

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

**RESPONSE TO SGX QUERIES ON THE FULL YEAR FINANCIAL RESULTS FOR
FINANCIAL YEAR ENDED 31 DECEMBER 2014**

Sunvic Chemical Holdings Limited (the “**Company**”) has received queries from the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) regarding the Full Year Financial Results for financial year ended 31 December 2014 (“**FY2014**”) announced on 1 March 2015. The Company’s responses to the queries of SGX-ST are set out below:-

1. **In FY2014, administrative expenses increased by RMB51.4 million to RMB180.4 million compared to RMB129.0 million in FY2013.**

- (i) **Please provide a breakdown of the expenses and more details on the material expenses.**
- (ii) **Please provide an explanation for the significant increase despite a decrease of 21.5% in the revenue for the year.**

Company’s response:

Please see Appendix A enclosed for details.

2. **In paragraph 8 of the Announcement, the Company disclosed that “In FY2014, other operating income increased by RMB1,018.5 million to RMB1,060.7 million compared to RMB42.2 million in FY2013. This was mainly due to one-off gain from partial disposal of a subsidiary amounted to RMB843.3 million relating to the joint venture with Arkema Asie SAS (“Arkema”).”**

It is noted that as announced on 13 November 2014, the net gain after taxes on partial disposal relating to the joint venture with Arkema is RMB762.6 million. Please reconcile the difference and provide the basis for deriving the gain on sale.

Company’s response:

As announced on 21 October 2014, the estimated net gain before taxes of RMB1,016.8 million (RMB762.6 million plus estimated taxes of RMB254.2 million). This amount was derived from the disposal of 55% of the joint venture entity based on the terms and conditions of the joint venture with Arkema at the time of hand-over of the joint venture entity in October 2014.

Subsequently, on 17 February 2015, we announced that there were some amendments to the original terms and conditions of the joint venture with Arkema. One of the changes is in relation to the composition of the Board of Directors at the joint venture entity level, which resulted in a different treatment of the disposal under FRS 110 Consolidated Financial Statements, FRS 11 Joint Arrangements and FRS 12 Disclosure of Interests in Other Entities. This caused the difference in earlier gain before taxes reported of RMB1,016.8 million to the RMB843.3 million stated in our FY2014 results announcement.

3. It is noted that the allowance for write down of inventories for the quarter ended 31 December 2014 is RMB 32.9 million. Please explain the reason for the write down and the type of inventories that contributed to it. Please also disclose how the value of the write down was determined.

Company's response:

The allowance for write down of inventories was related to our products, such as AA and AE as well as raw materials, propylene. This was due to the prices of AA and AE as well as propylene were on a downward trend since last quarter of 2014 and continuing until February 2015.

The amount of the write down was based on actual purchase prices and market prices in 2015.

4. In paragraph 8 of the Announcement, the Company disclosed that "written off of property, plant and equipment (RMB23.0 million) as a results of an fire accident at our AE plant in June 2014"

- (i) Please explain why is this written off only in 4Q2014 when the accident took place in June 2014.
- (ii) Please disclose the status of the plant and whether it is still operating after the accident.
- (iii) It is noted from the announcement on 1 July that "The total estimated cost to replace the affected equipment is not significant and it will take several months to recommence full production activities at the AE production plant." Please explain then why the amount written off is of such a significant amount.

Company's response:

The amount of PPE written down of RMB23.0 million only accounts for 1% of our latest audited NTA.

We have repaired the affected AE production plants in Yancheng City towards the end of 2014, and the AE production plants have re-commenced production since then.

We have filed an insurance claim with our insurance company and the insurance company is currently finalising its assessment. As the insurance claim has not been finalised as at 31 December 2014, on prudence ground, we have taken the full amount of repair to profit and loss account in 2014. Any claim amount that we receive subsequently will be recorded as other operating income.

5. In paragraph 8 of the Announcement, the Company disclosed that "impairment of property, plant and equipment (RMB573.0 million) pertaining to the cracking plant".

- (i) Please disclose what is the original value of the cracking plant and why is there such a significant impairment on the plant.
- (ii) Please explain whether the plant is still producing and if so, to provide details on the size of the productions.
- (iii) Please confirm if the impairment is due to the cracking plant only.

Company's response:

Please refer to our earlier announcement dated 19 June 2013 for more details on our proposed modification and conversion of our cracking plant (the “**Cracking Plant**”) to produce a new product, MTBE. The modification and conversion of the Cracking Plant has not been completed, and it is currently not in production.

The cost of the Cracking Plant as at 31 December 2014 amounted to RMB953.8 million, before deducting impairment loss of RMB573.0 million. The impairment loss amount was derived based on a valuation carried out by an independent plant and machinery valuer using depreciated replacement cost approach.

The impairment loss of RMB573.0 million on PPE is in relation to the Cracking Plant.

6. **In paragraph 8 of the Announcement, the Company disclosed that “Property, plant and equipment decreased by RMB1,284.0 million to RMB1,658.2 million as at 31 December 2014 compared to RMB2,942.2 million as at 31 December 2013. This was mainly due to partial disposal of a subsidiary to Arkema in October 2014 as well as depreciation charge in FY2014.”**

Please quantify the effect of the partial disposal of a subsidiary to Arkema and explain if there are any other reasons contributing to the significant decrease.

Company's response:

The net carrying amount of the PPE which were included in the joint venture entity as at the date of hand-over in October 2014 amounted to approximately RMB1.2 billion. This amount of PPE was disposed and therefore deducted from the amount of PPE as at 31 December 2014.

Another factor that contributing to the decrease in PPE is the reclassification of Line 3 AA production plant amounting to RMB694.0 million to current assets as this is to be injected into the joint venture entity in 2015.

7. **In paragraph 8 of the Announcement, the Company disclosed that “Non-current assets held for sale of RMB705.1 million related to (i) Line 3 AA production plant to be injected into joint venture entity in early 2015 according to the agreement with Arkema; and (ii) a piece of land in the USA which is putting for sale.**

Please provide details and terms of the piece of land being put for sale.

Company's response:

In September 2011, we bought a piece of land in Louisiana for US\$1.8 million containing about 45 acres with an intention to build a glacial acrylic acid processing plant. However, this plan has been suspended due to complexity of approval from local authorities.

In November 2014, we have engaged a real estate agent to assist us to dispose this piece of land for at least US\$1.8 million.

8. **In paragraph 8 of the Announcement, the Company disclosed that “Trade and other payables increased by RMB146.0 million to RMB1,558.3 million as at 31 December 2014 compared to RMB1,412.3 million as at 31 December 2013.”**

- (i) **Please explain the reason for the increase as it is noted that revenue has decreased for the year.**
- (ii) **Please provide a breakdown by types of products that contributed to the increase in the balance.**

Company's response:

The increase in trade and other payables was related to cost of sales as well as expenses incurred.

As at 31 December 2014, trade and other payables include payables relating to purchase of propylene which we sold to the joint venture entity. The sale of propylene and the cost relating to this were captured under other operating income and other operating expenses.

Sale of propylene to the joint venture entity only started in last quarter of 2014 and this amounted to RMB305.1 million.

9. **In paragraph 8 of the Announcement, the Company disclosed that “Revenue in FY2014 decreased by RMB1.4 billion to RMB5.0 billion compared to RMB6.3 billion in FY2013. This was mainly due to a decrease in revenue from sale of acrylic acid (“AA”) & acrylate esters (“AE”) and PMIDA & glyphosate by RMB1.5 billion and RMB205.2 million respectively.”**

Please elaborate on the significant factors that affect the turnover, in particular, seasonal or cyclical factors where applicable.

Company's response:

As explained in our FY2014 results announcement, revenue from sale of AA and AE decreased by RMB1.5 billion due to (i) lower sale volume (from 512,200 tonnes in FY2013 to 440,400 tonnes in FY2014); and (ii) lower average selling prices (from RMB11,900 per tonne in FY2013 to RMB10,400 per tonne in FY2014). All of these are due to the over-supply situation in the PRC since the beginning of 2014.

Revenue from sale of PMIDA and glyphosate decreased by RMB205.2 million due to (i) lower sale volume (from 13,500 tonnes in FY2013 to 9,900 tonnes in FY2014); and (ii) lower average selling prices (from RMB35,000 per tonne in FY2013 to RMB30,000 per tonne in FY2014). These decreases are due to weak market demands in North and South America where majority of our customers are located.

10. **In Paragraph 10 of 3Q2014 Results, the Company disclosed that “We have re-commenced production of 2 units out of 4 units of AA plants in Yancheng City recently. The remaining 2 units and the AE plant are targeted to re-commence production in December 2014.”**

Please disclose the update on the status of the re-commencement of the production.

Company's response:

In order to maintain competitiveness and efficiency, our 4 units of AA plants in Yancheng City were shut down progressively to undergo major maintenance and improvement works since third quarter of 2013. These works were entirely completed in third quarter of 2014.

The 4 units of AA plants in Yancheng City can be operated independently depending on the market conditions. We decided only to operate 2 units out of the 4 units of AA plants in second half of 2014 as we also have another 3 units of larger AA plants in Taixing City.

11. In paragraph 17 of the Announcement, the Company disclosed that the aggregate value of sales of chemical products to Jiangsu Yinyan Specialty Chemical Co., Ltd is RMB 86.24 million, which is more than 3% of the latest audited NTA. Please disclose more information as required under Listing Rule 917.

Company's response:

Jiangsu Yinyan Specialty Chemical Co., Ltd. ("Jiangsu Yinyan") is a company incorporated in the PRC, and is principally engaged in (i) the sale and production of chemical raw materials and chemical products; and (ii) import and export of goods and technology.

Ms. Hu Yanping, Mr. Sun Xiao (the Chief Executive Officer of the Company) and their associates own in aggregate 94% of the equity interest in Jiangsu Yinyan. Mr. Sun Xiao is the son of Ms. Hu Yanping. Therefore, Jiangsu Yinyan is deemed to be an "interested person" under Chapter 9 of the Listing Manual.

Sales of our products, AA and AE, to Jiangsu Yinyan are covered under the general mandate for Interested Persons Transactions which was approved by shareholders in the annual general meeting on 30 April 2014.

BY ORDER OF THE BOARD

Sun Xiao
Executive Director and CEO
8 April 2015

SunVic Chemical Holdings Limited
Administrative expenses

Appendix A

	FY2014 RMB'000	FY2013 RMB'000	Remarks
Staff costs	42,262	31,539	<i>Note 1</i>
Depreciation of PPE	29,221	8,556	<i>Note 2</i>
Maintenance	3,386	5,923	
Office expenses	2,119	2,975	
Traveling expenses	4,659	4,253	
Business development expenses	6,215	5,287	
Stamp duty	4,014	2,294	<i>Note 3</i>
Waste treatment	7,097	7,953	
Testing fee	3,883	3,020	
Insurance	6,501	2,655	<i>Note 4</i>
Amortisation	2,039	2,003	
Rental	1,459	733	
Professional fees	10,215	2,346	<i>Note 5</i>
Bank charges	8,663	7,478	
Exchange loss, net	19,621	4,579	<i>Note 6</i>
Other miscellaneous expenses	29,006	37,406	
Total	180,363	129,001	

Note 1:

Increase mainly due to higher salary paid for staff at the joint venture entity and medical expenses paid for late Mr Sun Liping amounted to RMB3.9 million.

Note 2:

Increase mainly due to depreciation charge amounting to RMB13.6 million for assets during the time when those assets were undergoing maintenance and improvement works.

Note 3:

Increase mainly due to stamp duty relating to Arkema joint venture.

Note 4:

Increase mainly due to the fire incident happened in June 2014.

Note 5:

Increase mainly due to professional fees incurred for (i) valuation of cracking plant; (ii) enterprise risk assessment and control self assessment; and (iii) Arkema joint venture.

Note 6:

Increase due to appreciation of RMB against USD.