



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)

RESPONSE TO QUERIES FROM SGX-ST

The Board of Directors of Leader Environmental Technologies Limited (“the Company” or together with its subsidiaries, the “Group”) refers to the Group’s fourth quarter and full year ended 31 December 2015 results announcement released to SGX-ST via SGXNet on 29 February 2016.

The following information is in response to the SGX-ST’s queries dated 10 March 2016:

a. In paragraph 8 of the Company’s FY2015 Results Announcement (the “Announcement”), the Company announced “bad debts written off” of RMB1.88 million in FY2015 (FY2014: Nil).

i. Please provide a breakdown of the Bad Debts which have been subject to the write off and the circumstances under which they were written off.

The bad debts written off of RMB1.88 million pertain to the customer, 正宁县城建设局. The Group has performed an industrial wastewater project for the customer in accordance with the terms of the contract. Subsequent to the completion of the project, the reconstituted local government disputed the originally agreed contract sum during the certification process. Management had sought legal advice from 吉林尚信律师事务所 on this matter. We have been advised that any legal recourse against the new local government authority is unlikely to be successful. Consequently, the trade receivable was written off.

b. In paragraph 8 of the Announcement, the Company announced an “Allowance for impairment of advances to supplier” of RMB84.74 million in FY2015 (FY2014: Nil)

i. Please provide a breakdown of the advances to supplier which have been subject to the impairment and the circumstances under which they impaired;

The allowance for impairment of advances to supplier of RMB84.74 million pertains to the supplier, 长春欣园经贸有限公司 (“长春欣园”) and the justifications for the allowance for impairment were previously disclosed in the 3Q2015’s Announcement dated 13 November 2015. A summary of the disclosure is as follows:

- (i) 长春欣园 suffered financial difficulties as a result of the slowdown in the Chinese economy;
- (ii) the supplier has experienced a decline in orders for its raw materials while complaints from customers have risen; and
- (iii) key management staff, including legal representative cannot be contacted and one of the remaining staff in the firm had advised our purchasing staff that 长春欣园 could be forced into liquidation if the economic situation does not improve.

Subsequently, we were informed by the lawyer from 吉林尚信律师事务所 that 长春欣园 has ceased its business operation and none of the staff can now be contacted.

ii. What were the actions taken by the Company to recover the amounts owing from advances made to suppliers

Management has initiated legal proceedings against 长春欣园, but was informed by the court that the legal representative of the supplier did not attend the hearing and remains uncontactable. Hence, the legal proceedings have to be adjourned and the legal case remains pending. The Company is also actively trying to locate the legal representative, albeit still unsuccessful to date.

c. In paragraph 8 of the Announcement, the Company announced an “Allowance for impairment of trade receivables” of RMB174.77 million in FY2015 (FY2014: Nil)

i. Please provide a breakdown of the trade receivables which have been subject to the impairment;

The breakdown of trade receivables subject to impairment is as follows:

<u>Name of customer</u>	Allowance for impairment RMB'000
新疆新源欣节能科技有限公司	91,347
辽宁省岭南环保高新技术产业园发展有限公司	63,404
通化钢铁股份有限公司	14,360
Others (comprised 11 customers)	5,652
	<hr/> <hr/> 174,763

ii. What were the actions taken by the Company to recover the amounts owing from the trade receivables

Management has placed utmost priority to recover the three most significant doubtful receivables, which in aggregate constituted 96.8% of the total allowance for impairment of trade receivables recognised:

新疆新源欣节能科技有限公司(“新疆新源”)

Management had decided to commence legal action against 新疆新源 to recover the long overdue debts. But before we could act, management was informed by our legal counsel 吉林尚信律师事务所 that 新疆新源 had already cancelled its tax registration and is in the midst of filing for deregistration of business license. In the light of this recent development, we are discussing with our legal counsel on our next course of action.

辽宁省岭南环保高新技术产业园发展有限公司 (“岭南”)

岭南 is currently still in operation, albeit facing going concern issues. Management has considered taking legal action, but does not wish to jeopardise the customer’s already vulnerable financial position as a result of doing so. Management decided that it would be in our best interest to continue to work closely with 岭南 to follow up with the local government authority on the outstanding government funding earmarked for our project. Concurrently, we will also explore potential collaborations on good projects that may help us recover partially our outstanding debts. Management will monitor the situation closely and continue to engage the customer to recover the long outstanding debts.

通化钢铁股份有限公司 (“通钢”)

Repeated attempts to recover the long outstanding receivables from 通钢 after the year-end have been futile. Management is currently in discussion with our legal counsel to commence legal action against the customer.

Based on the recent customer visit with auditor, management understands that 通钢 has incurred heavy losses and has significant outstanding bank loans. In addition, 通钢 also informed that they have several months of utilities and staff wages in arrears. The management and auditors also noted a commotion outside the main office building where there were workers demanding for their wages to be paid.

- d) **Please provide confirmation from the Board as to whether it is satisfied with the reasonableness of the methodologies used to determine the impairment of trade receivables and advances to supplier. Further, please also provide confirmation as to whether the board had sought appropriate independent professional advice. If yes, identify the professionals and provide the Board’s confirmation as to whether the professionals appointed by the Company have the necessary experience.**

The impairment of trade receivables and advances to supplier were critically assessed by management and accounted for in the financial results for the nine months ended 30 September 2015. The sputtering Chinese economy has raised the spectre of loan defaults and doubtful trade receivables amongst corporates, in particular the manufacturing and construction sectors. Hence, our management had held several dialogues with the customers and supplier with long outstanding amounts owing from. From the discussions, management concluded that the likelihood of recovering any substantial part of these long overdues was remote. Management’s decision to impair these receivables and prepayments as at 30 September 2015 was communicated to the Board and deliberated upon. The Board had concurred with the proposed impairment so as to reflect fairly the financial position of the Group as at 30 September 2015.

Subsequently during the course of the year-end audit, the Company’s auditors, Foo Kon Tan LLP, also communicated their audit observation and findings to the Board. The auditors have reviewed management’s impairment assessment and found them to be appropriate based on their audit work performed. Accordingly, taking into account the all material information made available to the Board, the Board concluded that the impairment of the trade receivables and advances to supplier was reasonable and appropriate.

By Order of the Board

Lin Bai Yin
Executive Chairman and Chief Executive Officer

14 March 2016