

Independent Auditor's Report

For the financial year ended 31 December 2013

To the Members of Sunvic Chemical Holdings Limited

Report on the financial statements

We have audited the accompanying financial statements of SunVic Chemical Holdings Limited (the "Company") and its subsidiaries (the "Group"), which comprise the balance sheets of the Group and the Company as at 31 December 2013, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated cash flows statement of the Group and statement of changes in equity of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act (the "Act") and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Basis for Opinion

Property, Plant and Equipment

As at 31 December 2013, the Group's property, plant and equipment totaled RMB 2,942 million, out of which RMB 1,078 million relates to a cracking plant.

- (a) As disclosed in Note 8 to the financial statements, included in the Group's property, plant and equipment are certain idle assets totaling RMB 391 million as at 31 December 2013. As at 31 December 2013, the Group has neither commenced depreciation nor performed any impairment assessment for these idle assets. Accordingly, we are unable to ascertain the appropriateness of the carrying value of these assets totaling RMB 391 million as at 31 December 2013.
- (b) As disclosed in Note 8 to the financial statements, the commencement date for the production of methyl tertiary-butyl ether ("MTBE") has been postponed. As the MTBE plant has yet to commence production, it is impracticable to obtain market data for comparables for purposes of performing an assessment of the recoverable amount of the MTBE plant. Consequently, we are unable to determine whether any adjustment to the carrying value of MTBE plant of RMB 687 million is necessary.

Qualified Opinion

In our opinion, except for the effects, if any, arising from the matter described in the Basis for Opinion paragraph, the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2013 and the results, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date.

Emphasis of Matter

- (i) Interested Person Transactions

Yixing Danson

On 30 April 2013, the Company announced that (i) the transactions between the Group and Yixing Danson Technology Co., Ltd ("Yixing Danson") were interested person transactions which exceeded 5% in FY2011, 2012, first quarter 2013 ("Past Interested Person Transactions") and (ii) the Company would be seeking approval from shareholders to ratify the Past Interested Person Transactions at an extraordinary general meeting to be convened. We understand that the Company has appointed the relevant professional advisers to assist. The Company has not convened the extraordinary general meeting as at the date of this report. We draw your attention to the uncertainty related to the outcome of this convening of extraordinary general meeting or the non-compliance of the SGX listing rules. Our opinion is not qualified in this respect of this matter.

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Taixing Jinyan

The transactions in FY2013 between the Group and Taixing Jinyan Chemical Technology Co., Ltd ("Taixing Jinyan") were interested person transactions. Mr Sun Liping and Mr Sun Xiao and their immediate family have significant financial interest in Jiaying Jinyan. Taixing Jinyan is a 70% owned subsidiary company of Jiaying Jinyan. The transactions consist of short term loans to Taixing Jinyan amounting to RMB 333 million, the purchase of assets on behalf of RMB60 million, sale of chemical products of RMB180 million, and the transfer of land use rights of RMB20 million. We understand that the Company has appointed the relevant professional advisers to assist. The Company has not convened the extraordinary general meeting as at the date of this report. We draw your attention to the uncertainty related to the outcome of this convening of extraordinary general meeting or the non-compliance of the SGX listing rules. Our opinion is not qualified in this respect of this matter.

(ii) Going concern

We draw attention to Note 2(b) of the financial statements. As at 31 December 2013, the Group's current liabilities exceeded its current assets by RMB622 million. This indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

The Directors are of the view that the going concern assumption is appropriate for the preparation of these financial statements as the directors believe that:

- (a) The Group is expected to receive proceeds from the planned disposal of certain production facilities of one of its subsidiaries, Taixing Jurong Chemical Co., Ltd, as announced by the Group on 23 January 2014. The aggregate sales proceeds is RMB 3.9 billion, with the initial payment of RMB 1.45 billion expected to be received before 31 December 2014. Being a major transaction as defined in Chapter 10 of the SGX-ST Listing Manual, this planned disposal is subject to shareholders' approval.
- (b) The Group will receive continuing support from its bankers. As at 31 December 2013, the Group has unutilized bank facilities totaling RMB 1.1 billion. These facilities are available for draw-down to meet the Group's working capital requirements.

If for any reason the Group is unable to continue as a going concern, the Group may be unable to discharge its liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realized other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the balance sheet. In addition, the Group may have to provide for further liabilities which may arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively. No such adjustments have been made to the financial statements of the Group in respect of these. Our opinion is not qualified in respect of this matter.

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Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

Other Matters

The financial statements for the financial year ended 31 December 2012 were audited by another firm of auditors whose audit report dated 12 April 2013 expressed a qualified opinion.

Foo Kon Tan Grant Thornton LLP

*Public Accountants and
Chartered Accountants*

Date: 11 April 2014

Notes to the Financial Statements

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2 Summary of significant accounting policies

(b) Fundamental accounting concept

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The Directors are of the view that the going concern assumption is appropriate for the preparation of these financial statements as the directors believe that:

- (a) The Group is expected to receive proceeds from the planned disposal of certain production facilities of one of its subsidiaries, Taixing Jurong Chemical Co. Ltd, as announced by the Group on 23 January 2014. The aggregate sales proceeds is RMB3.9 billion, with the initial payment of RMB1.45 billion expected to be received before 31 December 2014. Being a major transaction as defined in Chapter 10 of the SGX-ST Listing Manual, this planned disposal is subject to shareholders' approval.
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If for any reason the Group is unable to continue as a going concern, the Group may be unable to discharge its liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realized other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the balance sheet. In addition, the Group may have to provide for further liabilities which may arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively. No such adjustments have been made to the financial statements of the Group in respect of these.

Notes to the Financial Statements

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8 Property, plant and equipment

Impairment assessment

As at 31 December 2013, the Group's property, plant and equipment totaled RMB2,952 million, out of which RMB1,078 million relates to a cracking plant.

- (a) In 2009, the Group commenced construction of a catalyst-assisted cracking plant to produce petroleum-related products and propylene. Resulting from certain changes in the PRC tax regulations and the operating environment, the Group decided to shelve the original plan to use the cracking plant to crack heavy fuel oil to produce petroleum-related products and propylene, a main raw material for the production of acrylic acid. Instead, in 2013, the Group modified and converted the cracking plant into a plant for the production of methyl tertiary-butyl ether ("MTBE"). The Group's decision to produce MTBE rendered certain property, plant and equipment components which were originally constructed for the production of petroleum-related products and propylene idle, till the Group decides to embark on the production of petroleum-related products and propylene. Such assets amounted to RMB391 million as at 31 December 2013. As at 31 December 2013, the Group has neither commenced depreciation nor performed any impairment assessment for these idle assets.
- (b) The Group has originally planned for the commencement of MTBE production to commence in July 2013. However, the commencement date has been postponed to middle of April 2014. Management believes that the recoverable amount of the MTBE plant exceeds its carrying value of RMB687 million as at 31 December 2013. As the MTBE plant has yet to commence production, it is impracticable to obtain market data for comparables for purposes of performing a formal assessment of the recoverable amount of the MTBE plant.

The Group incurred losses from its N-(Phosphonomethyl) IminodiaceticAcide ("PMIDA") business and has provided an accumulated impairment loss of RMB40,000,000 on the plant and machinery as at 31 December 2010. The allowance for impairment was recognised in other operating expenses in prior years.

The recoverable amount is determined based on value-in-use calculations. These calculations used cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are projected on assumptions of constant revenue and gross margins.

No further impairment loss on plant and machinery that relate to PMIDA business as they have been fully impaired as at 31 December 2012 and 31 December 2013.