

SUNVIC CHEMICAL HOLDINGS LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration Number: 200406502E)

(1) REPLY TO SGX-ST QUERIES REGARDING THE ANNOUNCEMENT MADE ON 23 JANUARY 2014 (THE “ANNOUNCEMENT”) IN RELATION TO THE PROPOSED JOINT VENTURE AGREEMENT WITH ARKEMA ASIE SAS (THE “PROPOSED JVA”); AND

(2) ADDENDUM TO THE ANNOUNCEMENT

(1) REPLY TO SGX-ST QUERIES REGARDING THE ANNOUNCEMENT IN RELATION TO THE PROPOSED JOINT VENTURE AGREEMENT WITH ARKEMA ASIE SAS

The Board of Directors (the “**Board**”) of Sunvic Chemical Holdings Limited (the “**Company**”) refers to the queries raised by the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) in relation to the Announcement on the Proposed JVA and wishes to respond to such queries as set out below:

Unless otherwise expressly specified, capitalised terms herein shall bear the same meanings as defined in the Announcement.

Question 1 : ***What adjustments will be made to the working capital, net cash and net book value of certain assets of Sunke, and under what circumstances will these adjustments be made?***

Response : As further detailed in the ETA between Sunke and Arkema, the consideration for the Equity Transfer will be ultimately adjusted to take into account the working capital, net cash value and net book value of the assets transferred under the Equity Transfer as at the date of completion, based on the below formula:-

Transfer Price = RMB 1,450,000,000 + A + B + C, where

A = 55% (Arkema’s proposed shareholding proportion) of working capital as at the date of completion;

B = 55% of net cash value⁽¹⁾ as at the date of completion; and

C = the smaller of (i) RMB 30,000,000; or (ii) 50% of the net book value of the catalysts required for operation of the production facilities.

Note:-

(1) Net cash value is defined as the excess of cash over the financial indebtedness of the Company.

Question 2 : ***How was the consideration of RMB 1,450,000,000 arrived at? What are the factors taken into consideration for arriving at the amount of RMB 1,450,000,000?***

Response : The consideration of RMB 1,450,000,000 was arrived at through negotiations between parties, on a willing-buyer, willing-seller basis. The factors taken into consideration for the consideration include,

inter alia, capital investment costs⁽¹⁾, net asset value of the Sale Assets (see below), goodwill, industry know-how and loss of profits and revenue as a result of the disposal.

Note:-

(1) The capital investment costs have been included in the net asset value of the Sale Assets.

Question 3 : ***What is the net asset value represented by 55% of the equity interest in Sunke as at 30 September 2013?***

Response : The net asset value of the Line 1 and 2 Facilities as at 30 September 2013 is approximately RMB 1,359,000,000. Accordingly, the net asset value represented by 55% of the equity interest in Sunke as at 30 September 2013 is approximately RMB 747,000,000.

Question 4 : ***What is the registered capital of Sunke as at 30 September 2013?***

Response : The registered capital of Sunke as at 30 September 2013 is RMB 2,000,000.

Pursuant to the entry into the JVA and the Equity Transfer, the registered capital of Sunke would be RMB 1.8 billion.

Question 5 : ***What is the transfer price of the Line 3 Facility from Taixing Jurong to Sunke?***

Response : The transfer price of the Line 3 Facility from Taixing Jurong to Sunke is RMB 700,000,000. The transfer price was determined based on: (i) the estimated investment cost of the Line 3 Facility; and (ii) parties' agreement that the registered capital of Sunke post-transfer of the Line 3 Facility would be RMB 2.5 billion (from RMB 1.8 billion).

Question 6 : ***What are the factors taken into consideration in arriving at the price of RMB 1,065,000,000 for the First Call Option?***

Response : The factors taken into consideration for the price of the First Call Option include, *inter alia*, capital investment costs, net asset value of the Sale Assets, goodwill, industry know-how and loss of profits and revenue as a result of the disposal.

Question 7 : ***How will the additional funds arising from pro-rata contributions by Arkema and Taixing Jurong be used?***

Response : The additional funds arising from *pro-rata* contributions by Arkema and Taixing Jurong will be used for (i) the acquisition of the Line 3 Facility; and (ii) working capital purposes of Sunke.

Question 8 : ***How is the resultant shareholding in Sunke of Taixing Jurong and Arkema arrived at?***

Response : For ease of computation, the shareholding proportion of 67%:33% by Taixing Jurong and Arkema is based on the respective number of lines of production facilities to be held by each of the parties (ie. output ratio) (the "**Output Ratio Shareholding**"). Out of the 3 lines of production facilities with an aggregate 480,000 tonnes annual capacity of acrylic acid, Taixing Jurong's shareholding of 67% will represent 2 lines of production facilities (ie. 320,000 tonnes annual capacity), whilst Arkema's shareholding of 33% will represent 1 line of production facility (ie. 160,000 tonnes annual capacity).

- Question 9** : **How is Arkema's remaining 39.6% equity interest in Sunke arrived at?**
- Response : In the event that the Output Ratio Shareholding is not accepted by the relevant PRC authorities during the registration of change of equity interests, the parties have mutually agreed that their respective shareholding proportions will consequently be based on the actual capital contribution ratio instead (ie. 60.4%:39.6%).
- Question 10** : **What are the factors taken into consideration in arriving at the amount of RMB 1,450,000,000 for the Third Call Option?**
- Response : The factors taken into consideration for the price of the Third Call Option include, *inter alia*, capital investment costs, net asset value of the Sale Assets, goodwill, industry know-how and loss of profits and revenue as a result of the disposal.
- Question 11** : **Is there an expiry date for the Third Call Option? If no, why is the consideration fixed upfront?**
- Response : Yes, the Third Call Option will only be exercisable for a period commencing on 1 January 2016 and ending on 31 December 2016.
- Question 12** : **Will Taixing Jurong or the Listco Group be expected to contribute further capital or shareholders' loan to Sunke other than as stated under Stage 3(a)?**
- Response : No, there will be not be any further contribution to capital or shareholders' loan provided to Sunke other than as stated under Stage 3(a).
- Question 13** : **Will profits be shared pro-rata between Taixing Jurong and Arkema for as long as Arkema does not hold 100% of Sunke?**
- Response : Yes, profits will be shared *pro-rata* between Taixing Jurong and Arkema for as long as Arkema does not hold 100% of Sunke.
- Question 14** : **Who manages the operations of Sunke?**
- Response : Pursuant to the terms of the JVA, the board of Sunke shall consist of 6 directors, 4 of whom shall be appointed by Arkema and 2 of whom shall be appointed by Taixing Jurong.
- Further, the general manager, the finance manager, the operation manager and the technical manager shall be nominated by Arkema and appointed by the board. Sunke shall adopt a management system under which the general manager shall be responsible to and under the direction of the board.
- Question 15** : **What is the basis for the 5-year exercise period of the Second Call Option?**
- Response : The 5-year exercise period of the Second Call Option was determined based on commercial negotiations between the parties.
- Question 16** : **If RMB 2,034,000,000 is the net tangible assets of the Sale Assets, which represents 96% of the Group's net tangible assets as at 30 September 2013, does the Sale represent the entire business of the Group?**

Response : The disposal of the Sale Assets, whilst representing a substantial proportion of the business of the Group, will not constitute a sale of the entire business of the Group. As at 30 September 2013, the other remaining assets of the Group include, *inter alia*, (i) production facilities in Yancheng City for approximately 205,000 tonnes of acrylic acid and 250,000 tonnes of acrylate esters; and (ii) a cracking plant in Yancheng City (which was under construction as at 30 September 2013). Further, recent improvements made to the production facilities in Yancheng City had also not been recognised in the 30 September 2013 figures, but will be accounted for in the 31 December 2013 figures.

Question 17 : ***During the 5-year period, will there be any dividend distribution by Sunke to its 2 shareholders?***

Response : During the 5-year period, it is unlikely that there will be any dividend distribution by Sunke, because it is expected that Sunke will not have any distributable profits (by virtue of Sunke being required to pay the costs of value-added tax for restructured assets, amounting to approximately RMB 250,000,000). In any case, pursuant to the terms of the JVA, any dividend distribution will be subject to recommendation from the board of Sunke.

In relation to the above, the Company confirms that there is no arrangement or agreement between Taixing Jurong and Arkema to reimburse Sunke for the aforesaid RMB 250,000,000.

Question 18 : ***How significant is the Company's intermediate chemical business and what does it entail?***

Response : The Company's intermediate chemical business relates to the manufacture and sale of acrylic acid (aggregate 525,000 tonnes annual capacity) and acrylate esters (aggregate 180,000 tonnes annual capacity).

In addition to the ETA and JVA, Sunke, Taixing Jurong and an associate of Arkema have also entered into a product supply agreement, pursuant to which upon the business of Sunke being fully operational, Sunke shall then supply a portion of its output to each of Taixing Jurong and Arkema (or its associate) (the "**Product Supply Agreement**").

Pursuant to the Product Supply Agreement, and on the basis that Sunke will allocate 50% of its 320,000 tonnes annual capacity acrylic acid output to Arkema, the Company's loss of revenue arising from the disposal will be correspondingly reduced by 160,000 tonnes annual capacity acrylic acid output.

Question 19 : ***What are the Company's specific plans on growing this business?***

Response : Pursuant to the joint venture, Taixing Jurong and Arkema shall collectively (i) ensure optimal efficiency of the production facilities of Sunke to achieve maximum profitability and lower costs; and (ii) develop and complete the Line 3 Facility.

Question 20 : ***In paragraph 3.1, "Sale Assets" refer to the production facilities held by Taixing Jurong. What does "net profit attributable to Sale Assets" mean and how is the net profit arrived at?***

Response : Net profits attributable to the Sale Assets to be disposed of is based on the net profit of Taixing Jurong amounting to RMB 154,100,000 for the 9-month period ended 30 September 2013, as consolidated in the Group's net profit of RMB 239,410,000 for the 9-month period ended 30 September 2013.

Question 21 : **Given that Arkema has yet to exercise its call options, how will this RMB 1.8666 billion gain on disposal be recognized in the Group's profit and loss statement and for which period?**

Response : The Company wishes to clarify that the approximate RMB 1,866,000,000 gain on disposal is purely for illustration purposes. The actual gain on disposal will be dependent on the date of completion and the exercise of the call option(s), and will also be based on the actual net asset value at the relevant point of completion.

Further to the above, the approximate net gain on disposal pursuant to the various stages/ scenarios is set out below:-

| Net gain on disposal (before tax) (RMB '000) | Assuming Line 3 Trial Production Approval is obtained (ie. includes sale of Line 1 Facility, Line 2 Facility and Line 3 Facility) | Assuming Line 3 Trial Production Approval is not obtained (ie. includes sale of Line 1 Facility and Line 2 Facility) |
|---|--|---|
| | Based on the net tangible asset value of RMB 2,034,000,000 of the Sale Assets as at 31 December 2013 | Based on the net tangible asset value of RMB 1,334,000,000 of the Sale Assets as at 31 December 2013) |
| Pursuant to Equity Transfer | 331,300 | 716,300 |
| Pursuant to exercise of First Call Option | 1,206,000 | |
| Pursuant to exercise of Second Call Option | 325,900 | |
| Pursuant to exercise of Third Call Option (ie. assuming no exercise of First Call Option and Second Call Option) | | 849,700 |

For the avoidance of doubt, apart from the gain on disposal pursuant to the Equity Transfer, the other gains on disposal will be subject to the exercise of the call option(s), and may only be realised at the relevant points in time.

Question 22 : **How does the pro-rata contribution by Taixing Jurong of RMB 315 million referred to in Stage 3(a) affect the computation of the gain on disposal?**

Response : The *pro-rata* contribution by Taixing Jurong of RMB 315 million will not affect the computation of the gain on disposal, because such contribution by Taixing Jurong for Sunke's acquisition of the Line 3 Facility will in turn be offset against Sunke's payment to the Group for the Line 3 Facility.

(2) ADDENDUM TO THE ANNOUNCEMENT

Further to the Announcement, the Board wishes to announce that in furtherance of the Proposed JVA, and as a condition precedent to the ETA, Sunke and Taixing Jinyan Chemical Technology Co., Ltd ("**TXJY**") shall enter into a utilities and service agreement (the "**Utilities Agreement**").

INTERESTED PERSON TRANSACTION

As mentioned in the Announcement, Mr Sun Liping, the non-executive director of the Company, owns 100% of the equity interest in Whitefield, which in turn owns approximately 61.68% of the total issued share capital of the Company. The Company owns 100.0% of the equity interest in Jiangsu Jurong, which in turn owns 100% of the equity interest in Taixing Jurong. For the purposes of the Proposed JVA, Sunke was incorporated as a wholly-owned PRC subsidiary of Taxing Jurong.

Further to the above, as at the date of this announcement, TXJY is 70% held by Jiaying Jinyan Chemical Co., Ltd. ("**JXJY**"), which is in turn wholly-held by Jiangsu Yinyan Specialty Chemical Co., Ltd ("**JSYY**") through its nominees. Mr Sun Xiao (son of Mr Sun Liping), the executive director and chief executive officer of the Company, holds 80% of the shares of JSYY, and is thus deemed interested in the shares of JXJY and TXJY.

Accordingly, TXJY is an associate of Mr Sun Xiao and Mr Sun Liping, and is therefore an "interested person" under Chapter 9 of the Listing Manual of the SGX-ST.

DETAILS OF THE INTERESTED PERSON TRANSACTION

Under the Utilities Agreement, Sunke and TXJY shall share certain utilities/ services, including, *inter alia*:

- (i) the waste water treatment facilities and water purification and demineralization facilities of Sunke, to be supplied to TXJY at a mutually agreed price;
- (ii) the flare/ torch facilities of Sunke, with Sunke and TXJY sharing the cost equally;
- (iii) the fire-fighting facilities of TXJY, to be used by Sunke for free; and
- (iv) the access rights for the pipelines and piperacks running between the lands owned by Sunke and TXJY, to be enjoyed by both for free.

In addition, Sunke may sell its surplus steam generated from its production activities to TXJY, at a more profitable price than if sold to key third party purchasers.

The transaction terms for the utilities and services provided by Sunke to TXJY will be determined based on each party's respective *pro-rata* usage of the utilities and services, taking into account *inter alia* variable cost, fixed cost and depreciation.

For utilities and services provided by TXJY to Sunke, these would either be free of charge or the relevant terms would be discussed in good faith between the parties as and when such utilities and services are procured.

RATIONALE FOR THE INTERESTED PERSON TRANSACTION

The primary rationale for the entry into the Utilities Agreement is to enable Sunke to utilise the fire-fighting facilities of TXJY for free, so as to enable Sunke to comply with the relevant PRC legal rules and regulations for the operation of its production lines.

Further, (i) as certain of Sunke's pipelines and piperacks run through TXJY's land, Sunke will inevitably need access rights from TXJY; and (ii) given that TXJY has already invested in certain facilities which can produce compressed air, gaseous nitrogen and oxygen, Sunke may procure such services from TXJY at competitive prices.

AUDIT COMMITTEE'S STATEMENT

Having considered the terms, as well as the rationale for, the Utilities Agreement, the Audit Committee of the Company is of the view that Sunke's entry into the Utilities Agreement is on normal commercial terms, and is not prejudicial to the interests of the Company and its minority shareholders.

TOTAL VALUE OF ALL INTERESTED PERSON TRANSACTIONS

Save for the Utilities Agreement to be entered into between Sunke and TXJY, the Company has not entered into any interested person transaction with TXJY for the 9-month period ended 30 September 2013.

Details of all interested person transactions entered into by the Company for the 9-month period ended 30 September 2013 are as follows:-

| Name of Interested Person | Aggregate value of all interested person transactions during financial year under review (excluding transactions less than \$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920) (RMB'000) | Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000) (RMB'000) |
|--|--|--|
| Sales of chemical products:- - JSYY | - | 103,939 |
| Sales of chemical products:- - Jiangsu Jurong Petrochemicals Co., Ltd | - | 15,487 |
| Purchase of inventories:- - JSYY | - | 11,666 |
| Purchase of inventories:- - JXJY | - | 47,536 |

Note:-

The Company refers to the announcement released on 30 April 2013 in relation to Interested Person Transactions ("IPTs") entered into with Yixing Danson Technology Co., Ltd ("Yixing Danson"). Sales of chemical products to Yixing Danson in the 9-month period ended 30 September 2013 amounted to RMB 362.8 million. The transactions with Yixing Danson are regarded as IPTs within the meaning of the Listing Manual of the SGX-ST.

The Company is in the process of seeking ratification from its shareholders of such transactions in accordance with the requirements of Chapter 9 of the Listing Manual. As such, the Audit Committee shall be seeking advice from an Independent Financial Advisor (to be appointed) in relation to the Past Recurring IPTs and the Company will be convening the extraordinary general meeting (the "EGM") in due course to seek shareholders' ratification for the Past Recurring IPTs.

In addition, the Group anticipates that as those Past Recurring IPTs with Yixing Danson will continue in the future and thus proposes to seek shareholders' approval for a general mandate for this purpose at the EGM.

COMPLIANCE WITH THE REQUIREMENTS OF THE LISTING MANUAL

The Company will obtain shareholders' approval for the transactions contemplated under the Utilities Agreement in accordance with Listing Rule 906 in the event that the relevant financial threshold is reached.

BY ORDER OF THE BOARD

Sun Xiao
Executive Director and CEO
29 January 2014