

RESPONSE TO SGX QUERIES ON THE THIRD QUARTER FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2015

In response to the query from the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") on 20 November 2015 in relation to the announcement made on 10 November 2015, on the third quarter financial statements of the Group for the financial period ended 30 September 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. Please explain for the significant increase in inventories to RMB 401.194 million despite a drop in revenue of 28% to RMB 442.840 million for 3Q2015.

Company's Response

The significant increase in inventories at 30 September 2015 as compared to 31 December 2014 was mainly a result of:-

- the stabilization of CPL (our major raw material) costs after the first half of 2015; and
- relative effect of the low inventory level as at 31 December 2014 as a measure to mitigate risks associated with price fluctuations during the said period.

The above factors contributing to the change in inventories were stated in paragraph 8.2 in the 3Q2015 results announcement, including additional information pertaining to sufficiency of the raw materials as to production needs (approximately 30 days) and possibility of obsolescence (none).

SGX-ST's Query 2

2. Noted that revenue for 3Q2015 amounted to RMB 442.840 million and current trade and bill receivables amounted to RMB 441.305 million for 9 months ended 30 September 2015. Paragraph 8 of the Announcement states that "Trade receivables that were past due amounted to approximately RMB40.8 million as at End 9M2015 and were related to a number of long-term customers of the Group that had no history of default."
 - i. Please provide an aging schedule of the trade receivables that were past due of approximately RMB 40.8 million and explain for the major items contributing to the increase in trade receivables. Please also disclose if there are any long overdue debts.
 - ii. Please disclose the average credit terms granted to the remaining trade and bill receivables of RMB 400.505 million that were not past due.

Company's Response

Past due trade receivables aging as at 30 September 2015 are as follows:

RMB 'million	30 September 2015
1-30 days past due	4.6
31-60 days past due	14.5
61-90 days past due	11.4
Over 90 days past due	10.3
Total	40.8

The contributing factor for the increase in trade receivables was the general delay in payments by customers as a result of the continued slowdown of the Chinese garment export sector and the resultant cashflow stress on our downstream customers. Of the RMB10.3 million trade receivables past due over 90 days, approximately RMB 9.8 million have not shown any settlement up to 31 October 2015. We view them as long overdue trade receivables and are considering legal actions against these customers to recover the outstanding trade receivables.

We typically grant our customers credit terms of 30 days from the date of invoice. Exceptions will be made by reference to size of orders and payment records on certain long-term and credit worthy customers to whom we grant credit terms of 60 days on a case by case basis. Of the RMB400.505 million trade receivables that were not overdue as of 30 September 2015, RMB255.498 were related to customers with 30-day credit terms and the remaining RMB145.007 were related to customers granted with 60-day credit terms.

SGX-ST's Query 3

3. Paragraph 8 of the Announcement states that "Administrative expenses, which include mainly such items as staff cost, depreciation and local levies and fees, increased by RMB9.6 million or 47.4% to RMB29.9 million in 3Q2015 from RMB20.3 million in 3Q2014. The increase was mainly attributable to the net exchange loss of RMB10.1 million incurred in 3Q2015. The Group had a net exchange gain of RMB4.9 million which was classified as an item under other income in 3Q2014."

Please disclose the underlying item that contributed to the net exchange loss of RMB 10.1 million and explain for the significant loss incurred in 3Q2015 when the Company had a net exchange gain of RMB 4.9 million in 3Q2014.

Company's Response

The USD and the EUR are the major foreign currencies used in the Group's trades with overseas raw material and equipment suppliers. While the RMB is the reporting currency of the Group's financial statements, most of the Group's exchange differences are derived from the fluctuations in the RMB's exchange rates against these currencies.

As stated in the third quarter results announcement for the three months ended 30 September 2014 ("**3Q2014**"), the Group's net exchange gain in 3Q2014 was a result of the surge of the RMB against the USD in 3Q2014.

On the other hand, the significant exchange loss incurred in 3Q2015 was due to the depreciation of the RMB against the USD and the EUR on top of the increase in overseas raw material purchases in 3Q2015.

BY ORDER OF THE BOARD

Chen Jianlong
Executive Chairman
24 November 2015