

(b) Corresponding Period of the Immediately Preceding Financial Year

Any dividend declared for the corresponding period of the immediately preceding financial year?

No.

(c) Date Payable

Not applicable.

(d) Book Closure Date.

Not applicable.

12. If no dividend has been declared/recommended, a statement to that effect.

No dividend for the six months ended 30 June 2012 is declared or recommended.

13. **If the Group has obtained a general mandate from shareholders for IPTs, the aggregate value of such transactions as required under Rule 920(1)(a)(ii). If no IPT mandate has been obtained, a statement to that effect.**

The Group has not obtained a general mandate from its shareholders for IPTs.

14. **Update of usage of IPO and placement proceeds**

As at 30 June 2012, the net proceeds from the Company's initial public offering have been utilised as follows:

<u>Usage of IPO proceeds</u>	Amount allocated RMB'000	Amount utilised RMB'000	Balance RMB'000
Increase and enhance research and development activities	15,107	12,302	2,805
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	-
Total	78,161	71,329	6,832

<u>Usage of private placement proceeds</u>	Original amount allocated RMB'000	Revised amount RMB'000	Amount utilised RMB'000	Balance RMB'000
To undertake large scale projects	63,074	55,052	49,771	5,281
General working capital for the Company	-	8,022	(2,235)	5,787
Total	63,074	63,074	47,536	11,068

For full details regarding the change in use of the placement proceeds from "undertaking large scale projects to general working capital for the Company", please refer to the Company's announcement dated 3 May 2012.

BY ORDER OF THE BOARD
Leader Environmental Technologies Limited

Lin Baiyin
Executive Chairman and Chief Executive Officer

14 August 2012

Confirmation by the Board pursuant to Rule 705(5) of the Listing Manual

On behalf of the Board of Directors of the Company, we confirm that, to the best of their knowledge, nothing has come to the attention of the Board of Directors which may render the second quarter and the six months' financial results for the period ended 30 June 2012 to be false or misleading in any material aspect.

BY ORDER OF THE BOARD
Leader Environmental Technologies Limited

Lin Baiyin
Executive Chairman and Chief Executive Officer

Zang Linying
Executive Director and Finance Director

14 August 2012