



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)

ADDITIONAL INFORMATION TO THE UNAUDITED FINANCIAL STATEMENT FOR FULL YEAR FINANCIAL RESULTS ENDED 31 DECEMBER 2018

Leader Environmental Technologies Limited (the “Company”, and together with its subsidiaries, the “Group”) refers to the unaudited financial statements of the Group for the full year financial results ended 31 December 2018 released on the SGXNet on 1 March 2019. The Company would like to provide the following additional information in response to the queries raised by the Singapore Exchange Securities Trading Limited on 18 March 2019.

Query 1

- (a) With regard to page 2 of the Financial Statement, please explain what is the nature of the “impairment of retention monies”, how retention monies can be impaired and the reason for the impairment.

Company’s response to Query 1

The impaired retention monies comprised the followings:

Name of customer	Note	Amount RMB’000
乌鲁木齐经济开发区建设投资有限公司	(1)	298,000
宁夏电投银川热电有限公司	(2)	613,701
长春市供热（集团）有限公司	(3)	388,408
		<u>1,300,109</u>

(1) Being 10% of the contract sum for a desulphurization project completed in FY2011 and was to be repaid in April 2013.

(2) Being 10% of the contract sum for a dust elimination project completed in FY2016 and was to be repaid in March 2018.

(3) Being 10% of the contract sum for a dust elimination contract completed in FY2015 and was to be repaid in April 2018.

After discussion with the auditors, management has taken a more prudent approach to impair in full the above outstanding retention monies since they have exceeded the retention period.

Query 2

(b) With regard to page 3 of the Financial Statement, please explain:-

- (i) the nature of the “prepayments”;**
- (ii) the Board’s assessment of whether sufficient provision has been made for any impairment in the carrying amount of the prepayments; and**
- (iii) whether the Group will be able to meet its short-term obligations as and when they fall due in the next 12 months.**

Company’s response to Query 2

b(i) The Group’s prepayments consist of the following:

- (1) Payments for three industrial wastewater contracts amounting to RMB68.6 million in aggregate were made to a supplier, 敦煌市莫峰贸易有限公司. The Group has tendered successfully for these three contracts and in accordance with the contract terms, the Group is required to make prepayments to the supplier to demonstrate its financial ability to undertake and complete these contracts. RMB11.5 million pertains to a smaller contract which will likely commence work in 2Q2019. The remaining RMB57.1 million pertains to two other bigger scale projects which have been delayed and are pending further discussions with the customers. The project sites for these projects are not ready for the commencement of engineering and construction works. The customers will need more time to work on the project sites and a review date in June 2019 has been set for all parties to decide whether or not to proceed on with the projects.
- (2) Advances made to suppliers for raw materials and equipment of RMB26.2 million, pending deliveries of the raw materials or equipment from suppliers and the issuance of invoices amounting to RMB13.4 million in aggregate. In addition, the remaining prepayments amounting to RMB12.8 million are waiting for final settlements with the respective suppliers as certain projects were already completed or near completions in 2018. Once the final settlement amounts are ascertained with the suppliers, the prepayments of RMB12.8 million will then be used to offset against the balances owing to the trade creditors.
- (3) Prepaid operating expenses amounting to RMB2.0 million.

b(ii) Based on past and continuing discussions with management on the prepayments made, the Board has assessed that no impairment is necessary in FY2018 for the prepayments of RMB96.8 million. The Group’s CEO and Chairman has also represented to fellow members of the Board that he is in constant contact with the supplier 敦煌市莫峰贸易有限公司 and remains confident that the supplier will be able to repay all the outstanding monies in full should the contracts be terminated under unforeseen circumstances. Furthermore, the summary audit report for FY2018 tabled by the auditors to the Board did not highlight any significant findings that are contrary to the Board’s assessment on the prepayments.

b(iii) As at 31 December 2018, the Group’s net current assets amounted to RMB53.6 million, notwithstanding the Group’s cash and cash equivalents of only RMB10.5 million. The Group is expecting a partial refund of the prepayment monies from the supplier 敦煌市莫峰贸易有限公司 amounting to approximately RMB19.0 million by end of March 2019. Management has also assessed that the trade collections in FY2019 for past completed projects are expected to remain healthy. Furthermore, the Group has also successfully renewed its short term loans of RMB55.0 million in November 2018.

In consideration of the above, the Board is of the view that the Group is able to meet the short-term obligations as and when they fall due in the next 12 months.

Query 3

- (c) We note that the Company stated on page 13 of the Financial Statement that the increase in “other expenses” for FY2018 was attributed mainly to the allowance for impairment of trade receivables of RMB 1.6 million as retention monies of RMB 1.3 million were deemed to be no longer recoverable. Please provide us with the Board’s assessment as to whether the allowance is sufficient. In addition, please set out the Company’s efforts to recover these receivables and whether the Company continues to trade with these debtors.

Company’s response to Query 3

Management has reviewed the Group’s receivables and only retention monies amounting to RMB1.3 million have been identified as no longer recoverable. Each of these retention sums were specifically identified and impaired in entirety on prudent ground as they have exceeded the retention period. The Board concurs with management on the adequacy of the impairment made and noted no contrary findings in the summary audit report for FY2018 tabled by the auditors to the Board.

For 乌鲁木齐经济开发区建设投资有限公司, the Group is unlikely to have any future dealing with this customer as Urumqi is not one of the key markets targeted. As for 宁夏电投银川热电有限公司 and 长春市供热（集团）有限公司, the Group is still in discussions with them and management does not rule out the possibility of future contracts, especially 长春市供热（集团）有限公司 who is a regular customer of the Group since FY2014. The Group may also use the award of future contracts to settle the outstanding retention monies.

As with the other receivables impaired in the past, management shall and will continue to follow up meticulously with these customers to recover the outstanding debts. Our sales personnel have been sending reminders and keeping constant contact with these customers. Management will also consider seeking legal recourse, to the extent that is it financially beneficial to do so, as the last resort to recover these outstanding sums.

Query 4

- (d) With regard to page 16 of the Financial Statement, please note that under paragraph 12 of Appendix 7.2 of the Listing Manual, the Company is required to provide the reason for declaring no dividend. Please do so accordingly.

Company’s response to Query 4

It is with much regret that no dividend was declared as the Group needs to preserve its cash for working capital requirements. Furthermore, pursuant to the Companies Act (Chapter 50), the Company is unable to pay dividends due to its huge accumulated loss position.

By Order of the Board

Lin Bai Yin
Executive Chairman and Chief Executive Officer
20 March 2019