



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 Third Quarter and the Nine Months Ended 30 September 2014

Unaudited Financial Statement and Dividend Announcement for the Third Quarter Ended 30 September 2014 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		
	Q3			9 months		
	Unaudited	Unaudited		Unaudited	Unaudited	
	Jul to Sep	Jul to Sep		Jan to Sep	Jan to Sep	
	2014	2013	change	2014	2013	change
	RMB'000	RMB'000	%	RMB'000	RMB'000	%
Revenue	22,552	6,057	272.3%	48,467	30,794	57.4%
Cost of sales	(15,750)	(4,740)	232.3%	(33,032)	(25,261)	30.8%
Gross profit	6,802	1,317	416.5%	15,435	5,533	179.0%
Financial income	99	2	4850.0%	139	74	87.8%
Other income	420	212	98.1%	443	539	-17.8%
Selling and distribution expenses	(348)	(284)	22.5%	(1,155)	(1,102)	4.8%
Administrative expenses	(2,972)	(2,937)	1.2%	(8,721)	(11,448)	-23.8%
Finance cost	(1,678)	(1,469)	14.2%	(4,735)	(4,610)	2.7%
Other expenses	(36)	12	NM	(36)	(22,506)	-99.8%
Share of loss of associate companies	(206)	(785)	-73.8%	(665)	(1,082)	-38.5%
Profit/(loss) before tax	2,081	(3,932)	NM	705	(34,602)	NM
Taxation	(113)	(184)	-38.6%	(586)	(764)	-23.3%
Profit/(loss) for the period representing total comprehensive loss attributable to owners of the Company	1,968	(4,116)	NM	119	(35,366)	NM
	1,968	(4,116)	NM	119	(35,366)	NM

* There are no comprehensive income items for both financial periods.

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

	Group			Group		
	Q3			9 months		
	Unaudited Jul to Sep 2014 RMB'000	Unaudited Jul to Sep 2013 RMB'000	change %	Unaudited Jan to Sep 2014 RMB'000	Unaudited Jan to Sep 2013 RMB'000	change %
Depreciation of property, plant and equipment	209	240	-12.9%	626	723	-13.4%
Gains on disposal of property, plant and equipment	(190)	(189)	0.5%	(190)	(271)	-29.9%
Amortisation of intangible asset	302	189	59.8%	904	567	59.4%
Impairment loss on trade receivables	-	-	-	-	22,331	NM
Operating lease expenses	261	242	7.9%	782	1,114	-29.8%
Interest expense	1,678	1,469	14.2%	4,735	4,610	2.7%
Interest income	(99)	(2)	4850.0%	(139)	(74)	87.8%
Inventories recognised as an expense in cost of goods sold	17,316	6,347	172.8%	20,419	12,002	70.1%
Employee compensations	1,797	1,968	-8.7%	5,699	5,913	-3.6%
Exchange (gain)/loss	(20)	(35)	-42.9%	(43)	88	NM

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 Sep 2014 RMB'000	Unaudited 31 Dec 2013 RMB'000	Unaudited 30 Sep 2014 RMB'000	Unaudited 31 Dec 2013 RMB'000
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment	10,670	11,386	4	6
Intangible assets	4,669	5,538	-	-
Club membership	775	810	-	-
Investment in subsidiary	-	-	152,494	152,494
Investment in associates	4,913	5,578	5,913	5,913
	21,027	23,312	158,411	158,413
CURRENT ASSETS				
Gross amount due from customers for contract work-in-progress	27,204	19,585	-	-
Inventories	2,224	2,372	-	-
Trade and other receivables	205,385	206,184	40,676	40,554
Prepayments	197,041	169,313	78	139
Bank deposits pledged	30,714	500	-	-
Cash and cash equivalents	17,386	52,987	3,732	557
	479,954	450,941	44,486	41,250
TOTAL ASSETS	500,981	474,253	202,897	199,663
CURRENT LIABILITIES				
Gross amount due to customers for contract work-in-progress	-	1,542	-	-
Trade and other payables	48,421	47,564	1,467	259
Loans and borrowings	110,000	80,000	-	-
Other liabilities	17,471	26,362	1,007	1,594
Income tax payable	570	-	-	-
	176,462	155,468	2,474	1,853
NET CURRENT ASSETS	303,492	295,473	42,012	39,397
Non-current liabilities				
Deferred tax liabilities	4,643	4,643	-	-
TOTAL LIABILITIES	181,105	160,111	2,474	1,853
NET ASSETS	319,876	314,142	200,423	197,810
Equity attributable to owners of the Company				
Share capital	211,449	205,834	211,449	205,834
Reserves	30,776	30,776	-	-
Accumulated reserves/(loss)	77,651	77,532	(11,026)	(8,024)
TOTAL EQUITY	319,876	314,142	200,423	197,810
TOTAL EQUITY AND LIABILITIES	500,981	474,253	202,897	199,663

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 Sep 2014	As at 31 Dec 2013
	RMB'000	RMB'000
Amount repayable in one year or less, or on demand		
- secured	30,715	-
- unsecured	80,000	80,000
	<u>110,715</u>	<u>80,000</u>
Amount repayable after one year		
- secured	-	-
- unsecured	-	-
	<u>-</u>	<u>-</u>

Details of any collateral

As at 30 September 2014, RMB80.0 million (31 December 2013: RMB80.0 million) of the short term loans and borrowings were guaranteed by way of a corporate guarantee from the Company and personal guarantees by the Executive Chairman cum Chief Executive Officer of the Company and his spouse. In addition, the additional loans of RMB30.0 million (31 December 2013: nil) were secured by bank deposits of RMB30.0 million (31 December 2013: nil).

As at 30 September 2014, the Group also has RMB0.7 million (31 December 2013: nil) of bills payable to suppliers which are secured by bank deposits pledged. These bills payable have a maturity period of 180 days and are non-interest bearing.

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

Consolidated statements of cash flows

	Group	
	Unaudited 9 months ended	
	30.9.14	30.9.13
	RMB'000	RMB'000
Cash Flows from Operating Activities		
Profit/(loss) before tax	705	(34,602)
<u>Adjustments for:</u>		
Fair value of shares issued pursuant to LET Performance Share Scheme	-	2,070
Depreciation of property, plant and equipment	626	723
Amortisation of intangible assets	904	567
Gains on disposal of property, plant and equipment (Note A)	(190)	(271)
Interest income	(139)	(74)
Finance costs	4,735	4,610
Share of results of associates	665	1,082
Impairment loss on trade receivables	-	22,331
Unrealised exchange (gain)/loss	(52)	149
Total adjustments	6,549	31,187
Operating profit/(loss) before working capital changes	7,254	(3,415)
(Increase)/decrease in gross amount due from customers for contract work-in-progress	(7,619)	6,561
Decrease in inventories	148	651
Decrease in trade and other receivables	783	23,225
Increase in prepayments	(27,728)	(58,057)
Decrease in gross amount due to customers for contract work-in-progress	(1,542)	-
Increase/(decrease) in trade and other payables	427	(11,957)
Decrease in other liabilities	(8,891)	(2,022)
Cash flows used in operations	(37,168)	(45,014)
Interest income received	139	74
Interest expenses paid	(4,735)	(4,610)
Income taxes paid	-	(350)
Net cash used in operating activities	(41,764)	(49,900)
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(5)	-
Investment in associate	-	(4,874)
Net cash used in investing activities	(5)	(4,874)
Cash Flows from Financing Activities		
Proceeds from issuance of new shares pursuant to the private placement	5,823	9,749
Share issuance expenses	(208)	-
Proceeds from loans and borrowings	30,000	-
Proceeds from bills payable	7,473	-
Repayments of bills payable	(6,758)	-
(Increase)/decrease in bank deposits pledged	(30,214)	1,334
Net cash generated from financing activities	6,116	11,083
Net decrease in cash and cash equivalents	(35,653)	(43,691)
Exchange differences on translation of cash and cash equivalents	52	(120)
Cash and cash equivalents at 1 January	52,987	56,348
Cash and cash equivalents as at 30 Sep (Note B)	17,386	12,537

Note A: The net proceeds on disposal of property, plant and equipment amounting to RMB285,000 (9M2013: RMB1,026,000) have been offset against the balances owing to trade creditors as it relates to agreement with certain suppliers to use the subsidiary's motor vehicles as part of settlements for raw materials purchased.

- 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 September	
	RMB'000	RMB'000
Note B: Cash and cash equivalents	2014	2013
Cash and bank balances	46,300	12,537
Short-term deposits	1,800	-
	48,100	12,537
Less: bank deposits pledged	(30,714)	-
Cash and cash equivalents	17,386	12,537

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

Group - Statement of Changes in Equity

Attributable to the owners of the Company

	Share capital RMB'000	PRC statutory common reserve RMB'000	Merger reserve RMB'000	Accumulated profits RMB'000	Total equity RMB'000
Balance at 1 January 2014	205,834	31,230	(454)	77,532	314,142
Total comprehensive profit for the period	-	-	-	119	119
Issuance of new shares	5,823	-	-	-	5,823
Share issue expenses	(208)	-	-	-	(208)
Balance at 30 September 2014	211,449	31,230	(454)	77,651	319,876

	Share capital RMB'000	PRC statutory common reserve RMB'000	Merger reserve RMB'000	Accumulated profits RMB'000	Performance share reserve RMB'000	Total equity
Balance at 1 January 2013	194,015	31,230	(454)	180,677	-	405,468
Total comprehensive loss for the period	-	-	-	(35,366)	-	(35,366)
Grant of shares under LET Performance share scheme	-	-	-	-	2,070	2,070
Reclassification	2,070	-	-	-	(2,070)	-
Issuance of new shares	9,749	-	-	-	-	9,749
Balance at 30 September 2013	205,834	31,230	(454)	145,311	-	381,921

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

Company - Statement of changes in equity

	Share capital RMB'000	Accumulated loss RMB'000	Total RMB'000
Balance at 1 January 2014	205,834	(8,024)	197,810
Total comprehensive loss for the period	-	(3,002)	(3,002)
Issuance of new shares	5,823	-	5,823
Share issue expenses	(208)	-	(208)
Balance at 30 September 2014	211,449	(11,026)	200,423

	Share capital RMB'000	Accumulated profits/(loss) RMB'000	Performance share reserve RMB'000	Total RMB'000
Balance at 1 January 2013	194,015	731	-	194,746
Total comprehensive loss for the period	-	(6,973)	-	(6,973)
Grant of shares under LET Performance share scheme	-	-	2,070	2,070
Reclassification	2,070	-	(2,070)	-
Issuance of new shares	9,749	-	-	9,749
Balance at 30 September 2013	205,834	(6,242)	-	199,592

- 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**

	Company	
	Number of shares	Share capital RMB'000
As at 1 January 2014	527,959,000	205,834
Issuance of new shares	24,000,000	5,823
Share issue expenses	-	(208)
Issued and fully paid-up as at 30 September 2014	551,959,000	211,449

On 25 August 2014, the Company undertook a private placement which comprised the placement of 24,000,000 new ordinary shares in the capital of the Company at \$0.05 for each new share.

The Company obtained the in-principle approval from the SGX-ST for the listing and quotation for 24,000,000 new shares on 4 September 2014 and these new shares were successfully listed and quoted on the Main Board of the SGX-ST on 11 September 2014.

Consequent to the private placement, the issued share capital of the Company increased from 527,959,000 shares to 551,959,000 shares.

- 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 September 2014 and 31 December 2013.

- 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 Sep 2014	31 Dec 2013
Total number of shares issued at end of period/year	<u>551,959,000</u>	<u>527,959,000</u>

The Company does not have any treasury shares as at 30 September 2014 and 31 December 2013.

- 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 September 2014 and 31 December 2013.

- 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.**

Except for the adoption of the amendments to FRS applicable for the financial year beginning or after 1 January 2014, the Group has adopted the same accounting policies in the financial statements for the current period as those in its audited consolidated financial statements as at 31 December 2013.

- 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 earnings/(loss) per share is based on the Group's net profit/(loss) attributable to owners of the Company for the respective periods divided by the weighted average of 529,736,778 ordinary shares for the nine month ended 30 September 2014 (9M2013: 503,014,458 ordinary shares).

	Group	
	9 months	
	Jan to Sep 2014	Jan to Sep 2013
Profit/(loss) after tax attributable to owners of the Company (RMB'000)	119	(35,366)
Basic earnings/(loss) per share (RMB cents per share)	0.02	(7.03)

*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 Sep 2014	31 Dec 2013	30 Sep 2014	31 Dec 2013
Net asset value (RMB'000)	319,876	314,142	200,423	197,810
Net asset value per share (RMB cents per share)	57.95	59.50	36.31	37.47

Net asset value for the Group and Company as at 30 September 2014 and 31 December 2013 were computed based on 551,959,000 and 527,959,000 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

	3Q2014		3Q2013		9M2014		9M2013	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Industrial wastegas treatment								
- Dust elimination	5,545	24.6	589	9.7	8,661	17.9	5,543	18.0
- Desulphurisation	4,634	20.5	-	-	4,634	9.6	-	-
Industrial wastewater	8,612	38.2	2,945	48.6	19,347	39.9	13,685	44.4
Design, Technical and others	-	-	-	-	1,000	2.0	-	-
Operation and maintenance	3,761	16.7	2,523	41.7	14,825	30.6	11,566	37.6
	22,552	100.0	6,057	100.0	48,467	100.0	30,794	100.0

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

Revenue

9M2014 vs 9M2013

Revenue increased by RMB17.6 million or 57.4%, from RMB30.8 million in 9M2013 to RMB48.4 million in 9M2014. The Group enjoyed healthy revenue increase in all business segments, attributed to an upward price adjustment on the renewal of operation and maintenance ("O&M") contract in 3Q2013 coupled by higher percentage of works performed for both dust elimination and industrial wastewater segments, which resulted in an increase in revenue of RMB12.0 million in aggregate. Moreover, the Group also benefited from the PRC government's initiatives to tackle pollution by securing two new desulphurization contracts and a design and technical service contract relating to desulphurization after a lapse of more than a year. Altogether, these three contracts generated revenue of RMB5.6 million in 9M2014.

Gross profit and gross profit margin

In line with the higher revenue recognized, total gross profit grew from RMB5.5 million in 9M2013 to RMB15.4 million in 9M2014. Gross profit derived from dust elimination and industrial wastewater segments was RMB0.4 million and RMB1.5 million respectively. Higher price charged for the renewal of operation and maintenance contract also contributed to an increase in gross profit of RMB3.1 million, whereas the new desulphurization contracts and a design and technical service contract secured in 2014 added another RMB4.9 million to the overall gross profit.

Overall gross profit margin also increased by 13.9%, from 18.0% in 9M2013 to 31.9% in 9M2014, attributed to the followings:

- (i) stand-alone design and technical service contract generated 98.8% of gross profit margin as minimal cost was incurred;
- (ii) the return of desulphurization contract, a key driver of the Group's past lucrative gross profit margin business contributed 70.6% of the gross profit margin due to two contracts undertaken in 3Q2014; and
- (iii) higher price charged for the renewal of O&M contract from a steel manufacturer also added another 16.7% to the gross profit margin.

Other items of income

Financial income increased by RMB65,000 or 87.8% in 9M2014 as the Group earned higher interest mainly from its short term deposits. This is unlike 9M2013 whereby the short term deposit was fully drawn down for operating expenses.

Other income for 9M2014 declined by RMB0.1 million or 17.8% due to the absence of fines imposed on certain outsourcing parties of RMB0.2 million and lower gain on disposal of motor vehicle of RMB0.1 million. The decrease of RMB0.3 million was partly offset by rental income of RMB0.2 million, derived from sub-letting part of the operating plant in 9M2014.

Other items of expense

For 9M2014, the fluctuation in selling and distribution expenses was not material.

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

Administrative expenses decreased by RMB2.7 million or 23.8%, from RMB11.4 million in 9M2013 to RMB8.7 million in 9M2014 due to the absence of a non-cash charge of RMB2.1 million, being the fair value of the 4.6 million shares issued to six employees pursuant to the Company's Performance Share Scheme, downward revisions of managements' salaries and related costs of RMB0.2 million, lower professional fees incurred of RMB0.4 million in aggregate in 9M2014 due to the absence of compliance costs relating to the Enterprise Risk Management programme and share issuance expenses charged directly to administrative expenses. In addition, travelling and entertainment expenses were also reduced by RMB0.2 million due to the effective cost control measures implemented by the Group. The decrease of RMB2.9 million was partly offset by higher stamp duties paid upon the execution of contracts of RMB0.2 million in 9M2014, in line with the overall increase in revenue.

The increase in finance cost of RMB0.1 million was marginal as the higher interest paid on the increase in loan quantum was partly offset by lower interest rate offered by China Merchants Bank.

Other expenses decreased by RMB22.5 million in 9M2014, attributed mainly to the absence of impairment loss provided of RMB22.3 million on two customers who communicated to us that they are unable to repay their outstanding debts coupled by no exchange loss recognised and contributions to Flood Prevention Fund in 9M2014 as opposed to RMB0.1 million each of such expenses in 9M2013.

Share of loss of associated companies decreased by RMB0.4 million or 38.5%, from RMB1.1 million in 9M2013 to RMB0.7 million in 9M2014 due to the absence of impairment loss recognized of RMB1.0 million relating to the liquidation of an associate company, Pioneer Membrane Pte Ltd, partly offset by higher operating loss recognized of RMB0.6 million on the development of TiO₂ membrane.

Income tax expense

With effect from 1 January 2012, the effective tax rate applicable to our PRC subsidiary is 25% as our tax holiday has ceased on 31 December 2011. Apart from the corporate tax, the Group has also provided withholding tax of 10% on the potential amount of dividends expected to be declared to finance the working capital of the holding company and the portion of the distributable profits derived by the PRC subsidiary which is expected to be distributed out as dividend.

Income tax expense decreased by RMB0.2 million or 23.3%, from RMB0.8 million in 9M2013 to RMB0.6 million in 9M2014 due to absence of withholding tax of RMB0.4 million on the potential amount of dividends expected to be declared to finance the working capital of the holding company since the holding company has sufficient funds in the next twelve months, partly offset by higher corporate tax provided of RMB0.2 million as the subsidiary generated a higher chargeable income in 9M2014 than the same period of last year.

In the light of the foregoing, the Group achieved a profit after taxation of RMB0.1 million in 9M2014, reversing from a loss after taxation position of RMB35.4 million in 9M2013.

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

Non-current assets amounted to RMB21.0 million and comprise property, plant and equipment ("PPE") of RMB10.7 million, intangible assets of RMB4.6 million, club membership of RMB0.8 million and investment in associates of RMB4.9 million as at 30 September 2014. The decrease in PPE of RMB0.7 million was attributed to disposal of two motor vehicles with net book values of RMB0.1 million and depreciation charges of RMB0.6 million during the period, partly offset by the purchase of furniture.

- 1.1** Intangible assets amounted to RMB4.6 million and comprise patent of RMB31,000 and deferred development costs of RMB4.6 million as at 30 September 2014. The decrease in intangible assets of RMB0.9 million was attributed mainly to amortization in 9M2014. The patent and deferred development costs have a remaining tenure of 8 months (2013:17 months) and 50 months (2013: 59 months) as at 30 September 2014 respectively.
- 1.2** Club membership which has a remaining useful life of 200 months (2013: 209 months) amounted to RMB0.8 million as at 30 September 2014, lower by RMB35,000 due to amortization during the period.
- 1.3** Investment in associates decreased by RMB0.7 million, from RMB5.6 million as at 31 December 2013 to RMB4.9 million as at 30 September 2014 due mainly to the share of post-acquisition loss of RMB0.7 million in Nano Sun Pte Ltd for the period ended 30 September 2014.

2. Current assets

Current assets comprise gross 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 RMB480.0 million and RMB450.9 million as at end of 30 September 2014 and 31 December 2013 respectively. Our current assets accounted for 95.8% and 95.1% of our total assets as at 30 September 2014 and 31 December 2013 respectively.

- 2.1** Amount due from customers for contract work-in-progress amounted to RMB27.2 million and RMB19.6 million as at 30 September 2014 and 31 December 2013 respectively and accounted for 5.7% and 4.3% of our current assets as at 30 September 2014 and 31 December 2013 respectively. The increase of RMB7.6 million was in line with the increase in business activities.
- 2.2** Inventories decreased by approximately RMB0.2 million, from RMB2.4 million as at 31 December 2013 to RMB2.2 million as at 30 September 2014, attributed to drawn down of raw materials for the projects.
- 2.3** Trade and other receivables comprise trade receivables, bills receivable, retention receivables and other receivables amounted to RMB205.3 million and RMB206.2 million as at 30 September 2014 and 31 December 2013 respectively, and accounted for approximately 42.8% and 45.7% of our current assets as at the respective balance sheet dates. Trade receivables and retention receivables amounted to RMB195.4 million as at 30 September 2014, representing a decrease of approximately RMB4.2 million from 31 December 2013. The decrease was attributed to collections during the period.
- 2.4** Bills receivable amounted to RMB5.3 million and RMB3.5 million as at 30 September 2014 and 31 December 2013 respectively. The increase of RMB1.8 million was due to more bills receivable offered by the customers as a form of settlement for their outstanding debts.
- 2.5** Other receivables comprise advances to employees for business purposes, bidding deposits and VAT and other recoverable. Other receivables amounted to RMB4.6 million and RMB3.1 million as at 30 September 2014 and 31 December 2013 respectively. The increase of RMB1.5 million was attributed to increase in billings to customers for achieving certain milestones in the contracts and advances to employees for business trips which were in line with the overall increase in revenue.
- 2.6** Prepayments comprising prepaid operating expenses, advances to trade and non-trade suppliers amounted to RMB197.0 million and RMB169.3 million as at 30 September 2014 and 31 December 2013 respectively. The increase of RMB27.7 million was attributed to more advance payments made to certain suppliers for the manufacture of finished components as well as part of the tender requirements by certain customers to demonstrate the Group's financial abilities to undertake projects. The advances will be refunded back if the tenders for certain contracts are not successful.

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

- 2.7** Bank deposits pledged increased by RMB30.2 million, from RMB0.5 million as at 31 December 2013 to RMB30.7 million as at 30 September 2014 due to bank deposits pledged of RMB30.0 million to secure the additional bank loans of RMB30.0 million from China Merchants bank and another RMB0.7 million to obtain the bills payable facilities, partly offset by the absence of bank deposits of RMB0.5 million held in a designated bank account as performance guarantees for construction contracts.
- 2.8** Cash and cash equivalents amounted to RMB17.4 million and RMB53.0 million as at 30 September 2014 and 31 December 2013 respectively, and accounted for 3.6% and 11.8% of our current assets as at the respective balance sheet dates.

3. Current liabilities

Our current liabilities comprise mainly trade and other payables, loans and borrowings, other liabilities and income tax payables. Our current liabilities amounted to RMB176.5 million and RMB155.5 million as at 30 September 2014 and 31 December 2013 respectively, and accounted for approximately 97.4% and 97.1% of total liabilities as at the respective balance sheet dates.

- 3.1** Trade and other payables comprise mainly trade payables, retention monies and other payables. Trade payables including retention monies amounted to RMB45.6 million as at 30 September 2014, representing an increase of approximately RMB1.3 million when compared against 31 December 2013, in line with the overall increase in revenue.
- 3.2** Other payables comprise primarily VAT and other operating tax payables and accruals of other operating expenses for which invoices have already been received. Other payables amounted to RMB2.1 million and RMB3.3 million as at 30 September 2014 and 31 December 2013 respectively. The decrease was due to payments of outstanding invoices during the period.
- 3.3** Bills payable increased by RMB0.7 million (31 December 2013: nil) as we have started to utilize the bills payable facilities in 2014.
- 3.4** Loans and borrowings increased from RMB80.0 million as at 31 December 2013 to RMB110.0 million as at 30 September 2014 as a result of additional loans received from China Merchants Bank as part of the bank's initiative to support environmental companies from Changchun City.
- 3.5** Other liabilities comprise accrued output VAT, purchases, salaries and related costs, operating expenses, welfare expenses and advances from customers. Other liabilities amounted to RMB17.5 million and RMB26.4 million as at 30 September 2014 and 31 December 2013 respectively.
- 3.6** Accrued output VAT, purchases, salaries and related expenses, operating expenses and welfare expenses amounted to RMB14.8 million and RMB26.4 million as at 30 September 2014 and 31 December 2013 respectively. The decrease of RMB11.6 million was because of lower accrued purchases as we have received billings for the raw materials purchased as well as payments made for the purchases during the period.
- 3.7** Advances from customers amounted to RMB2.7 million as at 30 September 2014, representing an increase of approximately RMB2.7 million over end of FY2013. The increase was attributed to signing of new contracts during the period.
- 3.8** Income tax payable amounted to RMB0.6 million and nil as at 30 September 2014 and 31 December 2013 respectively. The increase of RMB0.6 million was attributed mainly to income tax derived from taxable profit generated by the subsidiary which remained unpaid as at 30 September 2014.

4. Non-current liability

Deferred tax liability as at 30 September 2014 and 30 September 2013 remained unchanged at RMB4.6 million as no further tax was provided on the potential amount expected to be declared in the form dividend to finance the operating expenses of the holding company since the holding company has sufficient funds in the next twelve months.

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

5. Shareholder's equity

The Group's total shareholder's equity comprises share capital, PRC statutory reserve fund, merger reserve and accumulated profits. Between 30 September 2014 and 31 December 2013, our shareholder's equity increased from RMB314.1 million to RMB319.8 million due mainly to the issuance of new ordinary shares of RMB5.8 million as a result of a private placement and profit after tax of RMB0.1 million, partly offset by share issuance expenses of RMB0.2 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)

CASHFLOWS

In 9M2014, operating profit before working capital changes amounted to RMB7.3 million. Net cash flows used in operating activities amounted to RMB49.0 million attributed mainly to:

- (i) an increase in gross amount due from customers for work-in-progress of RMB7.6 million;
- (ii) an increase in prepayments of RMB27.7 million;
- (iii) a decrease in other liabilities of RMB8.9 million;
- (iv) a decrease in gross amount due from customers for work-in-progress of RMB1.5 million; and
- (v) payments of interest expense of approximately RMB4.7 million incurred on the loans from China Merchant Bank;

These were partly offset by:

- (i) a decrease in inventories of RMB0.1 million;
- (ii) a decrease in trade and other receivables of RMB0.8 million;
- (iii) an increase in trade and other payables of RMB0.4 million; and
- (iv) interest income received of RMB0.1 million.

Net cash outflows from investing activities of approximately RMB5,000 due to purchase of furniture.

Net cash inflows from financing activities of approximately RMB6.1 million were attributed to proceeds received of RMB5.8 million from the issuance of new shares pursuant to a placement exercise on 25 August 2014, fresh loans obtained of RMB30.0 million from China Merchants Bank and proceeds from bills payable of RMB7.5 million. The increase of RMB43.3 million was partly offset by share issuance expenses of RMB0.2 million, increase in bank deposits pledged of RMB30.2 million to secure the additional loan and bills payable facilities and repayments of bills payable of RMB6.8 million upon maturity.

Overall our cash and cash equivalents decreased by approximately RMB35.6 million in 9M2014. In the light of the foregoing, overall cash and cash equivalents decreased from RMB53.0 million as at 31 December 2013 to RMB17.4 million as at 30 September 2014.

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.

Amidst growing concerns that the Chinese economy is facing a potential slowdown, we have delivered an encouraging set of financial results with revenue increase in all business segments. After a lapse of more than a year, the roll-out of investments in desulphurization projects by customers is a strong indication that the PRC Government's initiatives to deal with air pollution by imposing heftier penalties on non-compliant companies are beginning to work. We seek to secure more of such contracts as they are usually of a bigger scale and offer better gross margins. With an order book of approximately RMB86 million and more industrial wastegas and waste water contracts to be awarded in the pipeline, management is quietly confident that, barring any unforeseen circumstances, we can achieve a much improved financial performance in FY2014.

Notwithstanding the positive signs, the business environment for the next 12 months remains challenging, and liquidity crunch is a key issue that continues to affect PRC companies. Hence, we have to continue exercising care and vigilant in executing contracts that were awarded to the Group. The focus remains on the collections of trade receivables as we have made some progress, albeit at a slower rate. Accordingly, we have to intensify our efforts by following up more closely with the relevant customers regarding the status of their payments.

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 nine months ended 30 September 2014 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 September 2014, 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	Change in use of proceeds RMB'000	Amount utilised RMB'000	Balance RMB'000
Increase and enhance research and development activities	15,107	(14,182)	(925)		-
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)	4,952	(4,514)	438
Total	78,161	(73,209)	-	(4,514)	438

For full details regarding the change in use of the IPO proceeds of RMB4,952,000, from "increasing and enhancing research and development activities, investment in capital expenditures and increase in sales and marketing activities in the representative offices to general working capital for the Company", please refer to the Company's announcement dated 14 June 2013.

The amount of RMB4.5 million was utilized for the payments of operating expenses of the subsidiary.

Private placement on 21 June 2013

<u>Usage of private placement proceeds</u>	Amount allocated RMB'000	Amount utilised RMB'000	Balance RMB'000
Investment opportunity through acquisition, joint venture and strategic alliances so as to create synergistic values to the existing business	4,874	(4,874)	-
General working capital for the Company	4,875	(4,875)	-
Total	9,749	(9,749)	-

The proceeds of RMB4.9 million were invested in 20% shareholding of Nano Sun Pte Ltd, a start-up company incorporated in Singapore and is primarily engaged in the business of developing and marketing different types of technology of producing and fabricating TiO₂ membrane and microsphere for purposes of, *inter alia*, treatment of waste water and purification of water.

The funds for general working capital of RMB4.9 million was for payments of staff payroll and related costs, Directors' remunerations and fees, professional fees, compliance costs, travelling and entertainment and other operating expenses of the Company.

Private placement on 25 August 2014

Usage of private placement proceeds

RMB'000

Gross proceeds received, earmarked as working capital for the Company 5,823

Amount utilised as follows:

Directors' remunerations, Directors' fees and staff payroll and related costs (1,750)

Compliance costs (301)

Insurance (45)

Others * (38)

Exchange gain 29

Balance as at 30 September 2014 3,718

* Others comprised of office rental and entertainment expenses.

BY ORDER OF THE BOARD

Leader Environmental Technologies Limited

Lin Baiyin
Executive Chairman and Chief Executive Officer

13 November 2014

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 third quarter and the nine months' financial results for the period ended 30 September 2014 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

13 November 2014