

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

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**RESPONSE TO SGX QUERIES ON THE SECOND QUARTER RESULTS  
ENDED 30 JUNE 2015**

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Sunvic Chemical Holdings Limited (the "Company") has received queries from the Singapore Exchange Securities Trading Limited (the "SGX-ST") regarding the Second Quarter Results for the financial period ended 30 June 2015 ("Q2 2015") announced on 14 August 2015 (the "Q2 2015 Announcement"). The Company's responses to the queries of SGX-ST are set out below:-

1. Please provide a breakdown of "other operating expenses" of RMB 187.155 million in the Company's 2Q2015 Results and disclose the reasons for the material items.

***Company's response:***

Please refer to Paragraph 8 on Page 10 of our Q2 2015 Announcement, where we have disclosed under the header of "Other operating income and other operating expenses" as follows:

*"Revenue from sale of propylene and other chemical material to joint venture entity amounted to RMB197.1 million and **the corresponding cost amounted to RMB186.1 million**. These two amounts were stated after elimination according to joint operations accounting treatment"*

The amount of RMB186.1 million highlighted above was included in the other operating expenses.

2. The Company recognised a “Tax rebate” of RMB 90 million in the income statement. As this amount is significant in relation to the Company’s reported pre-tax profit of RMB17.4 million, please explain the nature of the significant tax rebate and disclose when the Company expects to receive the tax rebate of RMB 90 million.

***Company’s response:***

The tax rebate was awarded to us as an incentive due to our payments of various taxes, such as value added tax and income tax, which we paid as a result of the joint venture with Arkema. We have already received the RMB90.0 million tax rebate in Q2 2015.

3. Trade and other receivables increased by RMB954.3 million to RMB2,609.4 million as at 30 June 2015 from RMB1,655.1 million as at 31 December 2014. In paragraph 8 of the 2Q2015 Results, the Company disclosed that “This was mainly due to increase in Value Added Tax receivable (relating to purchase of materials and property, plant & equipment under the joint venture entity) and increase in receivables from related companies as well as the joint venture entity due to higher sales to them in Q2 2015.”
  - (i) Please provide a breakdown of the items under “Trade and other receivables”;
  - (ii) On the receivables from related companies, please disclose who these related companies are and whether they are interested persons under Chapter 9 of the listing manual. Please disclose the collectability of these receivables; and
  - (iii) On the receivables from the joint venture entity, please quantify the amounts due and disclose the collectability of these receivables.

**Company's response:**

3(i) Breakdown of trade and other receivables is as follows:-

|                                | As at 30<br>June 2015<br>RMB'000 | As at 31<br>December 2014<br>RMB'000 |
|--------------------------------|----------------------------------|--------------------------------------|
| Trade receivables:             |                                  |                                      |
| - 3 <sup>rd</sup> parties      | 797,086                          | 286,741                              |
| - Joint operation              | 92,798                           | 136,533                              |
| - Related parties              | 393,016                          | 328,881                              |
| Notes receivables              | 406,186                          | 231,413                              |
| Value added tax<br>recoverable | 351,862                          | 189,141                              |
| Other receivables              | 39,187                           | 72,971                               |
| Advances to suppliers          | 528,286                          | 408,455                              |
| Derivative assets              | 944                              | 944                                  |
|                                | <hr/> 2,609,365 <hr/>            | <hr/> 1,655,079 <hr/>                |

3(ii) The related companies are Jiangsu Yinyan Specialty Chemical Co., Ltd, Jiaying Jinyan Chemical Co., Ltd, Yixing Danson Technology Co., Ltd and Taixing Jinyan Chemical Technology Co., Ltd. These companies are treated as interested persons under Chapter 9 of the listing manual.

The Management believes that no impairment on the receivables from these related companies is necessary as we monitor their financial performance and the amount of repayments closely, to ensure the collectability of these receivables.

3(iii) The trade amount due from the joint venture entity, Sunke, amounted to RMB92.8 million as at 30 June 2015.

The Management believes that no impairment on the receivables from Sunke is necessary as we monitor its financial performance and the amount of repayments closely, to ensure the collectability of these receivables.

4. Trade and other payables increased by RMB464.3 million to RMB2,022.6 million as at 30 June 2015 compared to RMB1,558.3 million as at 31 December 2014. In paragraph 8 of the Announcement, the Company disclosed that “This was mainly due to higher trade and notes payables for purchase of propylene for our own production needs as well as sale to joint venture entity.”
- (i) Please disclose the total purchase made on behalf of the joint venture entity during the 6-months ended 30 June 2015 and the amounts that had been paid on behalf of the joint venture entity. Please also disclose when the repayments will be received by the Company from the joint venture entity for these purchases.
- (ii) Please provide a breakdown of trade and other payables as at 30 June 2015 and for the comparative period ended 31 December 2014 and to provide a discussion on factors that affected the material items.

***Company’s response:***

- 4(i) Total purchases of propylene and other chemical raw materials made on behalf of the joint venture entity, Sunke, in 1H 2015 amounted to RMB547.0 million of which we sold to Sunke for RMB562.4 million. Total receipts from Sunke, in respect of the sale of propylene and other chemical raw materials, in the same period amounted to RMB667.3 million. These amounts were stated before the elimination in accordance with “joint operations” accounting method.

- 4(ii) Breakdown of trade and other receivables is as follows:-

|                            | As at 30<br>June 2015<br>RMB’000 | As at 31<br>December 2014<br>RMB’000 |
|----------------------------|----------------------------------|--------------------------------------|
| Trade payables:            |                                  |                                      |
| - 3 <sup>rd</sup> parties  | 1,744,918                        | 788,215                              |
| - Related parties          | 2,280                            | 9,693                                |
| Notes payables             | 184,848                          | 672,011                              |
| Accrued operating expenses | 38,372                           | 29,059                               |
| Other payables             | 52,174                           | 59,326                               |
|                            | <hr/> 2,022,592 <hr/>            | <hr/> 1,588,304 <hr/>                |

Depending on our cash flows and the availability of our credit facilities, we may decide to account for the purchase of propylene under trade payables, or to convert them into trust receipts of which the banks will pay on our behalf when the trade payables are due and this will be accounted for under bank borrowings. 3<sup>rd</sup> party trade payables and notes payables increased as at 30 June 2015 as we do not want to draw down on bank borrowings in order to reduce finance costs.

5. It was disclosed that “Revenue from sale of propylene and other chemical material to joint venture entity amounted to RMB197.1 million and the corresponding cost amounted to RMB186.1 million.”

In the Company’s announcements on 14 May 2015 and 20 July 2015, it is noted that inventories as at 31 March 2015 increased by RMB 255.7 million due to an increase in raw material, propylene, which will be sold to the joint venture entity” and that “the propylene inventory as at 31 March 2015 which we bought on behalf of Sunke was subsequently sold to Sunke in April 2015.” Please reconcile the difference between the reference to the sale of inventory in April 2015 of RMB 255.7 million and the revenue recognised in Q2 2015 of RMB 197.1 million.

***Company’s response:***

As mentioned in our Q4 2014 results announcement dated 1 March 2015, the Group’s 45% ownership in Sunke is consolidated under the “joint operations” accounting standards. This required us to eliminate 45% of the transactions with Sunke at consolidation level.

The actual total sale of propylene and other chemical raw materials to Sunke in Q2 2015 amounted to RMB358.3 million. However, due to the application of “joint operations” accounting method mentioned above, 45% of this amount was eliminated, hence resulting in an amount of RMB197.1 million which was included in Q2 2015. This has already been highlighted in our Q2 2015 results announcement.

The actual sale of propylene and other chemical raw materials to Sunke in Q2 2015 (RMB358.3 million) was greater than the amount relating to the increase in inventories of RMB255.7 million mentioned above.

6. In paragraph 8 of the Announcement, the Company disclosed that “There was a net cash outflow of RMB26.9 million in Q2 2015 from the Group’s investing activities mainly due to acquisitions of property, plant and equipment as well as land use rights, which was partially offset by interest received.”
- (i) Please elaborate on the reasons for the acquisitions of property, plant and equipment noting that revenue has decreased by 51.7% to RMB 690.122 million and the Company has incurred negative gross margins.
  - (ii) Please provide details of the land use rights acquired, terms of acquisition and the status of the acquisition.

***Company’s response:***

- 6(i) The additions of property, plant and equipment were mainly related to capital expenditures incurred for (1) Line 3 AA plant (which was subsequently injected into Sunke in July 2015); (2) MTBE plant modifications; and (3) acquisition of staff accommodation. We also capitalised those expenditures relating to production plants which will lead to future economic benefits.
- 6(ii) There was no acquisition of land use rights in 1H 2015. We are merely grouping this item together with property, plant and equipment for presentation purposes.

**BY ORDER OF THE BOARD**

**Sun Xiao**  
**Executive Director and Chief Executive Officer**  
**25 August 2015**