

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

**ANNOUNCEMENT PURSUANT TO RULE 704(5) OF LISTING MANUAL IN RESPECT
OF DISCLAIMER OF OPINION BY INDEPENDENT AUDITOR ON FINANCIAL
STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

Pursuant to Rule 704(5) of the Listing Manual, the Board of Directors (the “**Board**”) of Sunvic Chemical Holdings Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) wishes to announce that the Company’s independent auditor, Foo Kon Tan LLP, has issued a disclaimer of opinion in their report dated 19 March 2020 (the “**Independent Auditor’s Report**”) on the financial statements of the Group for the financial year ended 31 December 2018 (the “**Audited FY2018 Financial Statements**”).

A copy of the Independent Auditor’s Report is annexed to this announcement.

The Independent Auditor’s Report and the Audited FY2018 Financial Statements will be included in the Company’s annual report for the financial year ended 31 December 2018 (the “**FY2018 Annual Report**”) which will be released in due course. Shareholders of the Company are advised to read the Independent Auditor’s Report in conjunction with the Audited FY2018 Financial Statements in the FY2018 Annual Report.

BY ORDER OF THE BOARD

Sun, Lihua
Executive Director and Chief Executive Officer
20 March 2020

Independent auditor's report to the members of SunVic Chemical Holdings Limited

Report on the Audit of the financial statements

We were engaged to audit the financial statements of SunVic Chemical Holdings Limited (the “Company”) and its subsidiaries (collectively the “Group”), which comprise the statements of financial position of the Group and the Company as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Disclaimer of Opinion

We do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1. Discrepancies surrounding the veracity of the YFC Agreements

As detailed in Note 27 to the financial statements, the Company announced that it received legal claims for the principal amounts of RMB 222.5 million (consisting of two financial guarantee contracts of RMB 180 million (the “YFC Corporate Guarantee” transaction) and RMB 42.5 million (the “BOC Corporate Guarantee”) transaction) plus interest for financial guarantees issued by certain of its subsidiaries in the People's Republic of China (“PRC”) on behalf of two unrelated parties.

The Company also announced that the management did not obtain the Company's Board of directors' approval for the issuance of the financial guarantees. There was a lack of internal controls over the supervision and approval over the issuance of these financial guarantee transactions by the management as the legal representatives of Yixing Yinyan Import and Export Co., Ltd. (“YYIE”) and Jurong Jiangsu Chemical Co., Ltd (“JJC”) had signed the financial guarantee contracts at their own initiative without any formal authorisation and approval by the Board of Directors of the Company.

The Audit Committee made a statement in the Company's announcement dated 10 July 2019 raising questions over the authenticity, validity and/or effectiveness of the YFC Supplemental Agreement dated 13 June 2019, when it became aware that the borrower, Jiangsu Donglai, was under liquidation proceedings since 21 March 2019 through a notification issued by the People's Court of Yixing City, Jiangsu Province on 10 April 2019.

Independent auditor's report to the members of SunVic Chemical Holdings Limited (Cont'd)

Basis for Disclaimer of Opinion (Cont'd)

1. Discrepancies surrounding the veracity of the YFC Agreements (Cont'd)

Based on the confirmations obtained by our PRC legal counsel, there was no financial guarantee contract entered into or any loans and borrowings owed by Jiangsu Donglai in respect of the RMB 180 million financial guarantee contract between YYIE, Yixing Futao Credit and Jiangsu Donglai. Neither was there any legal demand made in respect of this financial guarantee contract.

We were denied access by the management to interview Yixing Futao Credit and the borrower, Jiangsu Donglai. Neither were we allowed access to interview the Bank of China, Xiangshui branch, and the borrower, Jiangsu Dahe. The management has advised us that these parties do not wish to be interviewed and hence they were unable to arrange for the necessary interviews. Neither were we able to interview the government officer. We were also not provided with the loan agreements and related loan disbursements documentation in respect of the YFC Corporate Guarantee and the BOC Corporate Guarantee as the management claimed that they do not have them.

As detailed in Note 27, the Company has announced on 7 November 2019 that EY Advisory has, on 6 November 2019, submitted the full report on its findings to the Singapore Exchange Securities Trading Limited and the Audit Committee of the Company, and the key findings amongst others were discrepancies surrounding the veracity of the YFC Agreements.

On 5 March 2020, the Company has announced that following the completion of the special audit by EY Advisory and in view of the discrepancies surrounding the veracity of the YFC Agreements (refer to Note 27(b)), the Company has reversed in full the provision of the YFC Contingent Liabilities of RMB 180 million from the financial statements of the Group as at 31 December 2018. On this basis, the Board of the Company has regarded the YFC financial guarantee transaction as non-existent and baseless and there should not have any legal consequences to this effect.

Arising from these matters as referred to herein, due to a limitation of audit scope, we were unable to ascertain the veracity of the YFC Corporate Guarantee and the BOC Corporate Guarantee transactions.

2. Financial guarantee contracts with related parties recorded with the banks under the banking arrangements

(i) Related party transactions with related parties

As reported in the FY 2017 auditor's report on related party transactions, it was disclosed that there were no shareholders' mandate to approve the interested persons transactions under the Listing Manual of the SGX-ST Chapter 9.

Independent auditor's report to the members of SunVic Chemical Holdings Limited (Cont'd)

Basis for Disclaimer of Opinion (Cont'd)

2. Financial guarantee contracts with related parties recorded with the banks under the banking arrangements (Cont'd)

(i) Related party transactions with related parties (Cont'd)

As detailed in Note 25(b), during the financial year, there were sales and purchases transactions noted in the respective books of certain PRC subsidiaries of the Group with related parties (the "Transactions"). The Transactions made to related parties during the year ended 31 December 2018 were RMB 2.7 billion (2017: RMB 1.3 billion). Such Transactions entered are a common practice carried out in the PRC. The Management presented these transactions on a net basis for financial reporting purpose in the consolidated financial statements.

(ii) Banking

The liability owed to banks was RMB 471.4 million (2017 - RMB 936.5 million) as at 31 December 2018 for which the amount loaned to a PRC subsidiary, YYIE, was RMB 181.5 million (2017 - RMB 226.1 million). YYIE recorded external revenues of RMB 475.2 million (2017 - RMB 523.5 million) for the year ended 31 December 2018. As disclosed in Note 25(b), the bank facilities sum as at 31 December 2018 was RMB 922.9 million (2017: RMB 1.1 billion) as reported under the facility arrangements in the PRC entered into during the year ended 31 December 2018.

Since 2011, there existed the related party arrangements. In so far as the sum drawn down under the financial guarantee facility arrangement with related parties, the amount of financial guarantees was RMB 920.2 million and RMB 1.4 billion in FY2017 and FY2018 respectively although the Company did not obtain shareholders' mandate to approve the related party transactions, since 2011.

There were announcements made by the Company in 2019 whereby it was reported that there is a lack of effective internal control for the transactions purported to be entered into (known as the "Purported Transactions") which were not approved by the Board of the Company. This is despite that the fact the transaction as explained in Section 1 of the Basis for Disclaimer of Opinion of opinion section - "Discrepancies surrounding the veracity of the YFC Agreements" was known to then Executive Director and Chief Executive Officer, Sun Xiao.

Because of the matters arising as explained in the aforesaid paragraphs, we were unable to ascertain the veracity of the financial guarantees of RMB 1.61 billion (2017 - RMB 1.45 billion) that were entered amongst the related parties concerned. Coupled with the lack of effective internal controls over the supervision and approval of the financial guarantee contracts, we were also unable to ascertain the extent of the amount of any financial liabilities which may arise thereof nor the completeness of the disclosure in the financial statements relating to financial guarantees issued by the Group.

Independent auditor's report to the members of SunVic Chemical Holdings Limited (Cont'd)

Basis for Disclaimer of Opinion (Cont'd)

3. Provision for restoration

As detailed in Note 23 to the financial statements, the Group recorded a provision for restoration amounting to RMB 45.6 million (2017 - Nil) as at 31 December 2018. The restoration occurs only when the Group returns the land use rights to the government on expiry. However, we have been unable to assess whether the provision is adequate or necessary. This is because based on legal advice of our PRC legal counsel, there is a lack of regulatory compliance of administration of law in the PRC to provide guidance as to how compensation can be made possible for the restoration and it is not considered to be the usual return of land in the Xiangshui Chemical Industry Park in Yancheng city, Jiangsu Province, PRC, (the "Xiangshui Chemical Industry Park") to the government arising from the chemical explosion incident ("Chemical Explosion"), and the legal consequences arising thereof cannot be ascertained. Due to a limitation of audit scope beyond the control of the management, we were unable to determine the extent of the provision required for the restoration.

4. Accrued severance compensation

As disclosed in Note 22 to the financial statements, the Group has accrued a severance compensation of RMB 12.7 million (2017- Nil) related to compensation payable to the staffs due to the outbreak of fire from the Chemical Explosion at the Xiangshui Chemical Industry Park in which one of the subsidiary premises is located in. Due to the Chemical Explosion, the government has stepped in to review the employee compensation. As of the date of this report, we were not provided with any evidence to demonstrate how the employee compensation was subsequently dealt with. Due to the limitation of audit scope which is beyond the control of the management, we were not able to obtain sufficient appropriate audit evidence on the extent of the severance compensation that is due and payable.

5. Impairment of assets of Jiangsu Jurong Chemical Co., Ltd. and Jurong Petrochemicals Co., Ltd.

In so far as impairment of non-financial assets including intangible assets is concerned for two PRC subsidiaries of the Group, Jiangsu Jurong Chemical Co., Ltd. ("JJC") and Jurong Petrochemicals Co., Ltd. ("JJP"), which are located at the Xiangshui Chemical Industry Park where the Chemical Explosion occurred, the basis to which the recoverable amount should be recognised is the higher of value in use and/or fair value less cost to sell.

In the former, the value in use is not possible to be determined due to the matters as explained in Sections 3 and 4 of the Basis for Disclaimer of opinion section above and in Note 28 to the accompanying financial statements. As to the latter, the impairment assessment of the non-financial assets and intangible assets is also not possible as there is no comparison in the market for the nature of this catastrophic Chemical Explosion at the Xiangshui Chemical Industry Park. In addition, due to limited access to the assets located at Xiangshui Chemical Industry Park which is sealed off and protected by the government authorities, it is not possible to perform an inspection of certain assets of JJC and JJP.

Independent auditor's report to the members of SunVic Chemical Holdings Limited (Cont'd)

Basis for Disclaimer of Opinion (Cont'd)

5. Impairment of assets of Jiangsu Jurong Chemical Co., Ltd. and Jurong Petrochemicals Co., Ltd. (Cont'd)

With regard to other assets such as advances and prepayments and value-added tax recoverable that are recorded in the books of JJC and JJP as at 31 December 2018, it is also not possible to assess these assets for recoverability owing to the shutdown of the operations in the Xiangshui Chemical Industry Park following the Chemical Explosion and that certain suppliers, whose operations are based in vicinity of the Xiangshui Chemical Industry Park, were similarly shutdown. There are also no practical alternative procedures that we could perform in this regard.

On this basis, we were unable to determine the extent of impairment required nor the appropriateness of the impairment loss made by the management, the existence of certain assets such as property, plant and equipment, inventories and the appropriateness of the valuation of the carrying amounts of JJC and JJP stated herein for the following assets of the Group.

Asset	Note	Carrying amount at 31/12/2018	Impairment loss recognised for the year ended 31/12/2018
		RMB 'millions	RMB 'millions
i. Property plant and equipment ("PPE")	23 & 28(a)(b)	76.3	166.6
ii. Land use rights	28 (c)	10.4	Nil
iii. Intangible assets (comprising technology know-how and software)	28 (d)	7.9	Nil
i. Value-added tax recoverable	28(e)	9.5	83.9
i. Advances and prepayments to suppliers for the purchase of raw materials	28 (f)(g)	8.5	19.6
ii. Inventories	28 (h)	8.5	Nil

6. Impairment of assets of Taixing Jurong Chemical Co., Ltd. ("Taixing Jurong")

Property, plant and equipment

As disclosed in Notes 28 (i) and 28 (j), an impairment loss of RMB 32.4 million on certain property, plant and equipment with a carrying amount of RMB 260.9 million (after impairment loss) as at 31 December 2018 was recognised in profit or loss during the year then. The impairment loss was recognised following a valuation performed by an independent professional valuer that was appointed by the management. However, we were not provided with the assumptions made and calculations to the valuation model used as the independent professional valuer had declined to provide their detailed valuation workings for our assessment despite attempts made by the management to request the independent professional valuer to do so. Accordingly, we were unable to ascertain the extent of impairment loss that is required nor determine whether any adjustments are necessary in respect of the carrying amount of the property, plant and equipment of RMB 260.9 million as at 31 December 2018.

Independent auditor's report to the members of SunVic Chemical Holdings Limited (Cont'd)

Basis for Disclaimer of Opinion (Cont'd)

7. Impairment assessment of land at Link Way Louisiana LLC

As disclosed in Note 28(k), the freehold land held by Link Way Louisiana LLC, a subsidiary of the Group, was carried at a historical cost of RMB 12.4 million. In the absence of information from the management on the impairment assessment of the freehold land, we were not able to perform any audit procedures and there were no practical alternative audit procedures that we could carry out to ascertain the extent of the impairment or whether any adjustments are required on the freehold land as at 31 December 2018.

8. Subsequent events

Owing to the severity and continuing spread of the coronavirus or COVID-19 outbreak in the PRC since December 2019 and up to the date of this report, we were unable to perform the subsequent events work and other audit procedures we consider necessary for the PRC subsidiaries of the Group.

As of the date of this report, due to the coronavirus, we were advised not to leave for the PRC to physically perform the audit procedures in so far as to the audit completion for subsequent events. Neither were our component auditors allowed to carry out the audit at this juncture.

We were also unable to perform alternative audit procedures to obtain information and explanations we considered necessary. Consequently, we are not able to ascertain whether all significant subsequent events have been adequately dealt with in these financial statements with respect to the disclosures, presentation and adjusting subsequent events.

9. Impairment assessment of the cost investment held by and trade receivables due by JJC to the Company

Included in the statement of financial position of the Company as at 31 December 2018 were investments in a subsidiary, JJC, with a carrying amount of RMB 340.2 million (2017 - RMB 340.2 million) and trade receivable amounts due from JJC of RMB 37.7 million (2017 - RMB 32.1 million). As discussed in the preceding paragraphs, the operations of JJC in the Xiangshui Chemical Industry Park have been shut down by the local government.

As at 31 December 2018, JJC has reported net assets of RMB 809.4 million as at 31 December 2018 and incurred losses of RMB 175.5 million for the financial year then ended. No impairment assessment has been made by the management. As there were no other practicable alternative audit procedures that we could perform, we were not able to conclude on the recoverability of the investment in the subsidiary and the trade receivables due from the subsidiary. Consequently, we were unable to determine whether any adjustments might be necessary in respect of the investment in the subsidiary and the trade receivable due from the subsidiary for the financial year ended 31 December 2018.

Independent auditor's report to the members of SunVic Chemical Holdings Limited (Cont'd)

Basis for Disclaimer of Opinion (Cont'd)

10. Going concern

We draw attention to Note 3.1 to the financial statements, which indicates that the Group incurred a loss of RMB 673.4 million (2017 – loss of RMB 22.9 million) during the financial year ended 31 December 2018. The Group's current liabilities exceeded the current assets by approximately RMB 544.9 million (31 December 2017 - RMB 256.2 million; 1 January 2017 - RMB 261.5 million) as at 31 December 2018, excluding assets and liabilities held for sale.

Based on the latest announcement by the Company, for the half-year ended 30 June 2019, the Group incurred an unaudited loss of RMB 175.4 million. As at 30 June 2019, the Group's current liabilities had exceeded its current assets by RMB 905.1 million, and it had a deficit in its shareholder's funds of RMB 134.4 million. As announced on 27 September 2019 by the Company, the joint operation company of the Group, Taixing Sunke Chemicals Co., Ltd., was disposed off and approved by the Board. However, due to the technicality as to the remittance of the sale proceeds following the disposal, we were unable to ascertain when this fund can be made available to disburse for the use of paying the liabilities owing by the Group to the banks for RMB 471.4 million as at 31 December 2018, excluding assets and liabilities held for sale.

On 2 October 2019, the Company announced that it has received letters of demand to pay 6 overdue bank loans of an aggregate amount of RMB 166.1 million from the China Construction Bank Corporation, the Agricultural Bank of China and the Industrial and Commercial Bank of China. Further to the announcement on 2 October 2019, the Company has announced on 20 December 2019 and 5 March 2020, that it had received two letters of demands dated 13 December 2019 and 27 February 2020 from an unrelated party, Xiangshui City Asset Investment Holding Group Co., Ltd. (响水城市资产投资控股集团有限公司) or ("XCAIH"), for the Group to make immediate repayment of an outstanding loan of RMB 35.0 million owed by JJC to XCAIH.

These factors indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

While the Group has plans to raise funds to meet the operational needs, we were unable to obtain sufficient appropriate audit evidence regarding the likely outcome of the plans. We were, therefore, unable to conclude whether the use of the going concern assumption, which has been adopted for the preparation of the accompanying financial statements, is appropriate. If the Group was unable to continue in operational existence for the foreseeable future, 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 realised 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 statement of financial position. No such adjustments have been made to the financial statements.

Independent auditor's report to the members of SunVic Chemical Holdings Limited (Cont'd)

Responsibilities of Management and Directors 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 Act and Singapore Financial Reporting Standards International ("SFRS(I)"), 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 financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the Group's financial statements in accordance with Singapore Standards on Auditing and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority ("ACRA") Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code.

Report on Other Legal and Regulatory Requirements

In our opinion, in view of the significance of the matters referred to in the Basis for Disclaimer of Opinion section of our report, we do not express an opinion on whether the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditor have been properly kept in accordance with the provisions of the Act.

Independent auditor's report to the members of SunVic Chemical Holdings Limited (Cont'd)

Other Matters

Related party transactions

As disclosed in Note 25 to the financial statement the transactions with related parties were as follows:

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. During the financial year ended 31 December 2018, the transactions consist of the sale of chemical products of RMB 224.2 million (2017 - RMB 195.7 million), purchase of inventories of RMB 35.1 million (2017 - RMB 65.7 million) and sales of waste material of RMB Nil (2017 – RMB 14.9 million).

Taixing Jinyan

The transactions between the Group and Taixing Jinyan Chemical Technology Co., Ltd. ("Taixing Jinyan") were interested person transactions. Ms Hu Yanping, the substantial shareholder of the Group, Mr Sun Xiao (the Chief Executive Officer of the Company) and their associates own in aggregate 100% of the equity interest in Jiaxing Jinyan Chemical Co., Ltd. ("Jiaxing Jinyan"), while Taixing Jinyan is a 86% owned subsidiary company of Jiaxing Jinyan.

The transactions consist of the sale of raw materials of RMB 260.6 million (2017 – RMB 349.4 million), purchase of inventories of RMB 14.4 million (2017 – RMB 11.2 million) and purchase of raw material RMB Nil (2017 – RMB 2.1 million).

Jiaxing Jinyan

The transactions between the Group and Jiaxing Jinyan Chemical Technology Co., Ltd. ("Jiaxing Jinyan") were interested person transactions. Ms. Hu Yanping, the substantial shareholder of the Group, Mr Sun Xiao (the former Chief Executive Officer and Executive Director of the Company) and their associates own in aggregate 100% of the equity interest in Jiaxing Jinyan. The transactions consist of the sale of chemical products of RMB Nil (2017 – RMB 572,000), purchase of inventories of RMB 164,000 (2017 – RMB 35.0 million).

Independent auditor's report to the members of SunVic Chemical Holdings Limited (Cont'd)

Report on Other Legal and Regulatory Requirements (Cont'd)

Related party transactions (Cont'd)

Jiangsu Yinyan

The transactions between the Group and Jiangsu Yinyan Specialty Chemical Co., Ltd. ("Jiangsu Yinyan") were interested person transactions. Ms Hu Yanping, the substantial shareholder of the Group and Mr Sun Liping (father of Mr Sunxiao, the Chief Executive Officer of the Company) own in aggregate 94.0% of the equity interest in Jiangsu Yinyan. Mr Sun Liping was passed away on 20 August 2014. However, there was no change of ownership of Jiangsu Yinyan noted. The transactions consist of the sale of chemical products of RMB 71.6 million (2017 – RMB 58.5 million), purchase of inventories of RMB 18.0 million (2017 – RMB 11.4 million).

We understand that the Company has appointed the relevant professional advisers to assist in compliance. The Company has not convened the extraordinary general meeting as at the date of this report as they are in the process of obtaining SGX's approval in respect of the contents in the shareholder's circular to the extraordinary general meeting. We draw your attention to the uncertainty related to the outcome of this convening of the extraordinary general meeting or the non-compliance of the SGX listing rules.

The engagement partner on the audit resulting in this independent auditor's report is Chang Fook Kay.

Foo Kon Tan LLP
Public Accountants and
Chartered Accountants

Singapore, 19 March 2020