

RESPONSE TO SGX QUERIES ON THE SECOND QUARTER FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2015

In response to the query from the Singapore Exchange Securities Trading Limited (the "SGX-ST") on 25 August 2015 in relation to the announcement made on 13 August 2015 (the "Announcement"), on the second quarter financial statements of the Group for the half year ended 30 June 2015, the Board of Directors (the "Board") of Li Heng Chemical Technologies Limited (the "Company") together with its subsidiaries (the "Group") wish to provide the following additional information:-

SGX-ST's Query 1

- 1) In paragraph 8.2 of the Announcement, the Company disclosed that "Inventories increased by RMB127.6 million or approximately 47.5% to RMB396.3 million at End HY2015 from RMB268.8 million at End FY2014 as we implemented our plan to gradually increase the inventory level of CPL to a reasonable level to ensure our production needs are met while controlling the impact of raw material price fluctuations and pressure on our cash flows."
 - a. Please disclose if this will result in inventory obsolescence and provide a breakdown of inventories by type.
 - b. Please also elaborate on major items contributing to the increase of RMB127.6 million in inventories.

Company's Response

As at End HY2015 and End FY2014, the Group's inventories consisted of the following:

RMB 'million	End HY2015	End FY2014	Change	%
Raw materials	138.4	53.8	84.6	157.2
Work-in-progress	106.1	93.3	12.8	13.7
Finished goods	151.8	121.6	30.2	24.8
Total	396.3	268.8	127.5	47.4

Raw materials, consisting mostly of Caprolactam ("CPL"), increased by 157.2% at End HY2015 as compared to End FY2014. The increase in CPL was the major contributor to the overall increase in inventories at End HY2015.

The quantity of CPL and finished goods at End HY2015 represent approximately 30 days and 27 days of our production needs and sales volume in HY2015 respectively. Our raw materials and finished goods generally have expiration dates over one year from their dates of production. In addition, all raw materials and work-in-progress inventories at End HY2015 have been utilized in production and over 90% of the finished goods have been sold subsequently. Accordingly, Management is of the view that the inventories at End HY2015 did not show any indication of obsolescence.

SGX-ST's Query 2

- 2) In paragraph 8.2 of the Announcement, the Company disclosed that “Trade and bill payables increased by RMB67.9 million or approximately 159.2% to RMB110.6 million at End HY2015 from RMB42.7 million as at End FY2014 mainly on the increase in raw material purchases in HY2015.”
- Please provide a breakdown of the major items contributing to the increase in trade and bill payables of RMB67.9 million and the aging schedule of trade and bill payables as at 30 June 2015.
 - Please explain why there is a significant increase in raw material purchases noting that revenue for 2Q2015 decreased by 16.6%.

Company's Response

Movements of trade and bill payables during HY2015 are as follows:

	<u>RMB 'million</u>
At 1 January 2015	42.7
Purchases:	
CPL	709.3
Other raw materials	82.7
Settlement of trade and bill payables	<u>(724.1)</u>
At 30 June 2015	<u><u>110.6</u></u>

As disclosed in paragraph 8.2 of the Announcement, the increase in trade and bill payables was a result of the Company's plan to gradually increase the inventory level of CPL to a reasonable level to ensure our production needs are met while controlling the impact of raw material price fluctuations and pressure on our cash flows. This statement was made with reference to the relative low inventory level the Group had maintained in 2014 in response to price fluctuations of CPL, our core material of production.

As cost of CPL started to stabilize in the first few months of FY2015, we increased the purchases of CPL to ensure sufficient raw materials were available for production. As stated in our response to SGX-ST's Query 1 above, the quantity of CPL at End HY2015 is sufficient to satisfy approximately 30 days of our production needs. We believe the increase in raw material purchases in HY2015 is appropriate.

SGX-ST's Query 3

- 3) In paragraph 8.2 of the Announcement, the Company disclosed that “Trade receivables that were past due were related to a number of long-term customers of the Group that had no history of default. However, due to the continued slowdown of the Chinese garment export sector, we have experienced more difficulties in chasing overdue trade balances from our customers in recent months.”

Please provide an aging schedule for these trade receivables that were past due as at 30 June 2015.

Company's Response

Trade receivables aging as at End HY2015 and subsequent settlements up to 10 August 2015 are as follows:

RMB 'million	End HY2015	As of 10 August 2015	
		Settled	Unsettled
Current	240.3	(125.7)	114.6
1-30 days past due	129.7	(78.3)	51.4
Over 30 days past due	25.3	(3.7)	21.6
Total	395.3	(207.7)	187.6

BY ORDER OF THE BOARD

Chen Jianlong
Executive Chairman
26 August 2015