

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

**RESPONSE TO SGX QUERIES ON THE SECOND QUARTER RESULTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2017**

All capitalised terms used herein, unless the context otherwise requires, shall bear the meanings ascribed to them in the 3Q2017 results (as defined below).

Sunvic Chemical Holdings Limited (the “Company”) has received queries from the Singapore Exchange Securities Trading Limited (the “SGX-ST”) regarding the Company’s Second Quarter Results for the financial period ended 30 September 2017 (“Q3 2017”) announced on 14 November 2017 (the “3Q2017 results”). The Company’s responses to the queries of the SGX-ST are set out below:-

1. It was noted that distribution expenses increased by RMB4.5 million or 45.8% to RMB14.3 million in Q3 2017 although revenue increased by only 4.7%. The Company disclosed on page 10 of the Q3 2017 Results Announcement that “distribution expenses increased mainly due to increase in freight rates charged by carriers”. Please explain why freight rates increased so significantly resulting in a 45.8% increase in distribution expenses.

Company’s response:

The increase in freight rates charged by carriers was mainly due to stricter transportation regulations by the PRC government on dangerous chemical products. In addition, in Q3 2017, the Group incurred additional freight charges to transport crude acrylic acid from our joint venture company in Taixing in September 2017 to our acrylate ester plants in Xiangshui for processing the crude acrylic acid into acrylate esters. This was our plan to recommence the operations at our Xiangshui plants (after the modifications) and after taking into consideration the recovery of the selling prices of acrylate esters.

2. It was noted that administrative expenses decreased by RMB9.9 million or 26.8% to RMB27.0 million in Q3 2017. The Company disclosed on page 10 of the Q3 2017 Results Announcement that the decrease in administrative expenses “was mainly due to decrease in depreciation charge as a result of lower carrying amount for property, plant and equipment after taking into consideration of impairment loss made”. Depreciation of property, plant and equipment decreased by RMB4.8 million or 13.4% to RMB31.0 million in Q3 2017. Please provide the explanation for the remaining decrease in the administrative expenses of RMB5.1 million.

Company’s response:

The remaining decrease in the administrative expenses was mainly due to a decrease in manpower costs by RMB3.2 million compared to Q3 2016 and our efforts to streamline our operations.

3. It was noted that finance expenses increased by RMB3.4 million or 19.0% to RMB21.2 million in Q3 2017. The Company disclosed on page 10 of the Q3 2017 Results Announcement that the increase in finance expenses “was mainly due to factoring of notes receivables in Q3 2017”. It was further noted in the Statement of Financial Position that trade and other receivables remained significant at RMB1.0 billion.
 - a. Please elaborate why trade and other receivables increased by 4.9% despite the factoring of the notes receivables when revenue increased by only 4.7%.
 - b. Please disclose if there is recourse term imposed by the financial institution in the factoring of notes receivables back to the Company in the event of default. If so, please explain why interest-bearing liabilities (current) decreased by 20% to RMB765.0 million despite the increase in the factoring of notes receivables with recourse term.

Company’s response:

- a. The main reason for the increase in trade and other receivables was due to the increase in trade receivables from related parties.

The balances on trade receivables from third parties and notes receivables amounted to RMB172.2 million in total as at 30 September 2017 compared to RMB266.0 million as at 31 December 2016.

- b. The notes receivables received from customers were issued by financial institutions in the PRC with minimum default risk.

Part of the proceeds from factoring of the notes receivables was used to pay down our current bank borrowings which were due.

- 4. It was noted on page 11 of the Q3 2017 Results Announcement that notes receivables amounted to RMB90.5 million as at 30 September 2017. Please disclose:

- a. The identities of the debtors in relation to the notes receivables;
- b. The nature and terms of the underlying transactions; and
- c. The reasons for the increase in notes receivables by RMB25.1 million to RMB90.5 million as at 30 September 2017.

Company's response:

- a. The Group has more than 100 customers (including third parties and related parties) who pay using notes receivables.
- b. The Group would accept notes receivables as a form of payment on sale of products to the customers. This depends on the pricing, credit standing of the customers and size of the transactions.
- c. The Management monitored the balances on trade receivables and notes receivables as a whole. Despite the increase in notes receivables, the balances of trade receivables from third parties and notes receivables in total decreased from RMB266.0 million as at 31 December 2016 to RMB172.2 million as at 30 September 2017.

5. It was disclosed on page 12 of the Q3 2017 Results Announcement that “the members of the Audit Committee actively engage with the controlling shareholder of the Company to provide certain undertakings in relation to all of the related parties’ (except for Arkema’s) debts and guarantees provided by our Group in their favour”. Please disclose the details on the undertakings received from the controlling shareholder to-date, the identity of the controlling shareholder and the credit risk exposure of the Group before and after these undertakings effected.

Company’s response:

The controlling shareholder referred to the “Sun Family” which consist of Mr Sun Xiao and his mother Mdm Hu Yanping. The Sun Family is the ultimate major shareholder of the Company as well as the ultimate controlling shareholders of all the related parties.

The Audit Committee is currently engaging and negotiating with the Sun Family to provide undertakings to the Group in order to mitigate the credit risk exposure on trade receivables due from all related parties. This process is still in progress at the moment.

6. It was disclosed on page 12 of the Q3 2017 Results Announcement that pledged deposits increased by RMB45.8 million to RMB111.5 million “was mainly due to deposits pledged for issuance of notes payables in 2017”. Please provide details and terms of these notes payables.

Company’s response:

The issuance of notes payables required certain portion of deposits placed with the banks which issued the notes payables as part of the terms and conditions with the banks. These notes payables were normally issued to pay our creditors and they have expiry dates ranging from 3 to 12 months.

7. There was a corporate guarantee from the Group in favour of Jiaxing Jinyan, an interested person, of RMB65.0 million disclosed in the Company’s annual report for FY2016 but not disclosed under paragraph 13 of the Q3 2017 Results Announcement. Please disclose the status of this corporate guarantee.

Company’s response:

The corporate guarantee from the Group in favour of Jiaxing Jinyan of RMB65.0 million as at 31 December 2016 expired gradually in 2017. As at 30 September 2017, the Group does not provide any corporate guarantee to Jiaxing Jinyan.

8. It was noted that the aggregate value of all interested person transactions ("IPT") (excluding transactions less than S\$100,000, transactions conducted under shareholders mandate pursuant to Rule 920 and corporate guarantees) during the financial period under review amounted to RMB612,060,000 or 70.5% of the Group's latest audited net tangible assets. While we note the Company is in the process of preparing a circular to seek shareholders' ratification for past IPT and a shareholders' mandate for any ongoing IPT ("IPT Circular"), the Company is still required to comply with Rule 905 of the Listing Manual in making an announcement of the relevant interested person transactions with specific disclosures required under Rule 917 of the Listing Manual.
- Please disclose the relevant details on all IPT (excluding transactions less than S\$100,000, transactions conducted under shareholders mandate pursuant to Rule 920 and corporate guarantees) during the financial period under review as required under Rule 917 of the Listing Manual.
 - Please elaborate on the reasons for the delay in issuing the IPT Circular since 2015.

Company's response:

- The relevant details on all IPT (excluding transactions less than S\$100,000, transactions conducted under shareholders mandate pursuant to Rule 920 and corporate guarantees) during the financial period under review as required under Rule 917 of the Listing Manual are as follows:

Interested Person	Nature of Interested Person Transaction ("IPT")	Value of IPT for the period as at 30 September 2017	Terms of IPT	Rationale for IPT
Yixing Danson Technology Co., Ltd ("Yixing Danson")	- Sale of crude AA	- RMB181.9 million	Normal commercial terms	Sales of the Group's end products to downstream customer
	- Purchase of residual crude AA and finished goods	- RMB80.3 million	Normal commercial terms	Purchase residual crude AA to recycle and reprocess to the Group's end products as well as purchase finished goods to on-sell to the Group's customers

Interested Person	Nature of Interested Person Transaction ("IPT")	Value of IPT for the period as at 30 September 2017	Terms of IPT	Rationale for IPT
Taixing Jinyan Chemical Technology Co., Ltd ("Taixing Jinyan")	- Supply of chemical raw materials	- RMB278.2 million	Normal commercial terms	Centralised purchasing to achieve economic of scale and hence savings in material cost, trade terms and logistic
	- Purchase of chemical products	- RMB6.5 million	Normal commercial terms	On-sell to the Group's customers for products not produced by the Group
Jiangsu Jurong Petrochemicals Co., Ltd ("Jiangsu Jurong")	- Sales of chemical products	- RMB8.8 million	Normal commercial terms	Sales of the Group's end products to downstream customer
Jiaying Jinyan Chemical Co., Ltd ("Jiaying Jinyan")	- Purchase of chemical products	- RMB16.8 million	Normal commercial terms	On-sell to the Group's customers for products not produced by the Group
Jiangsu Yinyan Specialty Chemical Co., Ltd ("Jiangsu Yinyan")	- Sales of chemical products	- RMB30.4 million	Normal commercial terms	Sales of the Group's end products to distributor
	- Purchase of chemical products	- RMB9.3 million	Normal commercial terms	On-sell to the Group's customers for products not produced by the Group

- b. The delay from 2015 is due to the fact that the IPTs relate primarily to cross guarantees relating to working capital and as such is continuing in nature, and susceptible to changes in view of the fluid nature of the Group's business requirements. Accordingly, the Audit Committee has engaged and is working closely with the Management to discuss and finalise the list of IPTs and their respective values historically and on an on-going basis in order to provide sufficient details to shareholders so that the shareholders can make an informed decision during the EGM to be convened in due course to approve the IPTs.

BY ORDER OF THE BOARD

Sun Xiao
Executive Director and Chief Executive Officer
1 December 2017