



ABTERRA LTD.
Company Registration No.: 199903007C

RESPONSE TO SGX QUERIES ON FULL YEAR FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE YEAR ENDED 30 JUNE 2007 (THE "RESULTS ANNOUNCEMENT")

The Board wishes to make the following clarifications with regard to the SGX queries:

- a) We note on Pg 2 of the announcement that 'Trade receivables' by 7092% or S\$41.3m from S\$0.58m to S\$41.93m, when 'Turnover' increased by 248% or S\$83.9m from S\$33.8m to S\$117.7m. In respect of the above, to provide the following information:-
- (i) Breakdown of major items contributing to the increase in "Trade receivables"

	2007 S\$ Million	2006 S\$ Million	Changes + / (-)
Trade receivables arising from sales on term basis	30.7	0.6	30.1
Advance payment made for future delivery of Iron & Coke	11.2	2.7	8.5
Claim receivables from supplier	-	2.6	-2.6
Provision for doubtful debts	-	-5.3	5.3
	<u>41.9</u>	<u>0.6</u>	<u>41.3</u>

Trade receivables arising from sales on term basis (S\$30.7 million) have since been fully received and the cargo for advance payments for shipment of future delivery as at June 2007 (S\$11.2 million) has been duly delivered.

Provision for doubtful debts (S\$5.3 million) in respect of advance payment and claim receivables from supplier as at 2006 have been written off in current year.

- (ii) Reasons for the significant increase in "Trade Receivables"

There is huge demand for Iron Ore and Coal, and Coke. However, the trading volume is limited to availability of working capital as average value per transaction is about US\$3 to US\$5 million. With the proceeds of S\$45million from issuance of convertible notes received on 1 June 2007, the Group was able to increase the trading volume in June 2007 with more shipments and sell to customers on term basis. June 2007 trading volume is approximately S\$22million. In 2006, the group traded mainly in cotton of which the value per transaction was a fraction of our current commodities.

- (iii) Trade Receivables turnover for the current period as compared to the previous corresponding period, and to elaborate on material variances, if any

	<u>2007</u>	<u>2006</u>
Trade Receivable Turnover (Days)	95	6

The trade receivable turnover from sales for the year is 95 days, an increase of 89 days compare to 2006. This is due to our trading with customers on term basis in FY2007 with average of 90 days term.

- (iv) Directors' views whether the provision for doubtful debt is adequate and the basis for their views

The Board of Directors confirmed that no provision for doubtful debts is required as the trade receivables have been promptly settled when due.

- b) We note on Pg 2 of the announcement that 'Inventories' increased by 3707% or S\$39.1m from S\$1.05m to S\$40.12m when 'Turnover' only increased by 248% or S\$83.9m from S\$33.8m to S\$117.7m. In respect of the above, please provide the following information:-

- (i) Nature of 'Inventories'

On 1 June 2007, the company received S\$45 million from the issuance of convertible notes. The Group was able to utilise these fund for earmarking of margin for opening of letter of credit or payment for purchases. In view of rising commodities price, more shipments of commodities were contracted for in June 2007. For shipments whose titles and risk had not been transferred to customers by year end date were recorded as inventories. The main bulk of the inventories were goods-in-transit amounted to S\$30.9 million. Breakdown of inventories are below:-

	<u>2007</u> S\$Million	<u>2006</u> S\$Million
Trading goods	39.89	0.82
Finished products	0.09	0.08
Raw materials	0.14	0.15
Total	40.12	1.05

- (ii) Reasons for the significant increase in 'Inventories';

As item (b) (i) above.

- (iii) Inventory turnover for the current period as compared to the previous corresponding period, and to elaborate on material variances, if any

	<u>2007</u>	<u>2006</u>
Inventory turnover (days)	124	11

As mentioned in item (b) (i) above, the increase in inventories was the result of building up of inventories and goods-in-transit as at year end. The inventory turnover did not reflect the actual ageing of the inventories.

- (iv) Directors' views whether there is any obsolescence risk or diminution in value of inventory held arising from the significant increase and the basis for their views

There is no risk of obsolescence or diminution in value of inventories as they have been realised above carrying amount subsequent to the financial year end.

- (v) Whether there are confirmed orders for the inventory.

Yes, as above.

- c) We note on Pg 2 of the announcement that 'Trade payables' increased S\$30.1m from S\$1.45m to S\$31.5m. In respect of the above, please provide the following information:-

- (i) Breakdown of major items contributing to the increase in "Trade payables"

As mentioned in item b(i) above, approximately S\$30.9 million of inventories were goods-in-transit. These goods were purchased under letter of credit on FOB or CNF term at sight. Once the cargo was loaded on the ship and bill of lading issued, the titles and risk transferred to Abterra Group. These were recorded as trade creditors until they were paid or documents negotiated with banks.

- (ii) Reasons for the significant increase in "Trade payables"

Please refer to (c) (i)

- d) We note on Pg 9 of the results announcement that "the increase in working capital requirement was mainly due to significant increase in trading volume in FY2007 as compared to FY2006." In respect of the above, to explain why a significant increase in trading volume has resulted in such a significant outflow of cash from operations of S\$46.5m.

As mentioned in item (a)(ii) and (b) (i), our purchases were mostly on sight letter of credit whereas sales were on term basis. Furthermore, high volume of trade were transacted in the last month of the financial year due to availability of fund which resulted in such a significant outflow of cash from operations. The outflow of cash from operations was financed by the proceeds from issuance of convertible bonds.

In addition, to also explain why the business activities that the Company is engaged in are not self-funding, and instead, have resulted in a significant outflow of cash from operations.

The increase in trade mainly is partly contributed by the trading of Metallurgical Coke which is a high value item compared to Iron ore and Coking Coal. The demand of Metallurgical Coke is high as such advance payments have to be made to ensure suppliers. Final sales are to established buyers on term basis.

With respect to the Iron Ore business, letters of credit are established to supplies to secure the cargo. Once shipments take place, payment is done utilising bank facilities. Sales are generally on deferred payment basis. However, cargos are released upon receipt of payment.

On occasions payments under trust receipt have to be repaid from working capital pending receipt of proceed, which are then channeled back into the system.

BY ORDER OF BOARD

LAU YU

Chief Executive Officer

Dated: 5 September 2007