

CIRCULAR DATED 23 DECEMBER 2020

THIS CIRCULAR IS ISSUED BY SUNVIC CHEMICAL HOLDINGS LIMITED (THE “COMPANY”). THIS CIRCULAR IS IMPORTANT AS IT CONTAINS THE RECOMMENDATION OF THE INDEPENDENT DIRECTORS (AS DEFINED HEREIN) OF THE COMPANY AND THE ADVICE AND RECOMMENDATION OF ASIAN CORPORATE ADVISORS PTE. LTD., THE INDEPENDENT FINANCIAL ADVISER TO THE INDEPENDENT DIRECTORS. THIS CIRCULAR REQUIRES YOUR IMMEDIATE ATTENTION. PLEASE READ IT CAREFULLY.

If you are in any doubt as to the contents of this Circular or the action that you should take, you should consult your stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.

If you have sold or transferred all your Shares (as defined herein) held through CDP (as defined herein), you need not forward this Circular to the purchaser or transferee, as arrangements will be made by CDP for a separate Circular to be sent to the purchaser or transferee. If you have sold or transferred all your Shares which are not deposited with CDP, you should immediately forward this Circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee. This Circular has not been examined or approved by the SGX-ST (as defined herein). The SGX-ST assumes no responsibility for the contents of this Circular, including the accuracy or correctness of any of the statements made, reports contained, opinions expressed or advice given in this Circular.

CIRCULAR TO SHAREHOLDERS

in relation to the

VOLUNTARY CONDITIONAL CASH OFFER

by

W CAPITAL MARKETS PTE. LTD.

(Company Registration No.: 201813207E)
(Incorporated in the Republic of Singapore)

for and on behalf of

HARRIER GROUP PTE. LTD.

(Company Registration No.: 202029119W)
(Incorporated in the Republic of Singapore)

to acquire all the issued and paid-up ordinary shares in the capital of the Company other than those already held by the Company as treasury Shares

Independent Financial Adviser to the Independent Directors in respect of the Offer

ASIAN CORPORATE ADVISORS PTE. LTD.

(Company Registration No.: 200310232R)
(Incorporated in the Republic of Singapore)

SHAREHOLDERS SHOULD NOTE THAT THE OFFER DOCUMENT (AS DEFINED HEREIN) STATES THAT ACCEPTANCES SHOULD BE RECEIVED BY THE CLOSE OF THE OFFER AT 5.30 P.M. (SINGAPORE TIME) ON 6 JANUARY 2021 OR SUCH LATER DATE(S) AS MAY BE ANNOUNCED FROM TIME TO TIME BY OR ON BEHALF OF THE OFFEROR.

TABLE OF CONTENTS

<u>CONTENTS</u>	<u>PAGE</u>
DEFINITIONS	3
CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS	6
LETTER TO SHAREHOLDERS	7
1. INTRODUCTION	7
2. THE OFFER	8
3. INFORMATION ON THE OFFEROR	10
4. RATIONALE FOR THE OFFER	10
5. OFFEROR'S INTENTIONS FOR THE COMPANY	11
6. COMPULSORY ACQUISITION AND LISTING STATUS	12
7. FINANCIAL ASPECTS OF THE OFFER	13
8. DISCLOSURE OF SHAREHOLDINGS AND DEALINGS	13
9. CONFIRMATION OF FINANCIAL RESOURCES	14
10. ADVICE AND RECOMMENDATION IN RELATION TO THE OFFER	14
11. OVERSEAS SHAREHOLDERS	24
12. ACTION TO BE TAKEN BY THE SHAREHOLDERS	26
13. CONSENT FROM IFA.....	26
14. DIRECTORS' RESPONSIBILITY STATEMENT	26
15. DOCUMENTS AVAILABLE FOR INSPECTION	27
16. ADDITIONAL INFORMATION	27
APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS	A-1
APPENDIX B1 – INFORMATION ON THE COMPANY	B1-1
APPENDIX B2 – MATERIAL CONTRACTS WITH INTERESTED PERSONS	B2-1
APPENDIX C – RELEVANT PROVISIONS OF THE CONSTITUTION OF THE COMPANY.....	C-1
APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018.....	D-1
APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019.....	E-1

DEFINITIONS

In this Circular, the following definitions apply throughout unless the context otherwise requires:

“Acceptance Forms”	:	The FAA and the FAT collectively or any one of them, as the case may be
“ACA”	:	Asian Corporate Advisors Pte. Ltd.
“CDP”	:	The Central Depository (Pte) Limited
“Circular”	:	This circular to Shareholders dated 23 December 2020 issued by the Company in relation to the Offer enclosing, <i>inter alia</i> , the IFA Letter
“Closing Date”	:	5.30 p.m. (Singapore time) on 6 January 2021 or such later date(s) as may be announced from time to time by or on behalf of the Offeror, being the last day for the lodgement of acceptances of the Offer
“Code”	:	The Singapore Code on Take-overs and Mergers, as may be amended, supplemented or modified from time to time
“Companies Act”	:	Companies Act, Chapter 50 of Singapore, as may be amended, supplemented or modified from time to time
“Company”	:	Sunvic Chemical Holdings Limited
“Company Securities”	:	(a) Shares or securities which carry voting rights in the Company, or (b) Convertible Securities, Warrants, Options and Derivatives, and for the purposes of the foregoing: “Convertible Securities” means securities convertible or exchangeable into new Shares or existing Shares in the Company; “Derivatives” includes any financial product whose value in whole or in part is determined directly or indirectly by reference to the price of an underlying security or securities, in this case, the Shares; “Options” means options to subscribe for or purchase new Shares or existing Shares in the Company; and “Warrants” means rights to subscribe for or purchase new Shares or existing Shares in the Company
“Constitution”	:	The constitution of the Company
“CPF”	:	The Central Provident Fund
“CPFIS”	:	The Central Provident Fund Investment Scheme
“CPFIS Investors”	:	Investors who have purchased Shares using their CPF contributions pursuant to the CPFIS
“Depository Register”	:	shall have the meaning ascribed to it in Section 81SF of the Securities and Futures Act

DEFINITIONS

“Despatch Date”	:	9 December 2020, being the date of despatch of the Offer Document
“Directors”	:	The directors of the Company for the time being
“FAA”	:	Form of Acceptance and Authorisation for Offer Shares, which forms part of the Offer Document and which is issued to Shareholders whose Offer Shares are deposited with CDP
“FAT”	:	Form of Acceptance and Transfer for Offer Shares, which forms part of the Offer Document and which is issued to Shareholders whose Offer Shares are not deposited with CDP
“Group”	:	The Company and its subsidiaries
“IFA”	:	The independent financial adviser to the Independent Directors, being ACA
“IFA Letter”	:	The letter from the IFA setting out its advice to the Independent Directors, a copy of which is set out in Appendix A to this Circular
“Independent Directors”	:	The Directors who are considered to be independent for the purpose of making recommendation to the Shareholders in respect of the Offer, namely: (a) Sun Li Hua; (b) Koh Poh Beng; and (c) Lua Poh Huat
“Latest Practicable Date”	:	13 December 2020, being the latest practicable date prior to the dissemination of this Circular
“Listing Manual”	:	The listing manual of the SGX-ST, as may be amended, supplemented or modified from time to time
“Offer”	:	The voluntary conditional cash offer by W Capital, for and on behalf of the Offeror, to acquire the Offer Shares, on the terms and subject to the conditions set out in the Offer Document and the Acceptance Forms, as such offer may be amended, extended and revised from time to time by or on behalf of the Offeror
“Offer Announcement”	:	The announcement in connection with the Offer released by W Capital, for and on behalf of the Offeror on the Offer Announcement Date
“Offer Announcement Date”	:	20 November 2020, being the date of the Offer Announcement
“Offer Document”	:	The offer document dated 9 December 2020, including the Acceptance Forms, issued by W Capital, for and on behalf of the Offeror, in respect of the Offer, and any other document(s) which may be issued for and on behalf of the Offeror to amend, revise, supplement or update the document(s) from time to time
“Offer Price”	:	S\$0.028 in cash for each Offer Share

DEFINITIONS

“Offer Shares”	:	All the Shares, other than those already held by the Company as treasury Shares
“Offeror”	:	Harrier Group Pte. Ltd.
“Offeror Securities”	:	Has the meaning ascribed to it in paragraph 8.2(a) of Appendix B1 to this Circular
“Overseas Shareholder”	:	A Shareholder whose address is outside Singapore as shown in the Register or in the Depository Register (as the case may be)
“PRC”	:	The People’s Republic of China
“Register”	:	The register of holders of the Shares, as maintained by the Share Registrar
“Relevant Period”	:	The period commencing three (3) months prior to the Offer Announcement Date and ending on the Latest Practicable Date
“RMB”	:	Chinese Yuan Renminbi, being the lawful currency of the PRC
“Securities and Futures Act”	:	Securities and Futures Act, Chapter 289 of Singapore, as may be amended, supplemented or modified from time to time
“SGX-ST”	:	Singapore Exchange Securities Trading Limited
“Shareholders”	:	Holders of Shares, including persons whose Shares are deposited with CDP or who have purchased Shares on the SGX-ST
“Shares”	:	Ordinary shares in the capital of the Company
“SRS”	:	The Supplementary Retirement Scheme
“SRS Investors”	:	Investors who have purchased Shares pursuant to the SRS
“Substantial Shareholder”	:	A person who has an interest or interests in voting Shares representing not less than 5% of all the voting Shares
“W Capital”	:	W Capital Markets Pte. Ltd.
“S\$”	:	Singapore dollars, being the lawful currency of the Singapore

The term **“subsidiary”** shall have the meaning ascribed to it by Section 5 of the Companies Act.

Words importing the singular shall, where applicable, include the plural and *vice versa*, and words importing the masculine gender shall, where applicable, include the feminine and the neuter genders and *vice versa*. References to persons shall include corporations.

Any reference in this Circular to any statute or enactment is a reference to that statute or enactment as for the time being amended, modified, or re-enacted. Any word defined under the Companies Act, the Securities and Futures Act, the Code or the Listing Manual or any modification thereof and used in this Circular shall, where applicable, have the meaning assigned to it under the Companies Act, the Securities and Futures Act, the Code or the Listing Manual or any modification thereof, as the case may be.

Any reference to a time of day in this Circular shall be a reference to Singapore time unless otherwise stated.

Any discrepancy in the tables in this Circular between the listed amounts and the totals thereof may be due to rounding.

CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

All statements other than statements of historical facts included in this Circular are or may be forward-looking statements. Forward-looking statements include but are not limited to those using words such as “aim”, “seek”, “expect”, “anticipate”, “estimate”, “believe”, “intend”, “project”, “plan”, “potential”, “strategy”, “forecast”, “possible”, “probable” and similar expressions or future or conditional verbs such as “if”, “will”, “would”, “shall”, “should”, “could”, “may” and “might”. These statements reflect the Company’s current expectations, beliefs, hopes, intentions or strategies regarding the future and assumptions in light of currently available information as at the Latest Practicable Date. Such forward-looking statements are not guarantees of future results, performance, events or achievements and involve known and unknown risks and uncertainties. Accordingly, actual results or outcomes may differ materially from those described in such forward-looking statements. Given the risks and uncertainties involved, Shareholders and investors should not place undue reliance on such forward-looking statements, and neither the Company nor the IFA guarantees any future performance or event, or undertakes any obligation to update publicly or revise any forward-looking statements, subject to compliance with all applicable laws and regulations and/or the rules of the SGX-ST and/or any other regulatory or supervisory body or agency.

LETTER TO SHAREHOLDERS

SUNVIC CHEMICAL HOLDINGS LIMITED

(Company Registration No.: 200406502E)
(Incorporated in the Republic of Singapore)

Directors:

Mr Sun Li Hua
(Executive Director and Chief Executive Officer)
Mr Koh Poh Beng
(Lead Independent Director)
Mr Lua Poh Huat
(Independent Director)

Registered Office:

112 Robinson Road,
#11-01, Robinson 112,
Singapore 068902

23 December 2020

To : The Shareholders of Sunvic Chemical Holdings Limited

Dear Sir/Madam

VOLUNTARY CONDITIONAL CASH OFFER BY W CAPITAL FOR AND ON BEHALF OF THE OFFEROR FOR THE OFFER SHARES

1. INTRODUCTION

1.1 Offer Announcement

On the Offer Announcement Date, W Capital announced, *inter alia*, for and on behalf of the Offeror, that the Offeror intends to make a voluntary conditional cash offer for the Offer Shares at the Offer Price of S\$0.028 for each Offer Share.

A copy of the Offer Announcement is available on the website of the SGX-ST at www.sgx.com.

1.2 Offer Document

Shareholders should have by now received a copy of the Offer Document, as announced by W Capital, for and on behalf of the Offeror, which was despatched on the Despatch Date, setting out, *inter alia*, the terms and conditions of the Offer. The principal terms and conditions of the Offer are set out in Section 2 of the Offer Document. **Shareholders are advised to read the terms and conditions of the Offer set out in the Offer Document carefully.**

A copy of the Offer Document is available on the website of SGX-ST at www.sgx.com.

1.3 Purpose of Circular

The purpose of this Circular is to provide Shareholders with relevant information pertaining to the Company, the Offer, the advice of the IFA to the Independent Directors and the recommendation of the Independent Directors to Shareholders in relation to the Offer.

Shareholders should read the Offer Document, this Circular and the IFA Letter carefully and consider the recommendation of the Independent Directors and the advice of the IFA to the Independent Directors in respect of the Offer before deciding whether to accept the Offer or not.

If you are in any doubt in relation to this Circular or as to the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.

LETTER TO SHAREHOLDERS

2. **THE OFFER**

Based on the information set out in the Offer Document:

2.1 **Principal Terms and Conditions of the Offer**

W Capital, for and on behalf of the Offeror, has made the Offer to acquire the Offer Shares on the terms and subject to the conditions set out in the Offer Document. The principal terms and conditions of the Offer are set out in Section 2 of the Offer Document, extracts of which are set out below. Unless otherwise defined, all terms and expressions used in the extracts below shall have the same meanings as ascribed to them in the Offer Document.

“2.1 Offer Shares. *W Capital, for and on behalf of the Offeror, hereby makes the Offer to acquire all the Shares, other than those already held by the Company as treasury Shares (“Offer Shares”) in accordance with Rule 15 of the Code and on the terms and subject to the conditions set out in this Offer Document and the Acceptance Forms.*

2.2 Offer Price. *The consideration for each Offer Share is **S\$0.028 in cash** (“Offer Price”).*

2.3 No Encumbrances. *The Offer Shares are to be acquired (a) fully paid, (b) free from all Encumbrances, and (c) together with all rights, benefits, entitlements and advantages attached thereto as at the Offer Announcement Date, and thereafter attaching thereto, including but not limited to all voting rights and the right to receive and retain all dividends, rights, distributions, returns of capital and/or other entitlements (if any) (“Distributions”) which may be announced, declared, paid or made thereon by the Company on or after the Offer Announcement Date.*

If any Distribution is announced, declared, paid or made by the Company on or after the Offer Announcement Date, the Offeror reserves the right to reduce the Offer Price by an amount equivalent to such Distribution.

2.4 Minimum Acceptance Condition. *The Offer is conditional upon the Offeror having received, by the close of the Offer, valid acceptances in respect of such number of Offer Shares which, when taken together with the Shares owned, controlled or agreed to be acquired by the Concert Group (either before or during the Offer and pursuant to the Offer or otherwise), will result in the Concert Group holding such number of Shares carrying more than 50% of the voting rights attributable to the issued Shares (excluding treasury Shares) as at the close of the Offer (“Minimum Acceptance Condition”).*

Save for the Minimum Acceptance Condition, the Offer is unconditional in all other respects.

2.5 Warranty. *A Shareholder who tenders his Offer Shares in acceptance of the Offer will be deemed to unconditionally and irrevocably represent, warrant and undertake to the Offeror that he sells such Offer Shares as or on behalf of the beneficial owner(s) thereof, (a) fully paid, (b) free from all Encumbrances, and (c) together with all rights, benefits, entitlements and advantages attached thereto as at the Offer Announcement Date, and thereafter attaching thereto, including the right to receive and retain all Distributions (if any) announced, declared, paid or made by the Company in respect of the Offer Shares on or after the Offer Announcement Date.”*

2.2 **Duration of the Offer**

The duration of the Offer is set out in paragraph 1 of Appendix 1 to the Offer Document, extracts of which are set out below.

“1.1 First Closing Date. *The Offer is open for acceptance by Shareholders for at least 28 days from the Despatch Date, unless the Offer is withdrawn with the consent of the SIC and every person released from any obligation incurred thereunder. **Accordingly, the Offer will close***

LETTER TO SHAREHOLDERS

at 5.30 p.m. (Singapore time) on 6 January 2021 or such later date(s) as may be announced from time to time by or on behalf of the Offeror.

1.2 Subsequent Closing Date(s). *If the Offer is extended and:*

- (a) *the Offer is not unconditional as to acceptances as at the date of such extension, the announcement of the extension must state the next Closing Date; or*
- (b) *the Offer is unconditional as to acceptances as at the date of such extension, the announcement of the extension need not state the next Closing Date but may state that the Offer will remain open until further notice. In such a case, the Offeror must give Shareholders at least 14 days' prior notice in writing before it may close the Offer.*

1.3 No Obligation to Extend the Offer. *The Offeror is not obliged to extend the Offer if the condition of the Offer as set out in Section 2.4 (Minimum Acceptance Condition) of the Letter to Shareholders in this Offer Document is not fulfilled by the Closing Date.*

1.4 Offer to Remain Open for 14 Days After Being Declared Unconditional as to Acceptances. *Pursuant to Rule 22.6 of the Code, if the Offer becomes or is declared unconditional as to acceptances, the Offer will remain open for a period ("Rule 22.6 Period") of not less than 14 days after the date on which the Offer would otherwise have closed, in order to give Shareholders who have not accepted the Offer the opportunity to do so.*

This requirement does not apply if, before the Offer has become or is declared unconditional as to acceptances, the Offeror has given Shareholders at least 14 days' notice in writing ("Shut-Off Notice") that the Offer will not be open for acceptance beyond a specified Closing Date, provided that:

- (a) *the Offeror may not give a Shut-Off Notice in a competitive situation; and*
- (b) *the Offeror may not enforce a Shut-Off Notice, if already given, in a competitive situation.*

For these purposes, the SIC would normally regard a "competitive situation" to have arisen if a competing offer for the Company has been announced.

If a declaration that the Offer is unconditional is confirmed in accordance with paragraph 4.2(a) (Right of Withdrawal of Shareholders) of this Appendix 1, the Rule 22.6 Period will run from the date of such confirmation or the date on which the Offer would otherwise have closed, whichever is later.

1.5 Final Day Rule. *The Offer (whether revised or not) will not be capable:*

- (a) *of becoming or being declared unconditional as to acceptances after 5.30 p.m. (Singapore time) on the 60th day after the Despatch Date; or*
- (b) *of being kept open after the expiry of such 60-day period unless the Offer has previously become or been declared to be unconditional as to acceptances,*

provided that the Offeror may extend the Offer beyond such 60-day period with the SIC's prior consent ("Final Day Rule"). The SIC will normally grant such permission if a competing offer has been announced.

LETTER TO SHAREHOLDERS

1.6 **Revision.** *The Offeror reserves the right to revise the terms of the Offer at such time and in such manner as it may consider appropriate. If the Offer is revised, the Offer will remain open for acceptance for at least 14 days from the date of despatch of the written notification of the revision to Shareholders. In any case where the terms are revised, the benefit of the Offer (as so revised) will be made available to each of the Shareholders who had previously accepted the Offer."*

2.3 Further Details of the Offer

Further details of the Offer are set out in paragraph 2 (Settlement for the Offer), paragraph 3 (Announcements) and paragraph 4 (Right of Withdrawal in relation to the Offer) of Appendix 1 to the Offer Document.

2.4 Procedure for Acceptance

The procedures for acceptance of the Offer by a Shareholder are set out in Appendix 2 to the Offer Document and in the accompanying FAA and/or FAT, as the case may be.

3. INFORMATION ON THE OFFEROR

3.1 Information on the Offeror

Section 5 of the Offer Document sets out certain information on the Offeror, extracts of which are set out below.

"5.1 **The Offeror.** *The Offeror is an investment holding company incorporated in Singapore on 21 September 2020. The Offeror has not carried on any business since its incorporation. As at the Latest Practicable Date, the Offeror has an issued and paid-up capital of S\$10,000 comprising 10,000 ordinary shares. The sole director and sole shareholder of the Offeror is Mr Song Wuying. The Offeror does not hold any Shares as at the Latest Practicable Date.*

Mr Song Wuying is a private investor and is not related to any director or substantial Shareholder of the Company.

5.2 **Additional Information.** *Additional information on the Offeror is set out in Appendix 3 to this Offer Document."*

3.2 Additional Information on the Offeror

Additional information on the Offeror is set out in Appendix 3 to the Offer Document.

4. RATIONALE FOR THE OFFER

Section 7 of the Offer Document sets out certain information on the rationale for the Offer, extracts of which are set out below.

"7.1 **Intention to Delist and Privatisise the Company.** *The Offeror is making the Offer with a view to delisting and privatising the Company.*

7.2 **Opportunity for Shareholders who are not prepared to bear the risks associated with the Company to realise their investment in cash.** *The Company has been placed on the SGX-ST watch-lists under the minimum trading price entry criteria and financial entry criteria pursuant to Rules 1311(2) and 1311(1) respectively of the Listing Manual on 5 June 2018. With effect from 1 June 2020, the minimum trading price entry criteria has been removed and the Company is no longer required to comply with the minimum trading price exit criteria. The Company has 36 months from 5 June 2018 to meet the requirements to be removed from the watchlist under the financial entry criteria, failure of which may subsequently result in the SGX-ST delisting the Company or suspending trading in the Company's Shares with a view to delisting the Company.*

LETTER TO SHAREHOLDERS

*In addition, trading in the Company's securities has been suspended from 14 January 2019, arising from the issues identified in the Company's announcement dated 10 January 2019 relating to two (2) of the Company's wholly owned subsidiaries, Yixing Yinyan Import & Export Co., Ltd and Jiangsu Jurong Chemical Co., Ltd, having received letters of demand amounting to an aggregate of approximately RMB226.7 million in respect of unauthorised significant guarantees purportedly extended by the aforesaid subsidiaries (each of the aforesaid guarantees shall be referred to as "**YFC Corporate Guarantee**" or "**BOC Corporate Guarantee**", and collectively, the "**Corporate Guarantees**") for loans made by Yixing City Futao Rural Micro Credit Co., Ltd. and Bank of China Co., Ltd., Xiangshui County Sub-branch to Jiangsu Donglai Real Estate Development Co., Ltd and Jiangsu Dahe Lvjian Chemical Co., Ltd. respectively. Notwithstanding that the Company had on 5 March 2020 announced that the Company has reversed in full the provision of the contingent liabilities in connection with the YFC Corporate Guarantee from the financial statements of the Group as at 31 December 2018 ("**FY2018 Financial Statements**") following the completion of the special audit by Ernst & Young Advisory Pte. Ltd., the Company's independent auditor, Foo Kon Tan LLP, had issued a disclaimer of opinion ("**Disclaimer of Opinion**") in their report dated 19 March 2020 on the FY2018 Financial Statements on the basis of, among other matters described in the Disclaimer of Opinion, the Corporate Guarantees. In the event the Company is unable to resolve these issues to the satisfaction of the SGX-ST, the Company will remain suspended.*

Shareholders who are not prepared to bear the aforesaid risks associated with the Company will benefit from the clean cash exit opportunity provided through the Offer.

- 7.3 Offer Price at a premium to traded benchmark prices at different time periods.** *When compared to the benchmark prices of the Shares prior to the Last Trading Day, the Offer Price represents a premium/(discount) of approximately 21.7%, (3.4)%, 16.7% and (12.5)% over/to the VWAP per Share for the 1-month, 3-months, 6-months and 12-months periods, respectively, and a premium of approximately 27.3% to the closing price on the Last Trading Day.*

The Offer presents the Shareholders with a clean cash exit opportunity to realise their entire investment in the Shares at a premium over the 1-month and 6-months VWAP and the last transacted price of the Shares on the Last Trading Day, without incurring brokerage and other trading costs.

- 7.4 Greater Management Flexibility.** *The Offeror is of the view that the delisting and privatisation of the Company will provide the Offeror and the Company with greater control and management flexibility in utilising and deploying the available resources of the Company and facilitating the implementation of any strategic initiatives and/or operational changes of the Group to achieve greater efficiency and competitiveness.*
- 7.5 Compliance Costs relating to Listing Status.** *If the Company is delisted, the Company will be able to save on compliance costs associated with maintenance of a listed status and other regulatory requirements and human resources that have to be committed for such compliance and focus its resources and channel such expenses towards its business operations."*

5. OFFEROR'S INTENTIONS FOR THE COMPANY

Section 8 of the Offer Document sets out certain information on the Offeror's intentions for the Company, extracts of which are set out below.

"The Offeror has no current intention to (a) make material changes to the existing business of the Group, (b) re-deploy the Group's fixed assets, or (c) discontinue the employment of the employees of the Group, other than in the ordinary course of business. The Offeror however retains the flexibility at any time to consider options or opportunities which may present themselves."

LETTER TO SHAREHOLDERS

6. **COMPULSORY ACQUISITION AND LISTING STATUS**

Section 9 of the Offer Document sets out certain information on the intentions of the Offeror in relation to the compulsory acquisition and the listing status of the Company, extracts of which are set out below.

“9.1 Compulsory Acquisition. Pursuant to Section 215(1) of the Companies Act, if the Offeror receives valid acceptances pursuant to the Offer (or otherwise acquires Shares during the period when the Offer is open for acceptance) in respect of not less than 90% of the total number of issued Shares (other than those already held by the Offeror, its related corporations or their respective nominees as at the date of the Offer and excluding any treasury Shares), the Offeror would be entitled to exercise the right to compulsorily acquire all the Shares of Shareholders who have not accepted the Offer (**“Dissenting Shareholders”**) at a price equal to the Offer Price (**“Compulsory Acquisition”**).

In such event, the Offeror intends to exercise its right to compulsorily acquire all the Offer Shares not acquired under the Offer. The Offeror will then proceed to delist the Company from SGX-ST.

Dissenting Shareholders have the right under and subject to Section 215(3) of the Companies Act, to require the Offeror to acquire their Shares at the Offer Price in the event that the Offeror, its related corporations or their respective nominees acquire, pursuant to the Offer, such number of Shares which, together with treasury Shares and the Shares held by the Offeror, its related corporations or their respective nominees, comprise 90% or more of the total number of issued Shares. Dissenting Shareholders who wish to exercise such right are advised to seek their own independent legal advice.

Unlike Section 215(1) of the Companies Act, the 90% threshold under Section 215(3) of the Companies Act does not exclude treasury Shares or Shares held by the Offeror, its related corporations or their respective nominees as at the date of the Offer.

9.2 Listing Status. Pursuant to Rule 1105 of the Listing Manual, upon an announcement by the Offeror that acceptances have been received pursuant to the Offer that bring the holdings owned by the Concert Group to above 90% of the total number of issued Shares (excluding treasury Shares), the SGX-ST may suspend the trading of the Shares on the SGX-ST until such time it is satisfied that at least 10% of the total number of issued Shares (excluding treasury Shares) are held by at least 500 Shareholders who are members of the public. Rule 1303(1) of the Listing Manual provides that if the Offeror succeeds in garnering acceptances exceeding 90% of the total number of issued Shares (excluding treasury Shares), thus causing the percentage of the total number of issued Shares (excluding treasury Shares) held in public hands to fall below 10%, the SGX-ST will suspend trading of the Shares only at the close of the Offer.

In addition, under Rule 724(1) of the Listing Manual, if the percentage of the total number of issued Shares (excluding treasury Shares) held in public hands falls below 10%, the Company must, as soon as practicable, announce that fact and the SGX-ST may suspend the trading of all the Shares. Rule 724(2) of the Listing Manual states that the SGX-ST may allow the Company a period of three (3) months, or such longer period as the SGX-ST may agree, to raise the percentage of Shares (excluding treasury Shares) in public hands to at least 10%, failing which the Company may be delisted from the SGX-ST.

The Offeror intends to privatise the Company and does not intend to preserve the listing status of the Company. In the event that the trading of Shares on the SGX-ST is suspended pursuant to Rule 724, Rule 1105 or Rule 1303(1) of the Listing Manual, the Offeror has no intention to undertake or support any action for any such trading suspension by the SGX-ST to be lifted.”

LETTER TO SHAREHOLDERS

7. **FINANCIAL ASPECTS OF THE OFFER**

Section 10 of the Offer Document sets out certain information on the financial aspects of the Offer, extracts of which are set out below.

“The Offer Price of S\$0.028 for each Offer Share represents the following premia/(discount) over/to certain historical market prices of the Share as set out below:

	Description	Share Price⁽¹⁾ (S\$)	Premium/ (Discount) of Offer Price over Share Price⁽²⁾ (%)
(a)	<i>Last traded price of the Shares on the SGX-ST on the Last Trading Day⁽⁴⁾</i>	0.022	27.3
(b)	<i>VWAP⁽³⁾ for the 1-month period up to and including the Last Trading Day⁽⁴⁾</i>	0.023	21.7
(c)	<i>VWAP⁽³⁾ for the 3-month period up to and including the Last Trading Day⁽⁴⁾</i>	0.029	(3.4)
(d)	<i>VWAP⁽³⁾ for the 6-month period up to and including the Last Trading Day⁽⁴⁾</i>	0.024	16.7
(e)	<i>VWAP⁽³⁾ for the 12-month period up to and including the Last Trading Day⁽⁴⁾</i>	0.032	(12.5)

Notes:

- (1) *Rounded to the nearest three (3) decimal places.*
- (2) *For the purpose of the table above, all percentage figures are rounded to the nearest one (1) decimal place.*
- (3) *The VWAP is calculated based on the total value of the Shares divided by volume of the Shares traded for the relevant period as extracted from Bloomberg L.P.*
- (4) *The Shares were last traded on 4 January 2019 and have been suspended since 14 January 2019.”*

8. **DISCLOSURE OF SHAREHOLDINGS AND DEALINGS**

Section 11 of the Offer Document sets out certain information in relation to the disclosure of the shareholdings, dealings and other arrangements in the relevant securities by the Offeror and persons acting in concert with the Offeror, and any irrevocable undertaking in connection with the Offer, extracts of which are set out below.

“11.1 No Holdings and Dealings in the Company Securities. *Based on responses received pursuant to enquiries that the Offeror has made, as at the Latest Practicable Date, none of the Concert Group:*

- (a) *owns, controls or has agreed to acquire any Company Securities; or*
- (b) *has dealt for value in any Company Securities during the Reference Period.*

As at the Latest Practicable Date, the sole director of the Offeror is not interested (as interpreted in accordance with Section 4 of the SFA), directly or indirectly, in any Company Securities.

LETTER TO SHAREHOLDERS

11.2 Other Arrangements in the Company Securities. *Based on responses received pursuant to enquiries that the Offeror has made, as at the Latest Practicable Date, none of the Concert Group has:*

- (a) *entered into any arrangement (whether by way of option, indemnity or otherwise) in relation to the shares of the Offeror or the Company which might be material to the Offer;*
- (b) *granted any security interest relating to any Company Securities to another person, whether through a charge, pledge or otherwise;*
- (c) *borrowed any Company Securities from another person (excluding borrowed Company Securities which have been on-lent or sold); or*
- (d) *lent any Company Securities to another person.*

11.3 Irrevocable Undertakings. *As at the Latest Practicable Date, none of the Concert Group has received any irrevocable undertakings from any party to accept or reject the Offer."*

9. CONFIRMATION OF FINANCIAL RESOURCES

Section 12 of the Offer Document sets out certain information on the confirmation of financial resources by W Capital in respect of the Offeror in connection with the Offer, extracts of which are set out below.

"W Capital, as financial adviser to the Offeror in connection with the Offer, has confirmed that sufficient financial resources are available to the Offeror to satisfy full acceptance of the Offer by the holders of the Offer Shares."

10. ADVICE AND RECOMMENDATION IN RELATION TO THE OFFER

10.1 General

Shareholders should read and carefully consider the recommendation of the Independent Directors as set out in **Section 10.4** of this Circular below and the advice of the IFA to the Independent Directors as set out in **Appendix A** to this Circular before deciding to accept or reject the Offer.

10.2 Independence of Directors

Each of the Directors, Mr Sun Li Hua, Mr Koh Poh Beng and Mr Lua Poh Huat considers himself to be independent for the purposes of making a recommendation to the Shareholders in relation to the Offer.

10.3 Advice of the IFA to the Independent Directors

(a) IFA

ACA has been appointed as the independent financial adviser to advise the Independent Directors in respect of the Offer. ACA's advice is set out in the IFA Letter as set out in **Appendix A** to this Circular.

(b) Factors taken into consideration by the IFA

In arriving at its recommendation, the IFA has taken into account several key considerations, set forth in paragraphs 8 to 10 of the IFA Letter. Shareholders should read paragraphs 8 to 10 of the IFA Letter in conjunction with, and in the context of, the full text of the IFA Letter.

LETTER TO SHAREHOLDERS

(c) Advice of the IFA to the Independent Directors

After having regard to the considerations set out in the IFA Letter, an extract of the summary which is set out below, and based on the circumstances of the Company and the information available as at the Latest Practicable Date and subject to the qualifications and assumptions set out in the IFA Letter, the IFA has made certain recommendations to the Independent Directors. Shareholders should read the extract below in conjunction with, and in the context of, the full text of the IFA Letter. All terms and expressions used in the extract below shall have the same meanings as those defined in the IFA Letter, unless otherwise stated.

“10. OPINION

In arriving at our opinion in respect of the Offer, we have reviewed and examined the following factors and taken into account, inter alia, the limitations summarised below as well as others elaborated elsewhere in our Letter which we have considered to be pertinent in our assessment of the Offer, including the views of and representations by the Directors. We have not been furnished with any valuations and pursuant to our discussion with the Directors and arising from the said discussion, the Directors have confirmed that as at the Latest Practicable Date, a valuation of the non-current assets of the Group may not be a significant factor in the assessment of the Offer and evaluation of whether, inter alia, on a P/NAV basis, the Offer is favourable or fair (for further details, please refer to pages 21 and 22 of this Letter). Our views, recommendation and opinion are thus necessarily limited and subject to these matters.

Our recommendation or opinion is by no means an indication of the merits, prospects, financial performance and position of the Company or the Group or the ability of the Company or Group to service its borrowings (both principal and interest payment) when it falls due or the adequacy of the working capital or the ability to continue as a going concern, or the ability of the Company to comply with the various requirements of the SGX-ST or SGX RegCo or ability of the Company to resume trading or the ability of the Company to remain on the Official List, following completion of the Offer.

This is purely a summary of the factors that have been highlighted in this Letter and Shareholders are advised to read the following in conjunction with, and in the context of, the full text of this Letter:

- (a) *The rationale for the Offer, intentions of the Offeror and, inter alia, the compulsory acquisition rights and listing status as set out in Sections 7, 8, and 9 of the Offer Document respectively.*
- (b) *The historical financial performance and position of the Group as set out in Section 8.1 of this Letter. Save for FY2019, the Group has not been profitable during the period reviewed, with net losses attributable to owners of the Company of approximately RMB20.3 million, and RMB630.7 million in FY2017 and FY2018 respectively and net profit attributable to owners of the Company of approximately RMB93.4 million in FY2019.*

As described in the earlier Sections, this should be viewed in the context that for FY2019, the profit after tax registered by the Group attributable to owners of the Company of approximately RMB93.4 million was attributable to, inter alia, gain on disposal of Taixing Sunke of approximately RMB321.4 million. As an illustration, in the event that these reversals or gain on disposal (classified under other income in FS2019), which are non-recurring and non-trade in nature, are excluded from the Group's profit after tax, the Group would have registered a loss after tax for FY2019, being the Adjusted LTM Loss After Tax.

The Group's financial position has generally deteriorated for the period reviewed and is weak. Shareholders' equity had declined by approximately RMB540.8 million (or approximately 55.0%) from approximately RMB983.3 million as at 31 December 2017 to approximately RMB442.4 million as at 31 December 2019, arising from the aggregate

LETTER TO SHAREHOLDERS

consolidated losses attributable to owners of the Company of approximately RMB557.6 million registered for the last three financial years. In addition, for the period reviewed the Group was in a net current liabilities position, and pursuant to the Disclaimer of Opinion, the Independent Auditor has stated that there are, inter alia, concerns on the Company's ability to continue as a going concern, and their inability to ascertain, or verify, or determine (as may be applicable) the various matters stated therein limiting the reliance on the use of the information in FS2019 for analysis.

The Directors confirmed that as at the Latest Practicable Date and save for matters disclosed in the Circular, this Letter and the audited financial statements for the Group for FY2019, there has been no material changes to the assets and liabilities, financial position, condition and performance of the Group.

- (c) *The historical financial performance and position of the Group vis-a-vis the Selected Comparable Companies is generally weaker. The Group's financial position is weaker than any of the Selected Comparable Companies in terms of its ratio of total liabilities to shareholders' equity, and the ratio of total borrowings to shareholders' equity.*

Based on the Adjusted LTM Loss After Tax, the Group's LTM ROE and net profit margin would be negative and not meaningful. We note that save for Jiutian Chemical, all the Selected Comparable Companies registered net profits and had positive LTM ROE and net profit margin. Accordingly, the Groups' financial performance based on the Adjusted LTM Loss After Tax, in terms of LTM ROE and net profit margin, is relatively weaker, as compared to the other Selected Comparable Companies, save for Jiutian Chemical.

- (d) *The Offer Price (as set out in Section 8 of this Letter) after taking into account, inter alia, the following factors: -*

- (i) *The Offer Price represents substantial discounts of approximately 83.5% and 83.2% from the Group's NAV and NTA per Share respectively as at 31 December 2019.*
- (ii) *The Offer Price represents a premium of approximately 27.3% over the last transacted price of S\$0.022 per Share for the Shares on the SGX-ST on 4 January 2019, being the Last Trading Day immediately preceding the Trading Halt Date.*
- (iii) *The Offer Price represents premiums of approximately 16.7% and 40.0% over the VWAP for the Shares for the 6-months and 1-month periods prior to the Last Trading Day respectively.*
- (iv) *The Offer Price represents discounts of approximately 12.5% and 3.4% from the VWAP for the Shares for the 12-months and 3-months periods prior to the Last Trading Day respectively.*
- (v) *Trading for the Shares is erratic and the daily average number of Shares traded during the 12-month period prior to and including the Last Trading Day immediately preceding the Trading Halt Date is relatively low as compared to the number of issued Shares held by Shareholders other than the substantial Shareholders and the Directors as at the Latest Practicable Date. We note given the low liquidity of the Shares (in terms of number of Shares traded on a daily basis) and the frequency of trading during the periods observed even before the suspension, the Offer may represent a realistic exit opportunity for the Shareholders to realise their entire investment for cash.*
- (vi) *Any comparison of the Offer Price to the historical trading performance of the Shares may not be meaningful given the Shares have been suspended since 14 January 2019. Various material events and developments announced subsequent*

LETTER TO SHAREHOLDERS

to the suspension of the Shares (inter alia, matters pertaining to YFC Corporate Guarantee and BOC Corporate Guarantee, disposal of JJP and Taixing Sunke, concerns on governance, compliance and the possibly unclear state of affairs, the Disclaimer of Opinion on, inter alia, going concern assumption, etc), which are likely to be price sensitive, and which may possibly have implications for the transacted prices for the Shares, had trading for Shares not been suspended. Hence, the last closing price for the Shares or traded prices for Shares immediately preceding or prior to the Trading Halt Date may not be reflective of the Company's recent developments as well as the Group's financial performance and position.

- (vii) *Not fair or unfavourable comparison with the valuation of the Selected Comparable Companies.*

The valuation of the Group (as implied by the Offer Price and based on the Adjusted LTM EBITDA and LTM Adjusted Loss After Tax) in terms of LTM EV/EBITDA and LTM PER respectively, is negative and not meaningful.

In addition, the valuation of the Group in terms of P/NAV and P/NTA ratios (as implied by the Offer Price and the Group's NAV per Share and NTA per Share as at 31 December 2019) appears to be lower than any of the Selected Comparable Companies. We understand from Management that Jiutian Chemical which has, inter alia, business activities and products/services in the chemical industry and is based in the PRC, may be the most comparable to the Company among the Selected Comparable Companies. The valuation of the Group (as implied by the Offer Price and the Group's NAV or NTA per Share as at 31 December 2019) in terms of both P/NAV and P/NTA ratios is significantly lower than that for Jiutian Chemical. The Offer Price is lower than the estimated market values of the Shares based on, inter alia, the Group's NAV and NTA per Share as at 31 December 2019 and the simple average of P/NAV and P/NTA for the Selected Comparable Companies, and after incorporating control premiums. The estimated market values are subject to assumptions of, inter alia, resumption of trading for the Shares and transferability of the Shares.

- (viii) *Generally reasonable or favourable comparison with the Selected Successful Privatisations - the valuation of the Group as implied by the Offer Price in terms of premiums/discounts over/from historical prices for the Shares. We note that any comparison of the Offer Price to the historical trading performance of the Shares may not be meaningful given that the Shares have been suspended since 14 January 2019, as described in paragraph (vi) above.*

Not fair or unfavourable comparison with the Selected Successful Privatisations as the valuation of the Group (as implied by the Offer Price and NAV per Share) in terms of the P/NAV ratio, and it appears to be out of the range, lower than the minimum and less favourable as compared to any of the Selected Successful Privatisations.

When considered in the context of the shareholdings of the Offeror and its Concert Parties at the start of the Offer as set out in the Offer Announcement and the Offer Document, which is within the range and at the minimum for the percentage of shareholding interest for each of the offeror and parties acting in concert as at the start for the Selected Successful Privatisations, the valuation of the Group as implied by the Offer Price in terms of both premiums/discounts over/from historical prices for the Shares is generally comparable to the Selected Successful Privatisations, given inter alia the weak financial performance (based on the Adjusted Loss After Tax) and financial position, Disclaimer of Opinion, uncertainties on the Group's ability to continue as a going concern, and suspension etc.

LETTER TO SHAREHOLDERS

- (ix) *Generally, reasonable or comparable with the Selected Successful Delistings - the valuation of the Group as implied by the Offer Price in terms of premiums/discounts over/from historical prices for the Shares. We note that any comparison of the Offer Price to the historical trading performance of the Shares may not be meaningful given that the Shares have been suspended since 14 January 2019, as described in paragraph (vi) above.*

Not fair or unfavourable comparison with the Selected Successful Privatisations Delistings as the valuation of the Group (as implied by the Offer Price and NAV per Share) in terms of the P/NAV ratio, and it appears to be to be out of the range, lower than the minimum and less favourable as compared to any of the Selected Successful Delistings.

When considered in the context of the shareholdings of the Offeror and its Concert Parties at the start of the Offer, as set out in the Offer Announcement and Offer Document, which is within the range, and at the minimum for the Selected Successful Delistings, the valuation of the Group as implied by the Offer Price in terms of both premiums/discounts over/from historical prices for the Shares and the NAV per Share in terms of P/NAV ratio, appears in general to be comparable to the Selected Successful Delistings, given, inter alia, the weak financial performance (based on the Adjusted Loss After Tax) and financial position, Disclaimer of Opinion, uncertainties on the Group's ability to continue as a going concern, and suspension etc.

- (e) *Our analysis as set out in Section 9.2 of this Letter suggests that the Company's dividend pay-out or yield is relatively not favourable when compared to the Selected Comparable Companies (save for Jiutian Chemical), and the dividend yield of STI ETF.*
- (f) *As at the Latest Practicable Date, the Offer is conditional upon the Minimum Acceptance Condition. The Offeror is making the Offer with a view to delisting and privatising the Company. In the event, that the trading of Shares on the SGX-ST is suspended pursuant to Rule 724, Rule 1105 or Rule 1303(1) of the Listing Manual, the Offeror has no intention to undertake or support any action for any such trading suspension by the SGX-ST to be lifted. Further, when entitled, the Offeror intends to exercise its right to compulsorily acquire all the Offer Shares not acquired under the Offer. The Offeror will then proceed to delist the Company from the SGX-ST.*
- (g) *Disclaimer of Opinion issued by the Independent Auditor for the FS2019, and the Independent Auditor's statements therein, inter alia, that they were unable to conclude whether the use of the going concern assumption, which has been adopted in the preparation of the accompanying financial statements, is appropriate.*
- (h) *Suspension of trading of Shares on 14 January 2019, arising from concerns on the Group's ability to continue as a going concern pursuant to demands arising from YFC Corporate Guarantee and BOC Corporate Guarantee extended to purported third parties. In the event the Company is unable to resolve, inter alia, these issues to the satisfaction of the SGX-ST, the Company's Shares may remain suspended. As at the Latest Practicable Date, the Company's Shares remain suspended.*

We note that the Company is, inter alia, required to submit Resumption Proposals to the Exchange with a view to resuming trading in its securities within 12 months of the date of suspension. If no resumption proposals are received to enable trading to resume within 12 months of the date of suspension, the Exchange may remove the issuer from the Official List. As at the Latest Practicable Date, it is already more than 12 months since the date of suspension. There are significant uncertainties as to the ability of the Company to resume trading and on whether the Company may continue to remain on (and not be removed from) the Official List.

LETTER TO SHAREHOLDERS

We note from Rule 729 of the Listing Manual that where the trading of securities of an issuer is suspended, there must not be any transfers of securities, unless approved by the Exchange. Accordingly, save for the Offer, the ability of Shareholders to exit or dispose or realise their investments is limited, as trading for Shares has been suspended.

- (i) The Company was placed on financial criteria watch-list since 5 June 2018. The Company has 36 months from 5 June 2018 to meet the requirements to be removed from the watchlist under the financial entry criteria, failure of which may subsequently result in the SGX-ST delisting the Company or suspending trading in the Company's Shares with a view to delisting the Company. Whilst the Company has recorded consolidated pre-tax profit for the most recently completed financial year, based on the audited FS2019, we note that, inter alia, there is a Disclaimer of Opinion, and concerns on the Company's ability to continue as a going concern. Furthermore, the pre-tax profits for FY2019 included, inter alia, income or gain from the reversal of contingent liabilities; reversal of impairment loss of PPE; gain on disposal of Taixing Sunke, and that if such income or gain are excluded from the Group's pre-tax profits, the Group would have registered a pre-tax loss for FY2019. Moreover, the average market capitalisation of the Company was less than S\$40 million for the last 6 months prior to the Last Trading Day or the last transacted price. The Last Trading Day was prior to suspension and more than 6 months prior to the Latest Practicable Date. There is no assurance or certainty that the Company will be able to satisfy the SGX-ST and meet the criteria for it to be removed from the financial watch list.
- (j) Significant uncertainties and risks associated with ownership of the Shares. There are, inter alia, significant uncertainties ("**Uncertainties**") described in this Letter and where applicable the Circular, with regards to the Group's state of affairs, inter alia, the ability to continue as a going concern, matters as described in the Disclaimer of Opinion, suspension, SGX-ST's notice of compliance in relation to the letters of demand received by the Company's wholly owned subsidiaries, and the circumstances and announcements made as well as the outstanding regulatory requirements for, inter alia, "ratification" of past interested persons transactions, findings, recommendations and implementations (if any) of the Special Audit.
- (k) The Directors' confirmation that (a) no other third parties have approached the Company with an intention to make an offer for the Company; and (b) apart from the Offer being made by the Offeror, no other third party has made a firm offer for the Company as at the Latest Practicable Date.
- (l) Other considerations are set out in paragraph 9 or other such sections of this Letter.

In summary, having regard to our analysis and the consideration in this Letter and after having considered carefully the information available to us and based on market, economic and other relevant conditions prevailing as at the Latest Practicable Date, and subject to, inter alia, our terms of reference and earlier analysis, and confirmations from the Directors that, inter alia, there is no alternative offer, the Offer being a voluntary offer and that save for the Offer, the ability of Shareholders to exit or dispose or realise their investments is limited, as trading for Shares has been suspended, the Offer represents a realistic opportunity for Shareholders to exit or dispose or realise their investments, and for those Shareholders who are not prepared to bear the aforesaid risks associated with the Company a clean cash exit opportunity provided through the Offer. There are, inter alia, significant Uncertainties with regards to the Group as described in this Letter. In addition, the Offer Price is lower than the estimated market values for the Shares as described in Section 8.3 of this Letter. Accordingly, we are of the opinion that the financial terms of the Offer is, on balance, **NOT FAIR BUT REASONABLE**.

LETTER TO SHAREHOLDERS

For the purposes of evaluation of the Offer from a financial point of view, we have adopted the approach that the term “fair and reasonable” comprises two distinct concepts:

- (i) Whether the Offer is “fair” relates to the value of the offer price or consideration compared against the value of the securities subject to the offer (or Shares), which is based strictly on the evaluation of the Offer Price (i.e. by looking at the financial or fundamental analyses of the Offer Price as set out in this Letter and based on information known to us or which is publicly available). An offer is “fair” if the price offered is equal to or greater than the value of the Offeree Securities.
- (ii) Whether the Offer is “reasonable”, after taking into consideration the actual and potential financial impact of other circumstances surrounding the Offer and the Company which we consider relevant (being both quantitative and qualitative factors available and made known to us). This includes but are not limited to, other matters, such as the existing voting rights in the offeree company held by the offeror and its concert parties and the market liquidity of the offeree securities.

We consider the financial terms of the Offer to be **NOT FAIR**, from a financial point of view after factoring, inter alia, the following: -

- (i) The substantial discounts of approximately 83.5% and 83.2% from the Group’s NAV per Share and NTA per Share respectively as at 31 December 2019.
- (ii) Not fair or unfavourable comparison with the valuation of the Selected Comparable Companies. in terms P/NAV or P/NTA ratios. Furthermore, the valuation of the Group (as implied by the Offer Price) and based on the Adjusted LTM EBITDA and Adjusted Loss After Tax in terms of LTM EV/EBITDA and LTM PER is negative and may not be meaningful.

The comparisons were made taking into account, inter alia: (a) the Group’s relatively weaker financial position (in terms of total liabilities to shareholders’ equity and total borrowings to shareholders’ equity ratios); (b) Group’s financial performance in terms of the LTM ROE and LTM net profit margin based on the LTM Adjusted Loss After Tax, which is relatively weaker as compared to the other Selected Comparable Companies, save for Jiutian Chemical; and (c) the Uncertainties.

- (iii) Not fair or unfavourable comparison with the Selected Successful Privatisations as the valuation of the Group (as implied by the Offer Price and NAV per Share) in terms of the P/NAV ratio, and it appears to be out of the range, lower than the minimum and less favourable than any of the Selected Successful Privatisations.
- (iv) Not fair or unfavourable comparison with the Selected Successful Delistings as the valuation of the Group (as implied by the Offer Price and NAV per Share) in terms of the P/NAV ratio, appears to be less favourable as compared to any of the Selected Successful Delistings.
- (v) The Offer Price is lower than the estimated market values for the Shares as described in Section 8.3 of this Letter. We further note that the results from the analysis based on, inter alia, the Selected Comparable Companies, the Selected Successful Privatisations and the Selected Successful Delistings are all not fair.
- (vi) Not fair or unfavourable comparison in terms of dividend payout or yield when compared to the Selected Comparable Companies (save for Jiutian Chemical), and the dividend yield for STI ETF.

LETTER TO SHAREHOLDERS

- (vii) *The Disclaimer of Opinion issued by the Independent Auditors for the FS2019, and, inter alia, their inability to ascertain, or verify, or determine (as may be applicable) the various matters stated therein, thereby limiting the reliance on the use of the information in FS2019 for analysis.*

We consider the financial terms of the Offer to be, on balance, **REASONABLE**, from a financial point of view after factoring, inter alia, the following: -

- (i) *Generally reasonable or favourable comparison with the Selected Successful Privatisations, and reasonable or comparable with the Selected Successful Delistings with regards to the valuation of the Group as implied by the Offer Price in terms of premiums/discounts over/from historical prices for the Shares, given, inter alia, the weak financial performance (based on the Adjusted Loss After Tax) and financial position, Disclaimer of Opinion, uncertainties on the Group's ability to continue as a going concern, or ability to meet the criteria for removal from the financial watch list and suspension etc.*
- (ii) *The Offer Price represents a premium of approximately 27.3% over the last transacted price of S\$0.022 per Share for the Shares on the SGX-ST on 4 January 2019, being the Last Trading Day immediately preceding the Trading Halt Date, and premiums of approximately 16.7% and 40.0% over the VWAP for the Shares for the Period for 6-months and 1-month periods prior to the Last Trading Day respectively.*
- (iii) *Any comparison of the Offer Price to the historical trading performance of the Shares may not be meaningful given the Shares have been suspended since 14 January 2019. Various material events and developments announced subsequent to the suspension of the Shares (inter alia, matters pertaining to YFC Corporate Guarantee and BOC Corporate Guarantee, disposal of JJP and Taixing Sunke, concerns on governance, compliance and the possibly unclear state of affairs, the Disclaimer of Opinion on, inter alia, going concern assumption, etc), which are likely to be price sensitive may possibly have implications for the transacted prices for the Shares, had trading for Shares not been suspended. Hence, the last closing price for the Shares or traded prices for Shares immediately preceding or prior to the Trading Halt Date may not be reflective of the Company's recent developments as well as the Group's financial performance and position. This has implications on the analysis of the Offer Price in terms of historical premiums on its own or for comparisons with Selected Successful Privatisations and Selected Successful Delistings.*
- (iv) *Low liquidity for the Shares (in terms of daily average trading volume) and frequency of trading of Shares even prior to suspension, and the Offer Announcement Date. Various material events and developments announced after the suspension of the Shares (which are likely to be price sensitive) may possibly have implications for the transacted prices for the Shares, had trading for Shares not been suspended. Hence, the last closing price for the Shares or traded prices for Shares immediately preceding or prior to the Trading Halt Date may not be reflective of the Company's recent developments as well as the Group's financial performance and position. There is no assurance that after the Offer and in the event that the suspension for trading of Shares is lifted, that the prices for which Shares will be traded or its liquidity will be maintained at levels prior to suspension (or that prices for Shares will be more than the Offer Price). Given the low liquidity of the Shares (in terms of number of Shares traded on a daily basis) and the frequency of trading during the periods observed even before suspension, the Offer may represent a realistic exit opportunity for the Shareholders to realise their entire investment for cash.*

LETTER TO SHAREHOLDERS

- (v) *The Uncertainties as described in this Letter and where applicable the Circular, with regards to the Group's state of affairs, inter alia, the ability to continue as a going concern, matters as described in the Disclaimer of Opinion, suspension, SGX-ST's notice of compliance in relation to the letters of demand received by the Company's wholly owned subsidiaries and the circumstances and announcements made as well as the outstanding regulatory requirements for, inter alia, "ratification" of past interested persons transactions, findings and implementations (if any) of the Special Audit.*
- (vi) *Significant uncertainties as to the ability of the Company to resume trading for its Shares and on whether the Company may continue to remain on (and not be removed from) the Official List.*
- (vii) *No assurance or certainty that the Company will be able to satisfy the SGX-ST and meet the criteria for it to be removed from the financial watch list.*
- (viii) *Under Rule 729 of the Listing Manual, where the trading of securities of an issuer is suspended, there must not be any transfers of securities, unless approved by the Exchange. Accordingly, save for the Offer, the ability of Shareholders to exit or dispose or realise their investments is limited, as trading for Shares has been suspended. The Offer represents a realistic opportunity for Shareholders to exit or dispose or realise their investments, and for those Shareholders who are not prepared to bear the aforesaid risks associated with the Company a clean cash exit opportunity provided through the Offer.*
- (ix) *The Director's confirmation that (a) no other third parties have approached the Company with an intention to make an offer for the Company; and (b) apart from the Offer being made by the Offeror, no other third party has made a firm offer for the Company as at the Latest Practicable Date.*

ACA's Recommendation on the Offer

Based on our assessment of the financial terms of the Offer, which is NOT FAIR BUT REASONABLE as set out above, we advise the Independent Directors that they should recommend that Shareholders ACCEPT the Offer. This is despite our views that the Offer being "not fair", the Offer is "reasonable" after taking into consideration other matters as well as the value of the Shares. In addition, the Offer represent a realistic opportunity for Shareholders to realise their entire investment in cash taking into account, inter alia: the traded prices and low liquidity for the Shares (in terms of daily average trading volume) prior to the suspension or the Offer Announcement Date and the uncertainty as to whether the traded prices or volumes of Shares traded or its frequency will be maintained at levels prior to suspension; the Uncertainties with regards to the Group's state of affairs, inter alia, the Escrow Accounts remain restricted as at the Latest Practicable Date; the ability to continue as a going concern; ability of the Company to resume trading for its Shares; whether the Company may continue to remain on (and not be removed from) the Official List; no assurance or certainty that the Company will be able to satisfy the SGX-ST, inter alia, to meet the criteria for it to be removed from the financial watch list; and in the absence of an alternative offer.

Further under Rule 729 of the Listing Manual, where the trading of securities of an issuer is suspended, there must not be any transfers of securities, unless approved by the Exchange. Accordingly, save for the Offer, the ability of Shareholders to exit or dispose or realise their investments is limited, as trading for Shares has been suspended. The Offer represents a realistic opportunity for Shareholders to exit or dispose or realise their investments, and for those Shareholders who are not prepared to bear the aforesaid risks associated with the Company a clean cash exit opportunity provided through the Offer.

LETTER TO SHAREHOLDERS

Matters to highlight

We would also wish to highlight the following matters which may affect the decisions or actions of Shareholders: –

1. *If the Shareholders are considering selling their Offer Shares in the open market, they should note that trading for the Shares has been suspended. Further, under Rule 729 of the Listing Manual, where the trading of securities of an issuer is suspended, there must not be any transfers of securities, unless approved by the Exchange.*
2. *The Offeror in Section 1.6 of Appendix 1 of the Offer Document has stated that the Offeror reserves the right to revise the terms of the Offer at such time and in such manner as it may consider appropriate. If the Offer is revised, the Offer will remain open for acceptance for at least 14 days from the date of despatch of the written notification of the revision to Shareholders. In any case where the terms are revised, the benefit of the Offer (as so revised) will be made available to each of the Shareholders who had previously accepted the Offer.*
3. *Whilst the possibility of a higher offer from a third party cannot be ruled out, as at the Latest Practicable Date, we are not aware of any publicly available evidence of an alternative offer for the Shares. Shareholders should be aware that the chances of such an alternative offer for Shares being made by a third party may be affected by the fact that as at the Latest Practicable Date, the Shares are suspended and there are, inter alia, Uncertainties.*
4. *The Offeror is making the Offer with a view to delist or privatise the Company from the SGX-ST and if entitled to under the Companies Act, the Offeror intends to compulsorily acquire all the Offer Shares.*
5. *In the event the Company does not meet the free float requirement, the Offeror does not intend to preserve the listing status of the Company.*
6. *In the event that the trading of Shares on the SGX-ST is suspended pursuant to Rule 724, Rule 1105 or Rule 1303(1) of the Listing Manual, the Offeror has no intention to undertake or support any action for any such trading suspension by the SGX-ST to be lifted.*
7. *The Directors confirmed that as at the Latest Practicable Date and save for matters disclosed in the Circular, this Letter and the audited financial statements for the Group for FY2019, there has been no material changes to the Group's assets and liabilities, financial position, condition and performance.*
8. *Our scope does not require us and we have not made any independent evaluation of the Group (including without limitation, market value or economic potential) or appraisal of the Group's assets and liabilities (including without limitation, property, plant and equipment and assets held for sale) or contracts entered into by the Company or the Group and we have not been furnished with any such evaluation and appraisal in respect of assets and liabilities (if any) held or contracts entered into by the Group. With respect to such valuation, we are not experts in the evaluation or appraisal of assets and liabilities (including without limitation, property, plant and equipment and assets held for sale where applicable) including, inter alia, the contracts that the Group has embarked upon or are about to embark upon and have relied on the opinion of the Directors.*

LETTER TO SHAREHOLDERS

Limitations

It is also to be noted that as trading of the Shares is subject to possible market fluctuations and accordingly, in the event that the Company resumes trading in the future, our advice on the Offer does not and cannot take into account the future trading activities or patterns or price levels that may be established for the Shares since these are governed by factors beyond the ambit of our review and also such advice, if given, would not fall within our terms of reference in connection with the Offer.

For our opinion and recommendation, we have not had regard to the general or specific investment objectives, financial situation, tax position, risk profiles or unique needs and constraints or plans of any individual Shareholder, or group of Shareholders. As different Shareholders or groups of Shareholders would have different investment profiles and objectives, we would advise Independent Directors to recommend that any individual Shareholder or group of Shareholders who may require advice in the context of his specific investment portfolio, including his investment in the Company, should consult his stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately."

10.4 Recommendation of the Independent Directors

The Independent Directors, having considered carefully the terms of the Offer and the advice given by the IFA to the Independent Directors in the IFA Letter, **concur** with the advice of the IFA in respect of the Offer as set out in **Section 10.3(c)** of this Circular and in the IFA Letter. Accordingly, the Independent Directors recommend that Shareholders **accept** the Offer, unless there is a superior offer or the Shareholders are able to obtain a price higher than the Offer Price on the open market, taking into account all the brokerage commissions or transactions costs in connection with open market transactions.

Shareholders are advised to read the terms and conditions of the Offer Document carefully. Shareholders are also advised to read and consider carefully the recommendation of the Independent Directors and the IFA Letter set out in Appendix A to this Circular in their entirety before deciding whether to accept or reject the Offer. Shareholders should note that the IFA's advice to the Independent Directors and the recommendation of the Independent Directors in respect of the Offer should not be relied upon by any Shareholder as the sole basis for deciding whether or not to accept or reject the Offer.

Shareholders should note that transactions of the Shares are subject to performance and prospects of the Group, prevailing economic conditions, economic outlook and possible market fluctuations and accordingly, the advice by the IFA to the Independent Directors on the Offer does not and cannot take into account the future transactions or price levels that may be established for the Shares since these are governed by factors beyond the ambit of the IFA's review.

In rendering the above advice and making the above recommendation, the IFA and the Independent Directors have not considered the specific investment objectives, financial situation, tax status, risk profiles or unique needs and constraints of any individual Shareholder. **As different Shareholders would have different investment profiles and objectives, the Independent Directors recommend that any individual Shareholder who may require specific advice in relation to his/her investment portfolio or objectives and/or the Offer should consult his/her stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.**

11. OVERSEAS SHAREHOLDERS

Section 13 of the Offer Document sets out certain information in relation to the Overseas Shareholders, extracts of which are set out below.

"13.1 Overseas Jurisdictions. *This Offer Document does not constitute an offer to sell or the solicitation of an offer to subscribe for or buy any security, nor is it a solicitation of any vote or approval in any jurisdiction, nor shall there be any sale, issuance or transfer of the*

LETTER TO SHAREHOLDERS

securities referred to in this Offer Document in any jurisdiction in contravention of applicable law.

The release, publication or distribution of this Offer Document and the Acceptance Forms in certain jurisdictions may be restricted by law and therefore persons in any such jurisdictions into which this Offer Document is released, published or distributed should inform themselves about and observe such restrictions.

Copies of this Offer Document and the Acceptance Forms are not being, and must not be, directly or indirectly, mailed or otherwise forwarded, distributed or sent in or into or from any jurisdiction where the making of or the acceptance of the Offer will violate the laws of that jurisdiction ("**Restricted Jurisdiction**") and will not be capable of acceptance by any such use, instrumentality or facility within any Restricted Jurisdiction and persons receiving such documents (including custodians, nominees and trustees) must not mail or otherwise forward, distribute or send them in or into or from any Restricted Jurisdiction.

The Offer (unless otherwise determined by the Offeror and permitted by applicable law and regulation) will not be made, directly or indirectly, in or into, or by the use of mails of, or by any means or instrumentality (including, without limitation, telephonically or electronically) of interstate or foreign commerce of, or any facility of a national, state or other securities exchange of, any Restricted Jurisdiction and the Offer will not be capable of acceptance by any such use, means, instrumentality or facilities.

- 13.2 **Overseas Shareholders.** The availability of the Offer to Shareholders whose addresses are outside Singapore as shown in the Register or in the Depository Register (as the case may be) (each, an "**Overseas Shareholder**") may be affected by the laws of the relevant overseas jurisdictions in which they are located. Accordingly, Overseas Shareholders should inform themselves of, and observe, any applicable requirements in the relevant overseas jurisdictions.

For the avoidance of doubt, the Offer will be open to all Shareholders, including those to whom the Offer Document and the relevant Acceptance Forms may not be sent.

It is the responsibility of Overseas Shareholders who wish to accept the Offer to (a) request for this Offer Document, the Acceptance Forms and/or any related documents, or (b) satisfy themselves as to the full observance of the laws of the relevant overseas jurisdiction in that connection, including the obtaining of any governmental or other consent which may be required, or compliance with other necessary formalities or legal requirements and the payment of any taxes, imposts, duties or other requisite payments due in such jurisdiction. Such Overseas Shareholders shall be liable for any such taxes, imposts, duties or other requisite payments payable and the Offeror, its related corporations, W Capital, CDP, the Receiving Agent and any person acting on their behalf shall be fully indemnified and held harmless by such Overseas Shareholders for any such taxes, imposts, duties or other requisite payments as the Offeror, its related corporations, W Capital, CDP, the Receiving Agent and/or any person acting on their behalf may be required to pay. In (a) requesting for this Offer Document, the Acceptance Forms and/or any related documents, or (b) accepting the Offer, each Overseas Shareholder represents and warrants to the Offeror and W Capital that he is in full observance of the laws of the relevant jurisdiction in that connection and that he is in full compliance with all necessary formalities or legal requirements.

Any Overseas Shareholder who is in doubt about his position should consult his professional adviser in the relevant jurisdiction.

- 13.3 **Copies of the Offer Document and the relevant Acceptance Forms.** Where there are potential restrictions on sending this Offer Document and the relevant Acceptance Forms to any overseas jurisdiction, the Offeror and W Capital each reserves the right not to send these documents to Overseas Shareholders in such overseas jurisdictions. Subject to compliance with applicable laws, any affected Overseas Shareholder may, nonetheless,

LETTER TO SHAREHOLDERS

attend in person and obtain a copy of this Offer Document, the relevant Acceptance Forms and/or any related documents during normal business hours and up to the Closing Date, (a) from CDP (if he is a Depositor) by contacting CDP's Customer Service Hotline at +65 6535 7511 during their operating hours or emailing CDP at asksgx@sgx.com for instructions on how to obtain a copy of such documents, or (b) from the office of the Share Registrar, Tricor Barbinder Share Registration Services (if he is a scripholder) at 80 Robinson Road #11-02, Singapore 068898. Alternatively, an Overseas Shareholder may, subject to compliance with applicable laws, write to the Offeror: (a) Harrier Group Pte. Ltd. c/o The Central Depository (Pte) Limited at Robinson Road Post Office, P.O. Box 1984, Singapore 903934 (if he is a Depositor), or (b) Harrier Group Pte. Ltd. c/o Tricor Barbinder Share Registration Services at 80 Robinson Road #11-02, Singapore 068898 (if he is a scripholder), to request for the Offer Document, the relevant Acceptance Forms and/or any related documents to be sent to an address in Singapore by ordinary post at his own risk, up to five (5) Market Days prior to the Closing Date.

Electronic copies of this Offer Document and the relevant Acceptance Forms are available on the website of the SGX-ST at <https://www.sgx.com>.

13.4 **Notice.** The Offeror and W Capital each reserves the right to notify any matter, including the fact that the Offer has been made, to any or all Shareholders (including Overseas Shareholders) by announcement to the SGX-ST or notice and if necessary, by paid advertisement in a newspaper published or circulated in Singapore, in which case, such notice shall be deemed to have been sufficiently given, notwithstanding any failure by any Shareholder to receive or see such announcement, notice or advertisement."

12. **ACTION TO BE TAKEN BY THE SHAREHOLDERS**

Shareholders may choose to accept the Offer in respect of all or part of their holdings of the Offer Shares. Shareholders who **wish to accept the Offer** must do so not later than **5.30 P.M. (SINGAPORE TIME) ON THE CLOSING DATE**. Shareholders who wish to accept the Offer should follow the "Procedures for Acceptance" as set out in Appendix 2 to the Offer Document.

Shareholders who **do not wish to accept the Offer** need not take any further action in respect of the Offer Document, the FAA and the FAT and any related documents which have been sent to them.

The detailed procedures for acceptance and settlement of the Offer are set out in Appendices 1 and 2 to the Offer Document. Information pertaining to CPFIS Investors and SRS Investors can also be found in Section 14 of the Offer Document.

13. **CONSENT FROM IFA**

ACA, named as the IFA, has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its name in this Circular, the IFA Letter set out in **Appendix A** to this Circular and all references thereto in the form and context in which they appear in this Circular.

14. **DIRECTORS' RESPONSIBILITY STATEMENT**

The Directors (including those who may have delegated detailed supervision of this Circular) have taken all reasonable care to ensure that the facts stated and all opinions expressed in this Circular (other than those relating to the Offeror, parties acting in concert with the Offeror, the Offer, the IFA, and the IFA Letter as set out in **Appendix A** to this Circular) are fair and accurate and that no material facts have been omitted from this Circular, the omission of which would make any statement in this Circular misleading.

In respect of the IFA Letter, the sole responsibility of the Directors has been to ensure that the facts stated therein with respect to the Group are fair and accurate. Where any information in this Circular (other than the IFA Letter) has been extracted or reproduced from published or otherwise

LETTER TO SHAREHOLDERS

publicly available sources or obtained from the Offeror, the sole responsibility of the Directors has been to ensure, through reasonable enquiries, that such information has been accurately and correctly extracted from such sources or, as the case may be, accurately reflected or reproduced in this Circular in its proper form and context. The Directors jointly and severally accept full responsibility accordingly.

15. **DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents may be inspected at the office of the Company's share registrar, Tricor Barbinder Share Registration Services at 80 Robinson Road, #11-02, Singapore 068898 during normal business hours for the period for which the Offer remains open for acceptance:

- (a) the Offer Announcement;
- (b) the IFA Letter as set out in **Appendix A** to this Circular;
- (c) the Constitution;
- (d) the annual reports of the Company for the financial years ended 31 December 2017 and 31 December 2018 respectively, which include therein the audited consolidated financial statements of the Group for the financial years ended 31 December 2017 and 31 December 2018 respectively;
- (e) the audited consolidated financial statements of the Group for the financial year ended 31 December 2019 as set out in **Appendix E** to this Circular; and
- (f) the letter of consent referred to in **Section 13** of this Circular.

16. **ADDITIONAL INFORMATION**

Your attention is drawn to the additional information set out in the Appendices which form part of this Circular.

Yours faithfully
For and on behalf of
the Board of Directors of
SUNVIC CHEMICAL HOLDINGS LIMITED

Sun Li Hua
Executive Director and Chief Executive Officer

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

LETTER FROM ASIAN CORPORATE ADVISORS PTE. LTD. TO THE INDEPENDENT DIRECTORS OF SUNVIC CHEMICAL HOLDINGS LIMITED

ASIAN CORPORATE ADVISORS PTE. LTD.

(Incorporated in the Republic of Singapore)

(Company Registration No.: 200310232R)

160 Robinson Road #21-05

SBF Center

Singapore 068914

The Independent Directors (as hereinafter defined)

Sunvic Chemical Holdings Limited

112 Robinson Road

#11-01 Robinson 112

Singapore 068902

23 December 2020

VOLUNTARY CONDITIONAL CASH OFFER BY W CAPITAL MARKETS PTE. LTD. FOR AND ON BEHALF OF HARRIER GROUP PTE. LTD ("OFFEROR"). TO ACQUIRE ALL THE ISSUED AND PAID-UP ORDINARY SHARES IN THE CAPITAL OF SUNVIC CHEMICAL HOLDINGS

Unless otherwise defined or where the context otherwise requires, all terms used herein shall have the same meanings as defined in the circular dated 23 December 2020 (the "Circular").

1. INTRODUCTION

On 20 November 2020 ("**Offer Announcement Date**" or "**Announcement Date**"), W Capital Markets Pte. Ltd ("**W Capital**") for and on behalf of Harrier Group Pte. Ltd., issued an announcement (the "**Offer Announcement**" or "**Announcement**"), that the Offeror intends to make a voluntary conditional cash offer (the "**Offer**") for all the issued and paid-up ordinary shares (the "**Shares**") in the capital of Sunvic Chemical Holdings Limited (the "**Company**"), other than any Shares already held in treasury and those Shares held, directly or indirectly, by the Offeror as at the date of the Offer (the "**Offer Shares**"), and at an offer price ("**Offer Price**") of S\$0.028 for each Offer Share payable in cash. The Offer for the Offer Shares will be made in accordance with Rule 15 of The Singapore Code on Take-overs and Mergers ("**Code**").

On 9 December 2020, W Capital, for and on behalf of the Offeror announced that the offer document dated 9 December 2020 has been issued by the Offeror ("**Offer Document**"), setting out, *inter alia*, the terms and conditions of the Offer and enclosing the relevant form(s) of acceptance has been despatched to the shareholders of the Company ("**Shareholders**").

Asian Corporate Advisors Pte. Ltd. ("**ACA**") has been appointed as the independent financial adviser ("**IFA**") to advise the directors of the Company ("**Directors**"), who are independent for the purpose of making a recommendation to the Shareholders in relation to the Offer ("**Independent Directors**"). We note from the Circular that the Independent Directors comprise Mr Sun Li Hua, Mr Koh Poh Beng and Mr Lua Poh Huat.

This letter ("**Letter**") and any other document, which may be issued by ACA, in respect of the Offer, for the purpose of revising, amending or supplementing or updating (as the case may be) and setting out, *inter alia*, our views and evaluation of the financial terms of the Offer and our recommendations thereon, will form part of the Circular providing, *inter alia*, details of the Offer and the recommendations of the Independent Directors with regard to the Offer. Unless otherwise defined or the context otherwise requires, all terms defined in the Circular shall have the same meaning ascribed herein. All figures (*inter alia*, computations and summation) are subject to rounding.

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

2. TERMS OF REFERENCE

ACA has been appointed to advise the Independent Directors on the financial terms of the Offer and whether the Shareholders should accept or reject the Offer. We do not warrant the merits of the Offer other than to form a view, for the purposes of Rule 7.1 and 24.1 (b) of the Code, as to whether the financial terms of the Offer are fair and reasonable. We have confined our evaluation strictly and solely on the financial terms of the Offer and have not taken into account the commercial risks and/or merits (if any) of the Offer or their strategic merits or the future prospects of the Company and its subsidiaries ("**Group**") including, *inter alia*, the contracts that the Company and the Group has embarked upon or are about to embark upon or the comparison with other deals involving the issued and paid up Shares or the timing or the time extended for the Offer.

Such evaluation or comment remains the responsibility of the Directors and the management of the Company ("**Management**") although we may draw up on their views or make such comments in respect thereof (to the extent deemed necessary or appropriate by us) in arriving at our view as set out in this Letter. We do not express any opinion on the relative merits of the Offer as compared to any other alternative transaction. We were not requested or authorized to solicit, and we have not solicited, any indications of interest from any third party with respect to the Offer Shares or assets or businesses of the Group. In addition, we do not express any views or opinions on the legality of the Offer or all other matters pertaining to the Offer or documents for the Offer (the Circular and the Offer Document), *inter alia*, the mechanism or processes of acceptances, its eligibility or validity or other alternatives (if any) or the sufficiency of information or any undertakings provided or rights of compulsory acquisition under the Companies Act, Chapter 50 of Singapore ("**Act**" or "**Companies Act**") or the requirement for a valuation or forecast or prospect statement or its contents pursuant to the Code. Our scope does not include determining the independence of the Independent Directors for the purpose of making recommendation in respect of the Offer.

In the course of our evaluation, we have held discussions with Directors and Management regarding their assessment of the rationale for the Offer and have examined publicly available information collated by us, including the unaudited and audited financial statements as well as information, both written and verbal, provided to us by the Directors and Management and professional advisers of the Company, including its consultants or advisers, solicitors, auditors and valuers (where applicable). We have not independently verified such information but have made such reasonable enquiries and used our judgement as we deemed necessary on the reasonable use of such information and have found no reason to doubt the accuracy or reliability of the information. Accordingly, we cannot and do not expressly or impliedly represent or warrant, and do not accept any responsibility for the accuracy, completeness or adequacy of such information or the manner it has been classified or presented.

We have relied upon the assurance of the Directors and Management that all statements of fact, belief, opinion and intention made by the Directors and the Management in the Circular have been reasonably made after due and careful enquiry. Accordingly, no representation or warranty, expressed and implied, is made and no responsibility is accepted by us concerning the accuracy, completeness or adequacy of such information.

Our evaluation is based solely on publicly available information and other information provided by the Company as well as the economic and market conditions prevailing as at 13 December 2020 (the "**Latest Practicable Date**"), and therefore does not reflect expected financial performance after the financial year ended 31 December ("**FY**" or "**FYE**") 2019 ("**FY2019**") for the Group. Accordingly, we have not commented on or assessed the expected future performance or prospects of the Company or the Group or the Shares, irrespective of the outcome of the Offer. Accordingly, our evaluation and opinion and recommendation do not and cannot take into account the future or prospective performance and neither are we responsible for it or for any updates pursuant to any announcements subsequent to the issuance of this Letter or the timing of the Offer or the dates for issuance of the Circular. Accordingly, any estimates or analysis or evaluation of the merits of the Company or the Group or the Shares in this Letter are necessarily limited and we do not warrant or represent that it is complete or in entirety.

Our scope does not require us and we have not made any independent evaluation of the Group (including without limitation, market value or economic potential) or appraisal of the Group's assets and liabilities (including without limitation, property, plant and equipment and investment properties

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

held) or contracts entered into by the Company or the Group and we have not been furnished with any such evaluation and appraisal in respect of assets and liabilities (if any) held or contracts entered into by the Group. With respect to such valuation, we are not experts in the evaluation or appraisal of assets and liabilities (including without limitation, property, plant and equipment and investment properties held) including, *inter alia*, where applicable the contracts that the Group has embarked upon or are about to embark upon and have relied on the opinion of the Directors. For the purposes of this Offer, Directors have represented that that no valuation has been conducted by the Group in connection with the Offer and that valuations of the Group's assets will not be a significant factor in the assessment of Offer.

The Directors are of the opinion that the values of the assets and liabilities as well as the financial performance or condition of the Group as reflected in the audited financial statements for the Group for FY2019 are true and fair. The Directors have also confirmed that to the best of their knowledge, nothing has come to their attention which may render the Group's audited financial statements for FY2019 to be false or misleading in any material aspect. In addition, the Directors have confirmed that to the best of their knowledge and belief, such information is true, complete and accurate in all respects and that there is no other information or fact, *inter alia*, the valuation or appraisal of assets and liabilities, the contracts or agreements that the Group has embarked upon or are about to embark upon, the omission of which would render those statements or information to be untrue, inaccurate, incomplete or misleading.

The Directors further confirmed that, to the best of their knowledge, as at the Latest Practicable Date and save for matters disclosed in the Circular, this Letter, the Group's audited financial statements for FY2019, there has been no material changes to the Group's assets and liabilities, financial position, condition and performance. We also note from Appendix B1 of the Circular that save as disclosed in the Circular and in publicly available information on the Company (including but not limited to the audited consolidated financial statements of the Group for FY2019 as set out in Appendix E to the Circular and the announcements released by the Company in respect of its financial results or other matters), as at the Latest Practicable Date, there have been no known material changes in the financial position of the Company since 31 December 2019, being the date to which the Company's last published audited accounts were made up.

In addition, our analysis is limited and subject to, *inter alia*, the disclaimer of opinion ("**Disclaimer of Opinion**") issued by the independent auditor named therein ("**Independent Auditor**") for financial statements ("**FS**") for FY2019 of the Group ("**FS2019**") dated 9 December 2020, and the statements therein from the Independent Auditor that they have opined that they unable to conclude whether the use of the going concern assumption, which has been adopted in the preparation of the accompanying financial statements, is appropriate.

Our opinion in this Letter is based on economic, market, industry, monetary and other conditions (if applicable), and the information provided to us, as at the Latest Practicable Date. Accordingly, the bases or assumptions and likewise our views or opinion or recommendation may and do change in the light of these developments which, *inter alia*, includes general as well as company-specific or industry-specific conditions or sentiments or factors or levels of acceptances after the Latest Practicable Date. The Independent Directors should note that our evaluation is based solely on publicly available information and such other information provided by the Company or its Directors or Management as well as the economic and market conditions prevailing as at the Latest Practicable Date, and therefore does not reflect expected financial performance after FY2019 or the Latest Practicable Date for the Group or developments (both macro and company-specific) and that these factors do and will necessarily affect the evaluation of the Offer and our recommendation or opinion or views.

The Directors have collectively and severally accepted full responsibility, as set out in the Circular, for the truth, accuracy and completeness of all information and representations as provided by the Directors and contained herein. The Directors have confirmed to ACA that to the best of their knowledge and belief, all material information including but not limited to plans or prospects or proposals involving acquisition or issuance of securities, or changes to its capital structure available to them and the Management in connection with the Company, the Group, the Offer or the Offeror or such other parties has been disclosed to ACA in its entirety and included in the Circular, that such information is true, complete and accurate in all material respects and that there is no other

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

information or fact including the financial performance or expected future performance or future growth prospects or restructuring plans (if applicable) of the Company or the Group, the omission of which would result in the facts stated and the opinions expressed by the Directors in the Circular or this Letter to be untrue, inaccurate or incomplete in any respect or misleading. Accordingly, no representation or warranty, expressed or implied, is made and no responsibility is accepted by ACA concerning the truth, accuracy, completeness or adequacy of such information or facts.

The scope of our appointment does not require us to express, and we do not express, a view on the future growth prospects of the Company or the Group or the ability of the Group to continue as a going concern or resume of trading of the Shares, or to exit the financial watchlist or the Company's ability to satisfy any listing requirements of the Singapore Exchange Securities Trading Limited ("**SGX-ST**" or "**Exchange**") before and after the Offer. We are therefore not expressing any view herein as to the returns that the Shareholders may have owning the Shares upon completion or close of the Offer or on the future financial performance of the Company or the Group or the plans (if any) that the Offeror may have for the Company. In rendering our advice and giving our recommendation, we have not had regard to the general or specific investment objectives, financial situation, tax position, risk profiles or unique needs and constraints or particular circumstances of any individual Shareholder. As each Shareholder would have different investment profiles and objectives, horizons and risk profiles, we would advise Independent Directors to recommend that any Shareholder, who may require advice in the context of his specific investment objective(s), investment portfolio(s), including his investment in the Company, should consult his stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.

Accordingly, any factor or assumption or basis as well as the relative emphasis on any matter set out in this Letter on the Offer or the Company or the Group or the Shares which we used or may have used may differ from the relative emphasis accorded by any individual Shareholder or Independent Director, and as such Independent Directors are advised to highlight to Shareholders as well as note for themselves that any reliance on our opinion or view or assessment, is subject to the contents of this Letter in its entirety. In addition, ACA will not be responsible or required to provide an updated assessment or opinion or views of the Offer or its recommendation, following the date of the issue of this Letter.

Accordingly, our Letter or opinion or views or recommendation should not be used or relied by anyone for any other purposes and should only be used by the Independent Directors, subject to our terms of reference and the contents of this Letter as one of the basis for their opinions or views or recommendation. In addition, any references to our Letter as one of the basis for their opinion, views or recommendation, should not be made except with our prior consent in writing and even if made with our prior consent in writing, shall be subject to the contents of this Letter in its entirety, *inter alia*, the matters, conditions, assumptions, limitations, factors, and bases as well as our terms of reference for this Letter.

3. TERMS AND CONDITIONS OF THE OFFER

The principal terms and conditions of the Offer, as extracted from, *inter alia*, Sections 2 and 3 of the Offer Document, are set out in italics below. We recommend that Shareholders read the terms and conditions contained therein carefully.

"2. THE OFFER

- 2.1 *Offer Shares. W Capital, for and on behalf of the Offeror, hereby makes the Offer to acquire all the Shares other than those already held by the Company as treasury Shares ("**Offer Shares**") in accordance with Rule 15 of the Code and on the terms and subject to the conditions set out in this Offer Document and the Acceptance Forms.*
- 2.2 ***Offer Price.** The consideration for each Offer Share is **S\$0.028 in cash** ("**Offer Price**").*
- 2.3 ***No Encumbrances.** The Offer Shares are to be acquired (a) fully paid, (b) free from all Encumbrances, and (c) together with all rights, benefits, entitlements and advantages attached thereto as at the Offer Announcement Date, and thereafter attaching thereto, including but not limited to all voting rights and the right to receive and retain all dividends, rights, distributions, returns of capital and/or other entitlements (if any) ("**Distributions**").*

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

which may be announced, declared, paid or made thereon by the Company on or after the Offer Announcement Date.

If any Distributions is announced, declared, paid or made by the Company on or after the Offer Announcement Date, the Offeror reserves the right to reduce the Offer Price by an amount equivalent to such Distribution.

- 2.4 **Minimum Acceptance Condition.** The Offer is conditional upon the Offeror having received, by the close of the Offer, valid acceptances in respect of such number of Offer Shares which, when taken together with the Shares owned, controlled or agreed to be acquired by the Concert Group (either before or during the Offer and pursuant to the Offer or otherwise), will result in the Concert Group holding such number of Shares carrying more than 50% of the voting rights attributable to the issued Shares (excluding treasury Shares) as at the close of the Offer ("**Minimum Acceptance Condition**").

Save for the Minimum Acceptance Condition, the Offer is unconditional in all other respects.

- 2.5 **Warranty.** A Shareholder who tenders his Offer Shares in acceptance of the Offer will be deemed to unconditionally and irrevocably represent, warrant and undertake to the Offeror that he sells such Offer Shares as or on behalf of the beneficial owner(s) thereof, (a) fully paid, (b) free from all Encumbrances, and (c) together with all rights, benefits, entitlements and advantages attached thereto as at the Offer Announcement Date and thereafter attaching thereto, including the right to receive and retain all Distributions (if any) declared, paid or made by the Company in respect of the Offer Shares on or after the Offer Announcement Date."

"3. FURTHER DETAILS OF THE OFFER

Appendix 1 to this Offer Document sets out further details on (a) the duration of the Offer, (b) the settlement of the consideration for the Offer, (c) the requirements relating to the announcement(s) of the level of acceptances of the Offer and (d) the right of withdrawal of acceptances of the Offer."

The following are salient extracts form Appendix 1 of the Offer Document.

"1. DURATION OF THE OFFER

- 1.1 **First Closing Date.** The Offer is open for acceptance by Shareholders for at least 28 days from the Despatch Date, unless the Offer is withdrawn with the consent of the SIC and every person released from any obligation incurred thereunder. **Accordingly, the Offer will close at 5.30 p.m. on 6 January 2021 or such later date(s) as may be announced from time to time by or on behalf of the Offeror.**
- 1.2 **Subsequent Closing Date(s).** If the Offer is extended and:
- (a) the Offer is not unconditional as to acceptances as at the date of such extension, the announcement of the extension must state the next Closing Date; or
 - (b) the Offer is unconditional as to acceptances as at the date of such extension, the announcement of the extension need not state the next Closing Date but may state that the Offer will remain open until further notice. In such a case, the Offeror must give Shareholders at least 14 days' prior notice in writing before it may close the Offer.
- 1.3 **No Obligation to Extend the Offer.** The Offeror is not obliged to extend the Offer if the condition of the Offer as set out in Section 2.4 (Minimum Acceptance Condition) of the Letter to Shareholders in this Offer Document is not fulfilled by the Closing Date.
- 1.4 **Offer to Remain Open for 14 Days After Being Declared Unconditional as to Acceptances.** Pursuant to Rule 22.6 of the Code, if the Offer becomes or is declared unconditional as to acceptances, the Offer will remain open for a period ("**Rule 22.6**

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

Period") of not less than 14 days after the date on which the Offer would otherwise have closed, in order to give Shareholders who have not accepted the Offer the opportunity to do so.

This requirement does not apply if, before the Offer has become or is declared unconditional as to acceptances, the Offeror has given Shareholders at least 14 days' notice in writing ("Shut-Off Notice") that the Offer will not be open for acceptance beyond a specified Closing Date, provided that:

- (a) the Offeror may not give a Shut-Off Notice in a competitive situation; and*
- (b) the Offeror may not enforce a Shut-Off Notice, if already given, in a competitive situation.*

For these purposes, the SIC would normally regard a "competitive situation" to have arisen if a competing offer for the Company has been announced.

If a declaration that the Offer is unconditional is confirmed in accordance with paragraph 4.2(a) (Right of Withdrawal of Shareholders) of this Appendix 1, the Rule 22.6 Period will run from the date of such confirmation or the date on which the Offer would otherwise have closed, whichever is later.

1.5 Final Day Rule. *The Offer (whether revised or not) will not be capable:*

- (a) of becoming or being declared unconditional as to acceptances after 5.30 p.m. (Singapore time) on the 60th day after the Despatch Date; or*
- (b) of being kept open after the expiry of such 60-day period unless the Offer has previously become or been declared to be unconditional as to acceptances,*

provided that the Offeror may extend the Offer beyond such 60-day period with the SIC's prior consent ("Final Day Rule"). The SIC will normally grant such permission if a competing offer has been announced.

1.6 Revision. *The Offeror reserves the right to revise the terms of the Offer at such time and in such manner as it may consider appropriate. If the Offer is revised, the Offer will remain open for acceptance for at least 14 days from the date of despatch of the written notification of the revision to Shareholders. In any case where the terms are revised, the benefit of the Offer (as so revised) will be made available to each of the Shareholders who had previously accepted the Offer."*

The Offeror reserves the right to revise the terms of the Offer at such time and in such manner as it may consider appropriate. If the Offer is revised, the Offer will remain open for acceptance for at least 14 days from the date of despatch of the written notification of the revision to Shareholders. In any case where the terms are revised, the benefit of the Offer (as so revised) will be made available to each of the Shareholders who had previously accepted the Offer.

In addition, we note that whilst the Offer Price has been determined on the basis that the Offer Shares will be acquired with the right to receive any distributions which shall have the meaning as ascribed to it in Section 2.3 (No Encumbrances) of the Letter to Shareholders of the Offer Document ("Distributions") that may be announced, declared, paid or made by the Company on or after the Offer Announcement Date, there has been as at the Latest Practicable Date, no announcement for any dividends.

The Offer is conditional upon the Offeror having received, by the close of the Offer, valid acceptances in respect of such number of Offer Shares which, when taken together with the Shares owned, controlled or agreed to be acquired by the Concert Group (either before or during the Offer and pursuant to the Offer or otherwise), will result in the Concert Group holding such number of Shares carrying more than 50% of the voting rights attributable to the issued Shares (excluding treasury Shares) as at the close of the Offer ("**Minimum Acceptance Condition**").

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

Further we note that save for the Minimum Acceptance Condition, the Offer is unconditional in all other respects.

We note that pursuant to the Offer Document, the closing date for the Offer is 5.30 p.m. (Singapore time) on 6 January 2021 or such later date(s) as may be announced from time to time by or on behalf of the Offeror being the last day for the lodgement of acceptances of the Offer ("**Closing Date**").

4. INFORMATION ON THE OFFEROR

The information on the Offeror is set out in italics below has been extracted from Section 5 of the Offer Document. Shareholders should also refer to Appendix 3 of the Offer Document for additional information on the Offeror. All terms and expressions used in the extract below shall have the same meanings as those defined in the Offer Document, unless otherwise stated.

"5 INFORMATION ON THE OFFEROR

- 5.1 **The Offeror.** *The Offeror is an investment holding company incorporated in Singapore on 21 September 2020. The Offeror has not carried on any business since its incorporation. As at the Latest Practicable Date, the Offeror has an issued and paid-up capital of S\$10,000 comprising 10,000 ordinary shares. The sole director and sole shareholder of the Offeror is Mr Song Wuying. The Offeror does not hold any Shares as at the Latest Practicable Date.*

Mr Song Wuying is a private investor and is not related to any director or substantial Shareholder of the Company.

- 5.2 **Additional Information.** *Additional information on the Offeror is set out in Appendix 3 to this Offer Document."*

5. INFORMATION ON THE COMPANY

Information and additional general information on the Company are set out in Section 6 of the Offer Document and Appendices B1, B2, C, D and E of the Circular.

6. THE RATIONALE FOR THE OFFER AND THE OFFEROR'S INTENTION FOR THE COMPANY

The rationale for the Offeror, the Offeror's intention relating to the Company and the compulsory acquisition and listing status, are set out in italics below has been extracted from Sections 7, 8 and 9 respectively of the Offer Document. All terms and expressions used in the extract below shall have the same meanings as those defined in the Offer Document, unless otherwise stated.

"7. RATIONALE FOR THE OFFER

- 7.1 **Intention to Delist and Privatisise the Company.** *The Offeror is making the Offer with a view to delisting and privatising the Company.*
- 7.2 **Opportunity for Shareholders who are not prepared to bear the risks associated with the Company to realise their investment in cash.** *The Company has been placed on the SGX-ST watch-lists under the minimum trading price entry criteria and financial entry criteria pursuant to Rules 1311(2) and 1311(1) respectively of the Listing Manual on 5 June 2018. With effect from 1 June 2020, the minimum trading price entry criteria has been removed and the Company is no longer required to comply with the minimum trading price exit criteria. The Company has 36 months from 5 June 2018 to meet the requirements to be removed from the watchlist under the financial entry criteria, failure of which may subsequently result in the SGX-ST delisting the Company or suspending trading in the Company's Shares with a view to delisting the Company.*

In addition, trading in the Company's securities has been suspended from 14 January 2019 arising from the issues identified in the Company's announcement dated 10 January 2019

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

relating to two of the Company's wholly owned subsidiaries, Yixing Yinyan Import & Export Co., Ltd and Jiangsu Jurong Chemical Co., Ltd, having received letters of demand amounting to an aggregate of approximately RMB 226.7 million in respect of unauthorised significant guarantees purportedly extended by the aforesaid subsidiaries (each of the aforesaid guarantees shall be referred to as "**YFC Corporate Guarantee**" or "**BOC Corporate Guarantee**", and collectively "**Corporate Guarantees**") for loans made by Yixing City Futao Rural Micro Credit Co., Ltd and Bank of China Co., Ltd., Xiangshui County Sub-branch to Jiangsu Donglai Real Estate Development Co., Ltd and Jiangsu Dahe Lvjian Chemical Co., Ltd respectively. Notwithstanding that the Company has on 5 March 2020 announced that the Company has reversed in full the provision of the contingent liabilities in connection with the YFC Corporate Guarantee from the financial statements of the Group as at 31 December 2018 ("**FY2018 Financial Statements**") following the completion of the special audit by Ernst & Young Advisory Pte. Ltd., the Company's independent auditor, Foo Kon Tan LLP, had issued a disclaimer of opinion ("**Disclaimer of Opinion**") in their report dated 19 March 2020 on the FY2018 Financial Statements on the basis of, among other matters described in the Disclaimer of Opinion, the Corporate Guarantees. In the event the Company is unable to resolve these issues to the satisfaction of the SGX-ST, the Company will remain suspended.

Shareholders who are not prepared to bear the aforesaid risks associated with the Company will benefit from the clean cash exit opportunity provided through the Offer.

- 7.3 **Offer Price at a premium to traded benchmark prices at different time periods.** When compared to the benchmark prices of the Shares prior to the Last Trading Day, the Offer Price represents a premium of approximately 21.7%, (3.4)%, 16.7% and (12.5)% over the VWAP per Share for the 1-month, 3-months, 6-months and 12-months periods, respectively, and a premium of approximately 27.3% to the closing price on the Last Trading Day.

The Offer presents the Shareholders with a clean cash exit opportunity to realise their entire investment in the Shares at a premium over the 1-month and 6-months VWAP and the last transacted price of the Shares on the Last Trading Day, without incurring brokerage and other trading costs.

- 7.4 **Greater Management Flexibility.** The Offeror is of the view that the delisting and privatisation of the Company will provide the Offeror and the Company with greater control and management flexibility in utilising and deploying the available resources of the Company and facilitating the implementation of any strategic initiatives and/or operational changes of the Group to achieve greater efficiency and competitiveness.
- 7.5 **Compliance Costs relating to Listing Status.** If the Company is delisted, the Company will be able to save on compliance costs associated with maintenance of a listed status and other regulatory requirements and human resources that have to be committed for such compliance and focus its resources and channel such expenses towards its business operations.

8. OFFEROR'S INTENTIONS FOR THE COMPANY

The Offeror has no current intention to (a) make material changes to the existing business of the Group, (b) re-deploy the Group's fixed assets, or (c) discontinue the employment of the employees of the Group, other than in the ordinary course of business. The Offeror however retains the flexibility at any time to consider options or opportunities which may present themselves.

9. COMPULSORY ACQUISITION AND LISTING STATUS

- 9.1 **Compulsory Acquisition.** Pursuant to Section 215(1) of the Companies Act, if the Offeror receives valid acceptances pursuant to the Offer (or otherwise acquires Shares during the period when the Offer is open for acceptance) in respect of not less than 90% of the total number of issued Shares (other than those already held by the Offeror, its related corporations or their respective nominees as at the date of the Offer and excluding any treasury Shares), the Offeror would be entitled to exercise the right to compulsorily acquire all the Shares of Shareholders who have not accepted the Offer ("**Dissenting Shareholders**") at

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

a price equal to the Offer Price ("**Compulsory Acquisition**").

In such event, the Offeror intends to exercise its right to compulsorily acquire all the Offer Shares not acquired under the Offer. The Offeror will then proceed to delist the Company from SGX-ST.

Dissenting Shareholders have the right under and subject to Section 215(3) of the Companies Act, to require the Offeror to acquire their Shares at the Offer Price in the event that the Offeror, its related corporations or their respective nominees acquire, pursuant to the Offer, such number of Shares which, together with treasury Shares and the Shares held by the Offeror, its related corporations or their respective nominees, comprise 90% or more of the total number of issued Shares. Dissenting Shareholders who wish to exercise such right are advised to seek their own independent legal advice.

Unlike Section 215(1) of the Companies Act, the 90% threshold under Section 215(3) of the Companies Act does not exclude treasury Shares or Shares held by the Offeror, its related corporations or their respective nominees as at the date of the Offer.

- 9.2 ***Listing Status.*** Pursuant to Rule 1105 of the Listing Manual, upon an announcement by the Offeror that acceptances have been received pursuant to the Offer that bring the holdings owned by the Concert Group to above 90% of the total number of issued Shares (excluding treasury Shares), the SGX-ST may suspend the trading of the Shares on the SGX-ST until such time it is satisfied that at least 10% of the total number of issued Shares (excluding treasury Shares) are held by at least 500 Shareholders who are members of the public. Rule 1303(1) of the Listing Manual provides that if the Offeror succeeds in garnering acceptances exceeding 90% of the total number of issued Shares (excluding treasury Shares), thus causing the percentage of the total number of issued Shares (excluding treasury Shares) held in public hands to fall below 10%, the SGX-ST will suspend trading of the Shares only at the close of the Offer.

In addition, under Rule 724(1) of the Listing Manual, if the percentage of the total number of issued Shares (excluding treasury Shares) held in public hands falls below 10%, the Company must, as soon as practicable, announce that fact and the SGX-ST may suspend the trading of all the Shares. Rule 724(2) of the Listing Manual states that the SGX-ST may allow the Company a period of three (3) months, or such longer period as the SGX-ST may agree, to raise the percentage of Shares (excluding treasury Shares) in public hands to at least 10%, failing which the Company may be delisted from the SGX-ST.

The Offeror intends to privatise the Company and does not intend to preserve the listing status of the Company. In the event that the trading of Shares on the SGX-ST is suspended pursuant to Rule 724, Rule 1105 or Rule 1303(1) of the Listing Manual, the Offeror has no intention to undertake or support any action for any such trading suspension by the SGX-ST to be lifted.

7. NO UNDERTAKINGS

We note, as at the Latest Practicable Date and from the Offer Document that there are no undertakings from any Shareholder to accept or reject the Offer, and that neither the Offeror nor any party acting in concert with the Offeror has received any irrevocable undertaking from any other party to accept or reject the Offer.

Further the sole director and sole shareholder of the Offeror is Mr Song Wuying. The Offeror does not hold any Shares as at the Latest Practicable Date, and Mr Song Wuying is a private investor and is not related to any Director or substantial Shareholder of the Company.

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

8. FINANCIAL ASSESSMENT OF THE OFFER

In assessing the financial terms of the Offer from a financial point of view, we have taken into account the following pertinent factors as well as others in the Letter, which we consider will have a significant bearing on our assessment:

- (i) historical financial performance and position of the Group;
- (ii) analysis of the Group's net asset value ("**NAV**") and net tangible assets ("**NTA**");
- (iii) relative valuation analysis;
- (iv) comparison with other successful privatisation and delisting transactions;
- (v) market quotation and trading activities for the Shares; and
- (vi) such other relevant considerations which have significant bearing on our assessment.

These factors are discussed in detail in the ensuing sections.

As at the Latest Practicable Date, the Company only has one (1) class of shares, being ordinary Shares, with equal ranking rights to dividend, voting at general meetings and return of capital. We note from Appendix B1 Section 4 of the Circular, that as at the Latest Practicable Date, the total issued and paid-up Share capital is approximately S\$76,530,402 comprising 533,650,641 Shares (including 1,650,000 treasury Shares).

As at the Latest Practicable Date, the Company has confirmed that it does not have any outstanding instruments convertible into, rights to subscribe for, nor options (whether pursuant to an employee share option scheme or otherwise) in respect of, securities which carry voting rights of the Company.

In our assessment of the Offer, we have applied certain valuation ratios in assessing the reasonableness of the Offer Price. Whilst we have used various valuation methodologies, as described in this Letter, no reliance should be placed on any single methodology, and this Letter should be read in its entirety. A brief description of such valuation ratios are as follows:

- (i) **EV/EBITDA** "**EV**" or "**Enterprise Value**" is defined as the sum of a company's market capitalisation, preferred equity, minority interests, short term and long term debts less its cash and cash equivalents. "**EBITDA**" stands for earnings before interest, tax, depreciation and amortisation but after share of associates' and joint ventures' income but excluding exceptional items.

The "**EV/EBITDA**" multiple is an earnings-based valuation methodology that does not take into account the capital structure of a company as well as its interest, taxation, depreciation and amortisation charges. Therefore, it serves as an illustrative indicator of the current market valuation of the business of a company relative to its pre-tax operating cash flow and performance.

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

- (ii) **Price-to-Earnings (“PER”)** The PER is a widely used earnings-based valuation methodology that illustrates the ratio of the current market price of a company’s shares relative to its net earnings per share. Unlike the EV/EBITDA multiple, the PER is based on the net earnings attributable to shareholders after interest, taxation, depreciation and amortisation expenses. As such, the PER is affected by the capital structure of a company, tax position as well as its depreciation and goodwill policies.
- (iii) **Price-to-NTA (“P/NTA”)** The P/NTA ratio is the ratio of the relevant prices of the shares to the net tangible asset value of the relevant companies. It is an asset-based valuation methodology that illustrates the ratio of the current market valuation of a company relative to its asset backing as measured in terms of its NTA value.

The NTA of a company provides an estimate of its value assuming a hypothetical sale of all its tangible assets, the proceeds of which are first used to repay the liabilities and obligations of that company with the balance available for distribution to its shareholders. The NTA-based approach is widely used for valuing the shares of property-based companies as their tangible asset backings are perceived as providing support for the value of their shares.
- (iv) **Price-to-NAV (“P/NAV”)** The P/NAV ratio is the ratio of the relevant prices of the shares to the net asset value of the relevant companies. It is an asset based valuation methodology that illustrates the ratio of the current market valuation of a company relative to its tangible and intangible asset backing as measured in terms of its NAV value.

The NAV of a company provides an estimate of its value assuming a hypothetical sale of all its tangible and intangible assets, the proceeds of which are first used to repay the liabilities and obligations of that company with the balance available for distribution to its shareholders.

In assessing the financial terms of the Offer, we have taken into account the following pertinent factors (as well as others in this Letter), which we consider will have a significant bearing on our assessment.

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

8.1 HISTORICAL FINANCIAL PERFORMANCE AND POSITION OF THE GROUP

We note from Directors' and Management confirmations that whilst the audited consolidated financial statements of the Group for FY ended 31 December 2018 ("FY2018") and FY2019, which have been finalised and signed, and were announced on 16 December 2020, the said audited financial statements have yet to be approved by the Shareholders.

We recommend that the Directors advise Shareholders to note and review carefully the contents of the audited FS for FY2018 ("FS2018") and the audited FS2019 (which are set out as Appendix D and Appendix E of the Circular respectively) in its entirety.

The following are extracts from the audited consolidated financial statements of the Group for FY2017, FY2018, FY2019:

Summary of income statements

Figures in RMB'000 ⁽¹⁾	Audited FY2019	Audited FY2018	Audited FY2017
<u>Continuing operations</u>			
Revenue	940,381	1,577,098	2,246,712
Gross profit	5,834	33,266	162,176
Other income	389,382	43,757	13,803
Total operating expenses	(275,542)	(689,802)	(156,613)
Finance costs	(48,753)	(73,062)	(73,365)
Profit/(loss) before tax from continuing operations	70,921	(685,841)	(53,999)
Profit/(loss) after tax from continuing operations	70,905	(686,441)	(55,017)
<u>Discontinued operations</u>			
Profit from discontinued operations, net of tax	20,815	13,045	32,154
Profit/(loss) after tax for the year	91,720	(673,396)	(22,863)
Profit/(loss) after tax attributable to owners of the Company	93,363	(630,678)	(20,322)

Summary of statements of financial position

Figures in RMB'000 ⁽¹⁾	Audited FY2019	Audited FY2018	Audited FY2017
Non-current assets	358,605	467,291	1,395,912
Current assets	1,409,975	999,117	1,342,246
Assets of disposal group ⁽³⁾	-	791,883	-
Non-current liabilities	8,205	83,131	236,131
Current liabilities	1,441,946	1,544,009	1,598,407
Liabilities of disposal group ⁽³⁾	-	400,118	-
Total borrowings ⁽²⁾	907,445	645,781	1,219,062
Shareholders' equity	442,449	353,410	983,279
Net working capital	(31,971)	(544,892)	(256,161)

Summary of statements of cash flows

Figures in RMB'000 ⁽¹⁾	Audited FY2019	Audited FY2018	Audited FY2017
Net cash (used in)/generated from operating activities	(271,353)	376,397	524,253
Net cash generated from/(used in) investing activities	878,357	(32,431)	(146,544)
Net cash (used in) financing activities	(607,932)	(491,286)	(414,320)

Notes:

(1) Figures and computation presented in this section are subject to rounding.

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

(2) Total borrowings comprise secured bank loans in USD and RMB currencies, notes payable and lease liabilities.

(3) Assets and Liabilities of disposal group classified as held for sale.

We note the following: -

(i) Financial performance for FY2017, FY2018 and FY2019

The Group's revenue for FY2017 to FY2019 were on declining trend and the Group has three reportable segments, namely manufacturing and sale of (i) Acrylic Acid ("**AA**") and Acrylate Esters ("**AE**") ("**AA and AE segment**"); (ii) manufacturing and sale of PMIDA and glyphosate; and (iii) manufacturing and sale of refined MTBE and petroleum products.

The Group's revenue decreased from approximately RMB2.2 billion in FY2017 to approximately RMB1.6 billion and RMB940.4 million in FY2018 and FY2019 respectively.

For FY2017 to FY2019, the Group's AA and AE segment was the largest contributor to the Group's revenue contributing approximately 68.9% (or approximately RMB1.5 billion) in FY2017, approximately 80.8% (or approximately RMB1.3 billion) in FY2018 and approximately 53.1% (or approximately RMB499.8 million) in FY2019. The manufacturing and sale of PMIDA and glyphosate segment and refined MTBE and petroleum products recorded no revenue during FY2017 to FY2019. The remaining revenue of the Group for period FY2017 to FY2019 were generated from its trading activities (which is under "other segment").

The decrease in revenue for FY2019 from AA and AE was mainly attributable to lower volume of products sold in FY2019 (77,000 tonnes) as compared to FY2018 (178,000 tonnes), mainly due to "stop of supply" order implemented against Taixing Jurong Chemical Co., Ltd. by Taixing Sunke Chemicals Co., Ltd. ("**Taixing Sunke**") resulting in Taixing Sunke stopping the supply of AA and AE to the Group.

The Group's gross profit declined significantly from approximately RMB162.2 million in FY2017, to approximately RMB33.3 million and RMB5.8 million in FY2018 and FY2019 respectively. The corresponding gross profit margin reduced substantially from approximately 7.2% in FY2017 to approximately 2.1% and 0.6% in FY2018 and FY2019 respectively. This is mainly due to the increasing contribution from the Group's trading activities which commanded lower gross profit margin.

The Group reported other operating income of approximately RMB389.4 million in FY2019, which comprised mainly, *inter alia*, gain on disposal of the Group's 45% equity interest in Taixing Sunke, to Arkema of approximately RMB321.4 million and reversal of contingent liability for bank guarantee provided to Bank of China Co., Ltd. (Xiangshui County Branch) in respect of a loan agreement between BOC and Jiangsu Dahe Lvjian Chemical Co., Ltd. ("**Dahe**") in 2018 upon Dahe's loan settlement subsequent to 2018 of approximately RMB42.5 million. Other operating income amount to approximately RMB43.8 million in FY2018 and S\$13.8 million in FY2017.

The Group's total operating expenses (comprising distribution expenses, administrative expenses and other operating expenses) amounted to approximately RMB156.6 million, RMB689.8 million and RMB275.5 million in FY2017, FY2018 and FY2019 respectively.

The Group's total operating expenses in FY2019 comprised distribution expenses of approximately RMB4.8 million, administrative expenses of approximately RMB93.3 million, and other operating expenses of approximately RMB177.4 million. The other operating expenses in FY2019 was mainly attributable to impairment loss on trade receivables of approximately RMB19.2 million, and share of operating expenses of Taixing Sunke of approximately RM143.6 million.

The Group's total operating expenses in FY2018 comprised distribution expenses of approximately RMB37.1 million, administrative expenses of approximately RMB142.7 million, and other operating expenses of approximately RMB510.0 million. The high other operating expenses in FY2018 was mainly attributable to impairment loss of property, plant and equipment of approximately RMB199.0 million, impairment loss on value-added tax recoverable of approximately RMB84.0 million, and share of operating expenses of Taixing Sunke of approximately RMB89.5 million.

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

The Group's total expenses in FY2017 comprised distribution expenses of approximately RMB40.2 million, administrative expenses of approximately RMB103.1 million, and other operating expenses of approximately RMB13.3 million.

The Group's finance costs amounted to approximately RMB73.4 million, RMB73.1 million and RMB48.8 million for FY2017, FY2018 and FY2019 respectively. The Group also reported profit from discontinued operations (net of tax) of approximately RMB32.2 million, RMB13.0 million and RMB20.8 million for FY2017, FY2018 and FY2019 respectively.

The Group recorded loss after tax attributable to the owners of the Company of approximately RMB20.3 million and RMB630.7 million for FY2017 and FY2018 respectively but recorded profit after tax attributable to owners of the Company of approximately RMB93.4 million for FY2019.

Shareholders should note that in the event, *inter alia*, the gain on disposal of 45% equity interest in Taixing Sunke of approximately RMB321.4 million and reversal of contingent liability of approximately RMB42.5 million are excluded as they are non-trade and non-recurring in nature, the Group would have been in the loss-making position in FY2019.

(ii) Assets and liabilities

As at 31 December 2019, the Group's total assets of approximately RMB1.8 billion comprised non-current assets of approximately RMB358.6 million and current assets of approximately RMB1.4 billion. The Group's non-current assets as at 31 December 2019 comprised property, plant and equipment of approximately RMB131.4 million, right-of-use assets of approximately RMB207.4 million, freehold land/land use rights of approximately RMB12.6 million and intangible asset of approximately RMB7.2 million.

The Group's current assets as at 31 December 2019 comprised cash and cash equivalents of approximately RMB789.2 million, trade and other receivables of approximately RMB596.7 million, and inventories of approximately RMB24.0 million.

The Group's total liabilities as at 31 December 2019 amounted to approximately RMB1.5 billion and comprised non-current liabilities of approximately RMB8.2 million and current liabilities of approximately RMB1.4 billion. The Group's non-current liabilities as at 31 December 2019 comprised non-current portion of lease liabilities of approximately RMB0.7 million and deferred tax liabilities of approximately RMB7.5 million.

The Group's current liabilities as at 31 December 2019 comprised trade and other payables of approximately RMB997.1 million, current portion of borrowings of approximately RMB397.4 million, provision for restoration costs of approximately RMB45.6 million, current income tax payable of approximately RMB1.3 million, and current portion of lease liabilities of approximately RMB0.5 million.

(iii) Net current liabilities

The Group recorded negative net working capital or net current liabilities during the period reviewed, and the Group's net current liabilities position deteriorated from approximately RMB256.2 million as at 31 December 2017 to approximately RMB544.9 million as at 31 December 2018, and improved to approximately RMB32.0 million as at 31 December 2019.

The improvement in the Group's net current liabilities position in FY2019 (as compared to FY2018) was mainly due to an increase in current assets by approximately RMB410.9 million (arising from increased cash and cash equivalents of approximately RMB560.3 million which was offset by the decrease in trade and other receivables of approximately RMB155.0 million) and the decrease in current liabilities by approximately RMB102.1 million (arising from the absence of provision for contingent liability of approximately RMB42.5 million, and decrease in trade and other payables of approximately RMB61.3 million).

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

(iv) Gearing

The Group's total borrowings (comprising secured bank loans, notes payable, and lease liabilities) have decreased from approximately RMB1.2 billion as at 31 December 2017 to approximately RMB645.8 million as at 31 December 2018. Subsequently, the Group's total borrowings increased to approximately RMB907.5 million as at 31 December 2019. Loans from banks as of 31 December 2019 of approximately RMB397.4 million are secured by (a) property, plant and equipment of the subsidiaries; (b) right-of-use assets (land use rights); (c) trade and other receivables; (d) pledged fixed deposits; and (e) guarantee provided by the related parties, a Director and a Shareholder. In addition, the notes payables of approximately RMB508.8 million are secured on the fixed deposits of approximately RMB165.5 million of the Group.

The Directors confirmed that to the best of their knowledge, as at the Latest Practicable Date and save for matters disclosed in the Circular, this Letter, the audited FS2019 for the Group as well as the Company's announcements released on the SGXNET, there have been no instances of breach of financial covenants in relation to the Group's borrowings during the period reviewed, being FY2017 to FY2019.

We note that the shareholders' equity of the Group decreased significantly from approximately RMB983.3 million as at 31 December 2017 to approximately RMB353.4 million as at 31 December 2018 due to the losses incurred during FY2018. Shareholders' equity of the Group subsequently increased to RMB442.4 million as at 31 December 2019 due to the profit generated for FY2019.

Accordingly, the Group's gearing ratio increased from approximately 1.2 times as at 31 December 2017, to 1.8 times and 2.1 times as at 31 December 2018 and 31 December 2019 respectively.

(v) Cashflow statement

We note from the Group's consolidated statements of cash flow that the Group's operating activities have generated positive net cash flow for FY2017 and FY2018 of approximately RMB524.3 million and RMB376.4 million from its operating activities respectively. However, for FY2019, the Group recorded net cash flow used in operating activities of approximately RMB271.4 million.

Further, we note that during the period reviewed, the Group recorded net cash flow used in financing activities of approximately RMB414.3 million, RMB491.3 million and RMB607.9 million for FY2017, FY2018 and FY2019 respectively. This was generally due to net repayment of bank borrowings, interest payments, lease liabilities and increase in pledged fixed deposits as well as increase in restricted cash from disposal of Taixing Sunke.

The Group's recorded net cash flow used in investing activities of approximately RMB146.5 million and RMB32.4 million for FY2017 and FY2018 respectively mainly due to purchase of property, plant and equipment. Subsequently, the Group's investing activities recorded positive net cash flow of approximately RMB878.4 million mainly due to proceeds from the disposal of Taixing Sunke.

Cash and cash equivalents stood at approximately RMB278.2 million, RMB228.9 million and RMB789.2 million as of 31 December 2017, 31 December 2018 and 31 December 2019 respectively. The substantial increase in cash and cash equivalents during FY2019 of approximately RMB560.3 million is mainly due to receipt of proceeds from the disposal of 45% stake in Taixing Sunke which was fully deposited into the escrow accounts by 26 September 2019 (as announced on 27 September 2019). It is noted that cash and cash equivalents as at 31 December 2019 comprised cash and bank balances of approximately RMB7.8 million; fixed deposits – pledged of approximately RMB404.0 million (to secure bank borrowings and notes payable); and restricted bank balances /escrow accounts for the proceeds from the disposal of 45% equity interest in Taixing Sunke of approximately RMB377.4 million.

(vi) The Directors further confirmed that, to the best of their knowledge, as at the Latest Practicable Date and save for matters disclosed in the Circular, this Letter, the audited financial statements for the Group for FY2019 as well as the announcements released on the SGX-NET, there has been no material changes to the Group's assets and liabilities, financial position, condition and performance as at the Latest Practicable Date.

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

(vii) Disclaimer of opinion

We note that the Independent Auditor's report dated 9 December 2020 ("**Independent Auditor's Report 2019**") on the Group's and Company's FS2019 contained a disclaimer of opinion ("**Disclaimer of Opinion**"). The bases for the Disclaimer of Opinion are, *inter alia*: -

- Discrepancies surrounding the veracity of the YFC Agreements.
- Financial guarantee contracts with related parties recorded with the banks under the banking arrangements.
- Provision for restoration and accrued severance compensation.
- Impairment of assets of JJC and JJP.
- Impairment of assets of Taixing Jurong Chemical Co., Ltd.
- Impairment assessment of freehold land at Link Way Louisiana LLC.
- Impairment assessment of the cost investment held by and trade receivables due by JJC to the Company.
- Amount owed by a related party, Jiangsu Yinyan Specialty Chemical Co., Ltd.
- Going concern.

We recommend that Independent Directors advise Shareholders to read the Independent Auditor's Report 2019 carefully and its entirety.

8.2. ANALYSIS OF THE GROUP'S NAV AND NTA

The NAV based approach of valuing a company or group is based on the aggregate value of all the assets of the company in their existing condition, after deducting the sum of all liabilities and minorities' interests of the company or group. The NAV based approach is meaningful as it shows the extent to which the value of each share is backed by both tangible and intangible assets and would be relevant in the event that the company or group decides to realise or convert the use of all or most of its assets. The NAV based approach in valuing a company may provide an estimate of the value of a company or group assuming the hypothetical sale of all its assets (including any intangible assets including but not limited to land use rights, goodwill, trademarks and brand names) in an orderly manner or over a reasonable period of time and at the aggregate value of the assets used in the computation of the NAV, the proceeds of which are used to settle the liabilities, minority interest and obligation of the company or group with the balance to be distributed to its shareholders. However, the NAV approach does not take into account the hypothetical sale of assets in a non-orderly manner or over a short period of time. In addition, it does not illustrate the values at which assets may actually be realized or disposed of.

The NTA based approach of valuing a company or group is based on the aggregate value of all the assets of the company in their existing condition, after deducting the sum of all liabilities, minority interest and intangible assets of the company or group. The NTA based approach is meaningful as it shows the extent to which the value of each share is backed by tangible assets and would be relevant in the event that the company or group decides to realise or convert the use of all or most of its assets. The NTA based approach in valuing a company may provide an estimate of the value of a company or group assuming the hypothetical sale of all its assets (other than intangible assets including but not limited to land use rights, goodwill, trademarks and brand names) in an orderly manner over a reasonable period at the aggregate value of the assets used in the computation of the NTA, the proceeds of which are used to settle the liabilities, minority interest and obligation of the company or group, with the balance to be distributed to its shareholders. However, the NTA based approach does not take into account or consideration the presence of any intangible assets including but not limited to (where applicable) land use rights, goodwill, trademarks and brand names nor does it take into account the hypothetical sale of assets in a non-orderly manner or over a short period of time. It does not illustrate the values of which assets may actually be realized or disposed of.

NAV and NTA of the Group

In assessing the Offer Price of S\$0.028 for each Offer Share, in relation to the NAV and NTA per Share of the Group as at 31 December 2019, we have reviewed the audited statement of financial

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

position of the Group as 31 December 2019 to determine whether there are any assets that are of an intangible nature and as such would not appear in a valuation based on the NTA approach, but would be included in the NAV approach. Save as disclosed in the audited balance sheet of the Group as at 31 December 2019 as well as the Circular, the Directors have confirmed, that as at the Latest Practicable Date, to the best of their knowledge and based on disclosures made available to them, there are no other intangible assets or tangible assets which ought to be disclosed in such audited statement of financial position as at 31 December 2019 in accordance with Singapore Financial Reporting Standards International and which have not been so disclosed and where such intangible or tangible assets would have had a material impact on the overall financial position of the Group as at the Latest Practicable Date.

The Directors have also confirmed that as at the Latest Practicable Date, there were no material contingent liabilities, bad or doubtful debts or unrecorded earnings or expenses or assets or liabilities which could have a material impact on the NAV or NTA of the Group as at 31 December 2019, save as disclosed in the audited financial statements of the Group as at 31 December 2019 and the Circular. In addition, the Directors are of the opinion that save as disclosed in the Circular, the values of the assets (other than those for which valuation has been conducted, where applicable), and liabilities as well as financial performance or condition of the Group as disclosed and reflected in the audited financial statements of the Group as at 31 December 2019 are true and fair, and made after due care and reasonable enquiry. Lastly, the Directors confirmed that, to the best of their knowledge or belief, such information is true, complete and accurate in all respects and that there is no other information or fact, the omission of which would render those statements or information, including our references, as well as analysis of such information to be untrue, inaccurate or incomplete or misleading in any respect.

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

Consolidated audited statements of financial position as at 31 December 2019	RMB'000
<u>Non-current assets</u>	
Property, plant and equipment ("PPE")	131,431
Right-of-use assets ("ROU")	207,419
Intangible assets	7,178
Freehold land/Land use rights ("LUR") ⁽⁴⁾	12,577
	358,605
<u>Current assets</u>	
Inventories	24,058
Trade and other receivables	596,748
Cash and cash equivalents ("Cash")	789,169
	1,409,975
<u>Non-current liabilities</u>	
Lease liabilities	705
Deferred tax liabilities	7,500
	8,205
<u>Current liabilities</u>	
Borrowings	397,431
Trade and other payables	997,120
Provision for restoration costs	45,573
Lease liabilities	486
Income tax payable	1,336
	1,441,946
NAV including non-controlling interest as at 31 December 2019	318,429
Less: Non-controlling interests	(124,020)
NAV attributable to equity holders of the Company as at 31 December 2019	442,449
Less: Intangible assets	(7,178)
NTA as at 31 December 2019	435,271
NAV per Share as at 31 December 2019 (S\$) ⁽²⁾⁽³⁾	0.1697
NTA per Share as at 31 December 2019 (S\$) ⁽²⁾⁽³⁾	0.1669
Offer Price (S\$)	0.0280
Discount of Offer Price from the Group's NAV and/or NTA per Share as at 31 December 2019 (%)	(83.5)
Discount of Offer Price from the Group's NAV and/or NTA per Share as at 31 December 2019 (%)	(83.2)

Notes:

- (1) The figures above are based on the Group's audited FS019 and are subject to rounding.
- (2) Based on the Company's issued Share capital comprising 532,000,641 Shares (excluding treasury Shares). The Company holds 1,650,000 treasury Shares as at the Latest Practicable Date.
- (3) Based on the exchange rate as at the Latest Practicable Date, being S\$1:RMB4.9020.
- (4) We note from Note 12 to the Group's audited FS2019 that as at 31 December 2018, the carrying amounts of the land use rights and freehold land were RMB32,528,000 and RMB12,372,000 respectively totalling RMB 44,900,000. On adoption of SFRS(I) 16, land use rights of RMB32,528,000 were reclassified to right-of-use assets on 1 January 2019 (FS2019 Note 2(b)). As at 31 December 2019, land use rights relate solely to the freehold land of the Group. No deduction is made for the purposes of the NTA computation above for LUR and right-of-use assets.

From the table above, we note that the Group's NAV and NTA attributable to owners of the Company as at 31 December 2019 amounted to approximately RMB442.4 million and RMB435.3 million respectively (or approximately S\$0.170 for NAV per Share and S\$0.167 for NTA per Share).

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

Accordingly, the Offer Price represents substantial discounts of approximately 83.5% and 83.2% from the Group's NAV and NTA per Share as at 31 December 2019.

No dividends were declared for FY2019.

We note from the audited financial statements for FY2019, that the Group had:

- (i) approximately RMB 789.2 million in Cash; and
- (ii) an aggregate of bank borrowings, lease liabilities and notes payable of approximately RMB907.5 million.

For the aggregate Cash of approximately RMB789.2 million as at 31 December 2019 we note that:

- (i) Approximately RMB404.0 million are pledged fixed deposits which as described in FS2019, represent deposits pledged to banks to secure bank borrowings (Note 21) and notes payables of approximately RMB508.8 million (Note 22). We note from Note 16 that *"The pledged deposits will be released upon the settlement of relevant bank borrowings and the expiry of relevant bank guarantees. At the end of the reporting period, the bank balances of RMB Nil (2018 - RMB 16,424,000) were frozen and subject to the Taixing Sunke arbitration proceeding (Note 13(c)). The arbitration and injunction to freeze the assets of Taixing Jurong have been withdrawn as of the date of the previous year's financial statements"*.
- (ii) Approximately RMB377.4 million which relates (as described in Note 16 in FS2019) to *"Restricted bank balances comprise of net proceeds from disposal of Taixing Sunke of RMB 377,078,000 and interest income of RMB 298,000 as at that date (Note 13 (c))"*. The Directors have confirmed that as at the Latest Practicable Date, these amounts have been placed into two escrow accounts ("**Escrow Accounts**") and the restricted bank balances refers to two bank Escrow Accounts designated to receive proceeds from the disposal of Taixing Sunke. All withdrawals from the bank accounts are subjected to certain conditions and approval by the SGX-ST (Note 13(c) of the FS2019). All withdrawals from any of the Escrow Accounts must be, *inter alia*, reviewed by the Company's internal auditor and external auditor, for its basis and veracity, and that the auditors must confirm that they are satisfied that the withdrawals will be disbursed to the right party for proper and legitimate usage of the Company or any of its subsidiaries. In addition, we note as announced on 27 September 2019, in connection with the Escrow Agreement (as defined therein in the announcement) and the Escrow Accounts, at the request of SGX-ST, Mr Koh Poh Beng and Mr Lua Poh Huat issued a letter dated 5 September 2019 to the SGX-ST (the "**Undertaking Letter to SGX-ST**"), under which each of Mr Koh Poh Beng and Mr Lua Poh Huat have undertaken, *inter alia*, to and for the benefit of SGX-ST that any actions taken by him in relation to the Escrow Accounts are in accordance with the Notice of Compliance and he shall adhere to SGXST's instructions in connection therewith, provided always that such directions and/or instructions by SGX-ST shall be in compliance with any applicable laws and regulations.
- (iii) The balance, being approximately RMB7.8 million are in cash and cash equivalents.

Notwithstanding that the majority of the Cash are pledged or restricted, we note that the Offer Price is less than Cash per Share of approximately S\$0.30. Excluding the amount of Cash which are pledged fixed deposits, the Group's Cash would be approximately RMB385.2 million or approximately S\$0.15 per Share and this is higher than the Offer Price.

Other material developments

Independent Directors are advised to review the above in conjunction with the following:

- (i) Trading for the Shares has been suspended since 14 January 2019, arising from the issues identified in the Company's announcement dated 10 January 2019 relating to two of the Company's wholly owned subsidiaries, Yixing Yinyan Import & Export Co., Ltd and Jiangsu Jurong Chemical Co., Ltd, having received letters of demand amounting to an aggregate principal amount of approximately RMB222.5 million plus interest in respect of unauthorised

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

significant guarantees purportedly extended by the aforesaid subsidiaries (each of the aforesaid guarantees shall be referred to as "**YFC Corporate Guarantee**" or "**BOC Corporate Guarantee**", and collectively "**Corporate Guarantees**") for loans made by Yixing City Futao Rural Micro Credit Co., Ltd ("**Yixing Futao Credit**") and Bank of China Co., Ltd., Xiangshui County Sub-branch ("**Bank of China**") to Jiangsu Donglai Real Estate Development Co., Ltd and Jiangsu Dahe Lvjian Chemical Co., Ltd respectively.

Notwithstanding that the Company has on 5 March 2020 announced that the Company has reversed in full the provision of the contingent liabilities in connection with the YFC Corporate Guarantee from, *inter alia*, the financial statements of the Group as at 31 December 2018 following the completion of the special audit ("**Special Audit**") by the professional firm mentioned in announcements. The Company's Independent Auditor, had issued a Disclaimer of Opinion in their report dated 9 December 2020 on the FS2019 on the basis of, among other matters described in the Disclaimer of Opinion, the Corporate Guarantees. Further, the Directors also confirmed that during the FY2019, the Company has reversed in full the provision of the BOC Contingent liabilities of RMB 42.5 million to the consolidated profit or loss for the year then ended (FS2019 Note 5(b)). The reversal was made as the PRC management has advised the Board that the BOC Corporate Guarantee was settled by a third party.

We understand that in the event the Company is unable to resolve, *inter alia*, these issues to the satisfaction of the SGX-ST, the Company's Shares may remain suspended. As at the Latest Practicable Date, the Company's Shares remain suspended.

- (ii) Subsequent to 31 December 2019, the Company announced, *inter alia*, on 29 September 2020 on termination of the proposed disposal by the Company's wholly owned subsidiary, Jiangsu Jurong Chemical Co., Ltd ("**JJC**") and the Company's associated company, SunVic Asia Pacific Investments Holdings Pte. Ltd. ("**SVAP**", and together with JJC, the "**Vendors**") to Shenzhen Qianhai Gatsway Petrochemical Co., Ltd (the "**Purchaser**") of the entire equity interest in Jiangsu Jurong Petrochemical Co., Ltd ("**JJP**"), held by the Vendors collectively (the "**JJP Disposal**"), pursuant to a framework agreement between the Vendors, the Purchaser and JJP dated 4 July 2016 (the "**Framework Agreement**").

As per the said announcement, pursuant to the Framework Agreement, JJC had previously received the amount of RMB50.0 million from the Purchaser in full by 15 November 2017 being the first tranche payment of the sale consideration for the JJP Disposal (the "**First Tranche Consideration**"). In respect of the First Tranche Consideration: (a) JJC shall refund the amount of RMB44.0 million to the Purchaser (the "**Reduced First Tranche Consideration**"); and (b) JJC shall retain absolutely the remaining amount of RMB6.0 million.

- (iii) In addition, the above analysis is necessarily limited and subject to, *inter alia*, the Disclaimer of Opinion issued by the Independent Auditor for financial statements for FY2019, and the Independent Auditor statements therein, *inter alia*, that they were unable to conclude whether the use of the going concern assumption, which has been adopted in the preparation of the accompanying financial statements, is appropriate.

Shareholders are advised to read FS2019 carefully and the matters stated in the Disclaimer of Opinion on, *inter alia*: -

- Discrepancies surrounding the veracity of the YFC Agreements.
- Financial guarantee contracts with related parties recorded with the banks under the banking arrangements.
- Provision for restoration and accrued severance compensation.
- Impairment of assets of JJC and JJP.
- Impairment of assets of Taixing Jurong Chemical Co., Ltd.
- Impairment assessment of freehold land at Link Way Louisiana LLC.
- Impairment assessment of the cost investment held by and trade receivables due by JJC to the Company.
- Amount owed by a related party, Jiangsu Yinyan Specialty Chemical Co., Ltd.
- Going concern.

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

Shareholders should note that the above NAV and NTA analysis are based on the FS2019, which Directors have confirmed are prepared on a going concern assumption. In the event that the going concern assumption is not appropriate, adjustments and/or reclassifications may have to be made to the amounts recorded for assets and liabilities. Accordingly, after such adjustments and/or reclassifications (where applicable) the values for, *inter alia*, the Group's NTA and/or NAV per Share as stated above may differ. Thus, our analysis is necessarily limited.

- (iv) There are significant uncertainties with regards to the Group's state of affairs, *inter alia*, the ability of the Group to continue as a going concern, matters as described in the Disclaimer of Opinion, and the SGX RegCo (defined later) notice of compliance dated 13 February 2019 in relation to the letters of demand received by the Company's wholly owned subsidiaries, and the circumstances and announcements made by the Company as well as the outstanding regulatory requirements for, *inter alia*, "ratification" of past interested persons transactions, findings, recommendations and implementations (if any) of the Special Audit.

In addition, we note from FS2019 that there were various related party transactions. We note as stated therein that the Company has appointed the relevant professional advisers to assist in compliance. The Company has not convened the extraordinary general meeting for the purpose of, *inter alia*, the ratification of past interested person transactions as at the date of FS2019 and the Latest Practicable Date. There are uncertainties related to the outcome of this convening of the extraordinary general meeting or the non-compliance of the SGX-ST's listing rules.

- (v) The Company has approximately RMB789.2 million of Cash of which approximately RMB781.4 million is pledged or restricted cash, and purely as an illustration and notwithstanding that the majority of the Cash are pledged or restricted, we note that the Offer Price is less than Cash per Share as at 31 December 2019.
- (vi) The Special Audit, and the lack of veracity of the YFC Corporate Guarantee and BOC Corporate Guarantee, and the lack of adequate controls over the extension of corporate guarantees.

In addition, as set out in Section 8 of the Offer Document, the Offeror has no current intention to (a) make material changes to the existing business of the Group, (b) re-deploy the Group's fixed assets, or (c) discontinue the employment of the employees of the Group, other than in the ordinary course of business. The Offeror, however, retains the flexibility at any time to consider options or opportunities which may present themselves.

As discussed with the Directors a valuation of the non-current assets of the Group may not be a significant factor in the in the assessment of the Offer and evaluation of whether, *inter alia*, on a P/NAV basis, the Offer is favourable or fair.

Whilst no valuation was conducted, as discussed with the Directors, in the event that the aggregate amounts for the PPE and ROU of the Group of approximately RMB338.9 million, is deducted from the NAV of the Group, the NAV of the Group (after deduction of the amounts recorded for PPE and ROU) will be approximately RMB103.6 million (or approximately S\$ 0.040 on per Share basis) as at 31 December 2019, and the Offer Price represents a discount of approximately 29.5% from the Group's NAV (after deduction of the amounts recorded for PPE and ROU) per Share. This would be the "worst case scenario" for the outcome of any valuation as no value would be ascribed to the PPE and ROU of the Group.

The valuation of the Group, in terms of P/NAV as implied by the Offer Price and the NAV (after deduction of the amounts recorded for PPE and ROU) per Share is approximately 0.7 times. Similarly, the valuation of the Group, in terms of P/NTA as implied by the Offer Price and the NTA (after deduction of the amounts recorded for PPE and ROU) per Share is approximately 0.8 times.

Conversely if the aggregate values for the PPE and ROU is higher than its aggregate book values, the corresponding P/NAV ratio would be even lower than its current ratio of 0.2 times.

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

We note that the valuation of the Group in terms of P/NAV and P/NTA (after deduction of the amounts recorded for PPE and ROU), is lower than both the simple average and the median for the Selected Comparable Companies (as described in later sections of this Letter). Furthermore, in terms of P/NAV (after deduction of the amounts recorded for PPE and ROU), the valuation of the Group is lower than both the simple average and the median for the Selected Successful Privatisations and Selected Successful Delistings (as described in later sections of this Letter).

Thus, as discussed with the Directors, a valuation of the PPE and ROU may not be a significant factor in the in the assessment of the Offer and in the evaluation of whether on a P/NAV or P/NTA basis, the Offer is favourable or fair. In summary we note that the valuation of the Group as implied by the Offer Price in terms of P/NAV and P/NTA is not favourable or not fair.

The above computations and analysis are meant as an illustration and it does not necessary mean or imply that the net realisable value of the Group is as stated above. It also does not imply that the assets or properties of the Group can be disposed of at the estimated values indicated above and that after payment of all liabilities and obligations, the values or amounts as indicated is realisable or distributable to Shareholders. It should be noted that the NTA basis of valuation provides an estimate of the value of a hypothetical sale of all its tangible assets over a reasonable period of time and is only relevant in the event that the Group decides to change the nature of its business or to release or convert the uses of all its assets. The NTA basis of valuation, however, does not necessarily reflect the value of the Group as a going concern nor can it capture or illustrate any value for the Group's goodwill or branding. In addition, it does not illustrate the values at which the assets may actually be realized or disposed.

8.3. RELATIVE VALUATION ANALYSIS

In evaluating the Offer Price, we have considered the financial performance, financial positions and valuation statistics of selected comparable companies (the “**Selected Comparable Companies**”) that may, in our view, be broadly comparable to the core businesses of the Group which are principally engaged in the manufacturing and sale of chemicals.

The Selected Comparable Companies have been identified after a search was carried out on the SGX-ST and evaluation of the companies operating in the same industry as the Group. We have had discussions with the Directors and Management about the suitability and reasonableness of these Selected Comparable Companies acting as a basis for comparison with the core businesses of the Group.

Relevant information has been extracted from the annual reports and/or public announcements of the Selected Comparable Companies. Notwithstanding our use of these companies for peer analysis, the Selected Comparable Companies may or may not have similar business or operations or similar assets or geographical markets as the Group, and their accounting policies with respect to the values for which the assets or the revenue or cost are recorded or the relevant financial period compared may differ from the Group. In addition, the liquidity of the shares of the Selected Comparable Companies may differ from that of the Shares; and trading for shares may be caused by any actual perceived or fundamentally determined risk premiums including the particular circumstances (*inter alia*, operational, business, and compliance with rules, regulations and laws) of the Selected Comparable Companies as well as the Company during the relevant time when the offers were made.

We advise Independent Directors to note that there may not be any company listed on any relevant stock exchange that is directly comparable to the Group in terms of size, diversity of business activities and products/services, branding, geographical spread, track record, prospects, end-customers, supply and/or value chain, core competence, resources, revenue drivers and models, operating and financial leverage, risk profile, quality of earnings and accounting, listing status and such other relevant criteria. We wish to highlight that it may be difficult to place reliance on the comparison of valuation statistics for the Selected Comparable Companies as the markets and businesses of the Selected Comparable Companies, its capital structures, growth rates, operating and financial leverage, taxation and accounting policies as well as the liquidity of these shares and the demand/supply conditions for these shares and that of the Group may differ. As such, any comparison made herein is necessarily limited and serves only as an illustrative guide and any conclusion drawn from the comparison may not necessarily reflect the perceived or implied market valuation (as the case may be) of the Group as at the Latest Practicable Date. It should be noted that trading for the Shares has been suspended since 14 January 2019.

We also wish to highlight that the NAV or NTA based approach for valuing a company is dependent on factors that may differ for each of the Selected Comparable Companies including, *inter alia*, factors such as accounting or depreciation policies. As such, the comparison of the consolidated NAV or NTA of the Group with those of the Selected Comparable Companies is necessarily limited and such comparison is made for illustrative purposes only. In addition, as all the ratios and tools used invariably uses the price of the shares, they may or may not take into account any relative or perceived or actual risk premium or demand and supply conditions for those shares which may or may not have been fundamentally justified. In addition, as these are tools or ratios that are based on historical financial performance or position, they may or may not reflect the anticipated financial performance and the mix of its activities or the relative contributions in terms of assets, financial performance may differ.

Independent Directors should note that the prices at which shares trade include factors other than historical financial performance, and some of these, *inter alia*, include prospects real or perceived of financial performance or historical share price performance or demand and supply conditions of the shares as well as the relative liquidity and the market capitalisation or the relative sentiments of the market for the shares.

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

Selected Comparable Companies	Principal Activities
Megachem Limited (“ Megachem ”) <i>Listed on SGX-ST</i>	The company is a specialty chemical solutions provider, offering integrated services including manufacturing of proprietary chemicals, contract manufacturing tailored to customers’ needs as well as international distribution of specialty chemicals.
Chemical Industries (Far East) Limited (“ Chemical Industries ”) <i>Listed on SGX-ST</i>	The company is principally engaged in manufacture and sale of chemicals.
Jiutian Chemical Group Limited (“ Jiutian Chemical ”) <i>Listed on SGX-ST</i>	The company is engaged in the manufacture and production of methanol, dimethylformamide and methylamine. The Group is also engaged in the processing and sale of consumable carbon dioxide and oxygen.

Source: Bloomberg, SGX-ST and the respective company’s website.

The following tabulates the salient ratios for comparative financial performance and position for the Selected Comparable Companies: -

Selected Comparable Companies ⁽⁸⁾	LTM ROE (%) ⁽¹⁾	LTM Net profit margin (%) ⁽²⁾	LTM Asset turnover (times) ⁽³⁾	Total liabilities ⁽⁴⁾ /shareholder equity ⁽⁵⁾ (times)	Total borrowings ⁽⁶⁾ /shareholder equity ⁽⁵⁾ (times)
Megachem	9.0	4.2	1.3	0.7	0.4
Chemical Industries	4.3	8.5	0.4	0.2	0.05
Jiutian Chemical	n.m. ⁽⁷⁾	n.m. ⁽⁷⁾	0.7	2.4	1.1
MAXIMUM	9.0	8.5	1.3	2.4	1.1
MINIMUM	4.3	4.2	0.4	0.2	0.05
MEDIAN	6.7	6.4	0.7	0.7	0.4
SIMPLE AVERAGE	6.7	6.4	0.8	1.1	0.5
The Group	21.1	9.9	0.5	3.3	2.1

Source: The latest annual reports and the announced unaudited financial statements of the respective companies.

Notes:

- (1) The last twelve months (“**LTM**”) return on equity (“**ROE**”) is based on the ratio of the most recent twelve months consolidated net profits after tax attributable to the equity holders of the company to the consolidated equity holders’ funds excluding non-controlling interest of the respective companies. For the Group the LTM refers to the most recent twelve months ended 31 December 2019.
- (2) LTM net profit margin is the ratio of the most recent twelve months consolidated net profits after tax attributable to shareholders to the most recent twelve months total consolidated revenue of the respective companies.
- (3) LTM asset turnover is the ratio of the most recent twelve months total consolidated revenue to the total consolidated assets of the respective companies.
- (4) Total liabilities include, inter alia, all the liabilities of the respective companies but exclude contingent liabilities, if any.
- (5) Shareholders’ equity is the consolidated shareholders’ funds excluding minority interest of the respective companies.
- (6) Total borrowings include, inter alia, all bank loans and borrowings, notes payable as well as hire purchase obligations and interest bearing debts, where applicable.
- (7) Jiutian Chemical incurred a loss after tax attributable to owners of the company for the LTM ended 30 September 2020. Hence, its LTM ROE and LTM net profit margin ratios are negative and not meaningful.

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

(8) *Figures and computation presented in this section are subjected to rounding.*

For illustrative purposes only, we note the following: -

- (i) The Group recorded a LTM ROE of approximately 21.1% and LTM net profit margin of approximately 9.9%. Both the Group's LTM ROE and LTM net profit margin are higher than any of the Selected Comparable Companies.
- (ii) The Group's LTM asset turnover ratio was approximately 0.5 time, which is within the range, but lower than the simple average and median of the Selected Comparable Companies.
- (iii) The Group's ratio of total liabilities to shareholders' equity as at 31 December 2019, was approximately 3.3 times, and is higher than any of the Selected Comparable Companies. Likewise, the Group's ratio of total borrowings to shareholders' equity of approximately 2.1 times, is higher than any of the Selected Comparable Companies.

In summary, the historical financial performance of the Group (in terms of LTM ROE and LTM net profit margin) appears to be generally more favourable than any of the Selected Comparable Companies in terms of its LTM ROE and LTM net profit margin, whilst the financial positions of the Group appears to be weaker than any of the Selected Comparable Companies in terms of its ratio of total liabilities to shareholders' equity, and the ratio of total borrowings to shareholders' equity.

This should be viewed in the context that for FY2019, the profit after tax registered by the Group attributable to owners of the Company of approximately RMB93.4 million was attributable to: the reversal of contingent liabilities of approximately RMB42.5 million; reversal of prepayment written-down of approximately RMB5.7 million; reversal of impairment loss of PPE of approximately RMB4.6 million; and gain on disposal of Taixing Sunke of approximately RMB321.4 million. As an illustration, if these reversals or gains on disposal (classified under other income in FS2019) are excluded from the Group's profit after tax, the Group would have registered a loss after tax for FY2019 ("**Adjusted LTM Loss After Tax**"). Thus, based on the Adjusted LTM Loss After Tax, the Group's LTM ROE and net profit margin would be negative and not meaningful. We note that save for Jiutian Chemical, the other Selected Comparable Companies registered net profits and had positive LTM ROE and LTM net profit margin. Accordingly, the Groups' historical financial performance in terms of LTM ROE and net profit margin, is relatively weaker than the Selected Comparable Companies.

The following valuation statistics for the Selected Comparable Companies are based on their respective closing prices as at the Latest Practicable Date, while those for the Group are based on the Offer Price. All the valuation statistics of the Selected Comparable Companies are computed on a historical basis using financial data and information obtained from their latest publicly available unaudited financial statements or audited financial statements from their annual reports or result announcements.

The following table tabulates the comparative valuation statistics for the Selected Comparable Companies and the Group and should be evaluated in the context of their relative financial performance and financial position.

Selected Comparable Companies ⁽⁸⁾	Market Capitalisation (\$ m)	LTM EV/ EBITDA ⁽¹⁾ (times)	LTM PER ⁽²⁾ (times)	P/NAV ⁽³⁾ (times)	P/NTA ⁽⁴⁾ (times)	Premium/ (discount) over/from NTA (%)
Megachem	43.3	6.4	9.4	0.8	0.8	(15.2)
Chemical Industries	47.8	1.4	9.1	0.4	0.4	(61.0)
Jiutian Chemical	138.2	n.m. ⁽⁵⁾	n.m. ⁽⁵⁾	1.7	1.7	73.8
MAXIMUM	138.2	6.4	9.4	1.7	1.7	73.8
MINIMUM	43.3	1.4	9.1	0.4	0.4	(61.0)
MEDIAN	47.8	3.9	9.2	0.8	0.8	(15.2)
SIMPLE AVERAGE	76.5	3.9	9.2	1.0	1.0	(0.8)
The Group⁽⁵⁾	14.9	0.4⁽⁶⁾	0.8⁽⁶⁾	0.2⁽⁷⁾	0.2⁽⁷⁾	(83.2)

Source: The latest annual reports and the announced unaudited financial statements of the respective companies.

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

Notes:

- (1) *The LTM EV/EBITDA for the Selected Comparable Companies is based on the most recent twelve months EBITDA as reported by the respective companies. The EBITDA for Megachem is based on the most recent twelve months period ended 30 June 2020. The EBITDA for, Chemical Industries and Jiutian Chemical are based on the most recent twelve months period ended 30 September 2020.*
- (2) *The LTM PERs for the Selected Comparable Companies are based on the most recent twelve months earnings after tax as reported by the respective companies. The earnings after tax for Megachem is based on the most recent twelve months period ended 30 June 2020. The earnings after tax for Chemical Industries and Jiutian Chemical are based on the most recent twelve months period ended 30 September 2020.*
- (3) *The P/NAV ratios for the Selected Comparable Companies are based on their respective NAV values as set out in their latest available announced audited or unaudited financial statements. The NAV for Megachem is based on the most recent twelve months period ended 30 June 2020. The NAV for Chemical Industries and Jiutian Chemical are based on the most recent twelve months period ended 30 September 2020.*
- (4) *The P/NTA ratios for the Selected Comparable Companies are based on their respective NTA values as set out in their latest available announced audited or unaudited financial statements. The NTA for Megachem is based on the most recent twelve months period ended 30 June 2020. The NTA for Chemical Industries and Jiutian Chemical are based on the most recent twelve months period ended 30 September 2020.*
- (5) *Jiutian Chemical incurred a loss after tax attributable to owners of the company and registered negative EBITDA for the LTM ended 30 September 2020. Hence, its LTM PER and LTM EV/EBITDA ratios are negative and not meaningful.*
- (6) *For the Group, the computations for LTM PER, LTM EV/EBITDA, P/NAV and P/NTA ratios are based on market capitalisation as implied by the Offer Price for the Shares. The LTM earnings after tax, and EBITDA, of the Group is based on the FY2019.*
- (7) *Based on the Group's NAV and NTA per Share as at 31 December 2019.*
- (8) *Figures and computation presented in this section are subjected to rounding.*

For illustrative purposes only, we note: -

- (i) The market capitalisation of the Group as implied by the Offer Price is below the range and lower than any of the Selected Comparable Companies. We note that the trading statistics for companies with higher market capitalisation may be different than those with lower market capitalisation and this may be attributable to the relative liquidity in terms of number or value of shares traded as well as relative interest in the shares of companies with larger market capitalisation. Hence, comparison of the valuation ratios for the Group and Selected Comparable Companies are necessarily limited and presented herein for illustrative purpose only.
- (ii) The valuation of the Group (as implied by the Offer Price) in terms of LTM EV/EBITDA is lower than any of the Selected Comparable Companies. This should be viewed in the context that the EBITDA of approximately RMB156.3 million registered by the Group for FY2019 included an aggregated amount of "other income", which are non-recurring and non-trade in nature, of approximately RMB368.5 million due to, *inter alia*, the reversal of contingent liabilities; reversal of impairment loss of PPE; and gain on disposal of Taixing Sunke (as previously mentioned in the above paragraphs). As an illustration, in the event that these reversals or gain on disposal (classified under other income in FS2019) are excluded from the Group's LTM EBITDA as they are non-recurring and non-trade in nature, the Group would have registered a negative LTM EBITDA ("**Adjusted LTM EBITDA**"). Thus, based on the Adjusted LTM EBITDA the valuation of the Group as implied by the Offer Price, in terms of EV/EBITDA is negative and not meaningful.
- (iii) The valuation of the Group (as implied by the Offer Price) in terms of LTM PER of approximately 0.8 times is lower than any of the Selected Comparable Companies. As described in the earlier paragraphs, in the event that the reversals or gain on disposal (classified under other income in FS2019) are excluded from the Group's profit after tax as they are non-recurring and non-trade in nature, the Group would have registered an Adjusted LTM Loss After Tax. Thus, based on the Adjusted LTM Loss After Tax, the valuation of the Group as implied by the Offer Price, in terms of PER is negative and not meaningful.

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

- (iv) The valuation of the Group (as implied by the Offer Price and NAV or NTA per Share as at 31 December 2019) in terms of both P/NAV and P/NTA ratios is lower than any of the Selected Comparable Companies.
- (v) We understand from Management that Jiutian Chemical which has, *inter alia*, business activities and products/services in the chemical industry and is based in the PRC, may be the most comparable to the Company among the Selected Comparable Companies. The valuation of the Group (as implied by the Offer Price and the Group's NAV or NTA per Share as at 31 December 2019) in terms of both P/NAV and P/NTA ratios is significantly lower than that for Jiutian Chemical.
- (vi) Based on the Group's NAV and NTA per Share as at 31 December 2019 and the simple average of P/NAV and P/NTA of approximately 1.0 time for the Selected Comparable Companies, the estimated market value of the Shares (after incorporating control premiums, being the simple average of the median for the historical premiums for the Selected Successful Privatisations and the Selected Successful Delistings as described in Section 8.4 of the IFA Letter, and subject to assumptions of, *inter alia*, resumption of trading for the Shares and transferability of the Shares) is between approximately S\$0.225 (based on the NAV per Share) and S\$0.222 (based on the NTA per Share). The Offer Price is lower than the estimated market values of the Shares (after incorporating control premiums and subject to assumptions of, *inter alia*, resumption of trading for the Shares and transferability of the Shares) based on, *inter alia*, the Group's NAV and NTA per Share as at 31 December 2019, and the simple average of P/NAV and P/NTA for the Selected Comparable Companies,

In summary, the valuation of the Group in terms of P/NAV and P/NTA, as implied by the Offer Price as compared to Selected Comparable Companies appears to be unfavourable.

Independent Directors are advised to review the Offer and the comparison of the Group's valuation ratios with the Selected Comparable Companies in conjunction with the following facts:

- (i) Notwithstanding the Group's financial performance (in terms of LTM ROE and LTM net profit margin) appears to be better than any of the Selected Comparable Companies, the Group has a relatively weak financial position (in terms of total liabilities to shareholders' equity and total borrowings to shareholders' equity ratios) as compared to the Selected Comparable Companies. In addition, we note that for the LTM ended 31 December 2019, both the ROE and net profit margin for the Group was attributable to, *inter alia*, various "one-off" reversal and also gain on disposal of Taixing Sunke. Accordingly, the Groups' financial performance based on the Adjusted LTM Loss After Tax, in terms of the LTM ROE and net profit margin, is relatively weaker, as compared to the other Selected Comparable Companies, save for Jiutian Chemical.
- (ii) The trading statistics for the shares of the Selected Comparable Companies are based on transactions which do not result in an acquisition of control whilst for the Offer, the Offeror, *inter alia*, intends to privatise the Company and does not intend to preserve the listing status of the Company. In the event that the trading of Shares on the SGX-ST is suspended pursuant to Rule 724, Rule 1105 or Rule 1303(1) of the listing manual of the SGX-ST ("**Listing Manual**"), the Offeror has no intention to undertake or support any action for any such trading suspension by the SGX-ST to be lifted. In addition, the Offeror has stated it intends to exercise its rights of compulsory acquisition if entitled. The Offeror will then proceed to delist the Company from SGX-ST.
- (iii) Other material developments as described in the Section 8.2 of this Letter entitled "ANALYSIS OF THE GROUP'S NAV AND NTA".

We also wish to highlight that the NAV and NTA based approach of valuing a company is dependent on factors that may differ for each Selected Comparable Companies including, *inter alia*, factors such as depreciation policies. As such, the comparison of the NAV and NTA of the Group with those of the Selected Comparable Companies is necessarily limited and such comparison is made for illustrative purposes only. In addition, as all the ratios and tools used invariably uses the price of the shares, they may or may not take into account any relative or perceived or actual risk premiums or demand and supply conditions for those shares which may or may not have been fundamentally justified. In

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

addition, as these are tools or ratios that are based on historical financial performance or position, they may or may not reflect the anticipated financial performance and the mix of its activities or the relative contributions in terms of assets, financial performance may differ.

Independent Directors should note that the prices at which shares trade include factors other than historical financial performance, and some of these, *inter alia*, include prospects real or perceived of financial performance or historical share price performance or demand and supply conditions of the shares as well as the relative liquidity of the shares and the market capitalisation or the relative sentiments of the market for the shares.

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

8.4. COMPARISON WITH OTHER SUCCESSFUL PRIVATISATION AND DELISTING TRANSACTIONS

For the purpose of providing an illustrative guide as to whether the financial terms of the Offer are fair and reasonable, we have compared the Offer with other selected similar successful transactions by listed companies on the SGX-ST involving:

- (i) privatisation by way of general offers (“**Selected Successful Privatisations**”); and
- (ii) voluntary delisting (“**Selected Successful Delistings**”),

which have been announced since January 2017 and which have since been completed.

In making the comparison herein, we wish to highlight that the companies selected and covered herein are not directly comparable to the Company and may largely differ from the Company in terms of, *inter alia*, size and scale of operations, type and/or composition of business activities and specialization, asset base, geographical spread, track record, financial performance, capital structure, operating and financial leverage, risk profile, liquidity, accounting policies, future prospects and other relevant criteria. Likewise, they involve shares of companies which are quoted, listed and tradeable on the stock exchange and it should be noted that trading for the Shares has been suspended since 14 January 2019. As the Company has, *inter alia*, more than one segment of business and percentage of its revenue or earnings or EBITDA or assets deployed for its various business segments may differ from the companies whose transactions are reflected in the Selected Successful Privatisations and Selected Successful Delistings, the relative weightage as accorded by us may differ from that as assigned by investors or Shareholders, for the valuation of each of the different business segments. Accordingly, the analysis will be limited and purely for illustrative purpose only.

We wish to highlight that other than the criteria mentioned above, the premium or discount that an offeror pays in any particular take-over varies in different specific circumstances depending on, *inter alia*, factors such as the potential synergy the offeror can gain by acquiring the target, the prevailing market conditions and sentiments, attractiveness and profitability of the target’s business and assets, the possibility of a significant revaluation of the assets to be acquired, existence of intangibles and branding or “internal goodwill or intangible assets”, the availability of substantial cash reserves, the liquidity in the trading of the target company’s shares, the presence of competing bids for the target company and the existing and desired level of control in the target company.

The data used in the table and the companies listed below have been compiled from publicly available information and serves as a guide as to the valuation ratios in connection with privatisations or delisting of companies listed on the SGX-ST without regard to their specific industry characteristics or other considerations. Each of the offers for Selected Successful Privatisations and Selected Successful Delistings must be judged on its own commercial and financial merits including the particular circumstances (*inter alia*, operational, business, and compliance with rules, regulations and laws) of the Selected Comparable Companies as well as the Company during the relevant time when the offers were made. The lists of target companies involved in the Selected Successful Privatisations and Selected Successful Delistings are by no means exhaustive and as such any comparison made only serves as an illustration.

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

Selected Successful Privatisations

Company	Date of announcement	% shareholding of the offeror and concert parties at the start of transaction ⁽¹⁾	Premium/ (Discount) of offer price over/ (from) Last transacted price prior to announcement (%)	Premium/ (Discount) of offer price over/ (from) VWAP for 1-month period prior to announcement (%)	Premium/ (Discount) of offer price over/ (from) VWAP for 3-months period prior to announcement (%)	P/NAV (times) ⁽²⁾
Auric Pacific Group Limited	7-Feb-17	80.6	13.4	17.7	23.8	1.2 ⁽³⁾
Global Premium Hotels Limited	23-Feb-17	71.9	14.1	18.1	21.7	0.5 ⁽⁴⁾
CWT Limited	9-Apr-17 ⁽⁶⁾	65.1	5.9	6.4	14.8	1.5 ⁽⁶⁾
Nobel Design Holdings Ltd	2-May-17	64.3	8.5	9.4	15.9	0.7 ⁽⁷⁾
Changtian Plastic & Chemical Limited	29-May-17	79.9	45.3	46.6	48.2	0.4 ⁽⁸⁾
China Flexible Packaging Holdings Limited	19-Jun-17	58.4	23.2	24.3	28.2	0.6 ⁽⁹⁾
GP Batteries International Limited	10-Aug-17 ⁽¹⁰⁾	64.9	62.5	62.9	62.7	0.8 ⁽¹¹⁾
Poh Tiong Choong Logistics Limited	20-Sep-17	66.7	1.6	30.0	41.3	3.1 ⁽¹²⁾
Tat Hong Holdings Ltd	21-Sep-17 ⁽¹³⁾	0.0	29.9	34.0	35.5	0.7 ⁽¹⁴⁾
Cogent Holdings Limited	3-Nov-17	84.3	5.2	6.2	12.7	1.2 ⁽¹⁵⁾
CWG International Ltd	28-Dec-17	81.1	27.5	29.5	29.2	0.4 ⁽¹⁶⁾
Lee Metal Group Ltd	21-Feb-18 ⁽¹⁷⁾	48.1	9.1	14.1	21.4	1.0 ⁽¹⁸⁾
Wheelock (Singapore) Properties Limited	19-Jul-18	76.2	22.7	29.0	22.7	0.8 ⁽¹⁹⁾
Keppel Telecommunications & Transportation Ltd	27-Sep-18	79.1	40.4	39.5	34.9	1.2 ⁽²⁰⁾
M1 Limited	27-Sep-18 ⁽²¹⁾	33.3	26.3	29.9	29.1	3.9 ⁽²²⁾
Cityneon Holdings Limited	29-Oct-18	69.0	4.1	6.9	11.9	4.5 ⁽²³⁾
PCI Limited	4-Jan-19	0.0	27.9	44.0	47.2	2.0 ⁽²⁴⁾
Declout Limited	7-Jan-19	60.9	62.5	66.7	66.7	1.0 ⁽²⁵⁾
Courts Asia Limited	18-Jan-19	0.0	34.9	35.8	34.0	0.6 ⁽²⁶⁾
Kingboard Copper Foil Holdings Limited	4-Apr-19	88.0	9.1	21.8	28.1	0.9 ⁽²⁷⁾
800 Super Holdings Limited	6-May-19	77.6	16.1	30.6	31.2	1.8 ⁽²⁸⁾
Memtech International Ltd.	14-May-19	57.8	23.9	31.5	31.6	1.1 ⁽²⁹⁾
Boardroom Limited	15-May-19	80.7	14.3	18.9	16.1	2.0 ⁽³⁰⁾
Delong Holdings Limited	29-Jul-19 ⁽³¹⁾	89.3	16.5	18.6	19.0	0.6 ⁽³¹⁾
Star Pharmaceutical Limited	5-Aug-19	53.2	157.1	160.1	176.1	0.7 ⁽³²⁾
PS Group Holdings Ltd.	20-Aug-19	70.0	195.0	266.7	267.5	0.6 ⁽³³⁾
AVIC International Maritime Holdings Limited	27-Aug-19	73.9	37.6	66.7	65.6	2.2 ⁽³⁴⁾
San Teh Limited	5-Sep-19	67.2	81.8	90.5	83.0	0.4 ⁽³⁵⁾

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

Company	Date of announcement	% shareholding of the offeror and concert parties at the start of transaction ⁽¹⁾	Premium/ (Discount) of offer price over/ (from) Last transacted price prior to announcement (%)	Premium/ (Discount) of offer price over/ (from) VWAP for 1-month period prior to announcement (%)	Premium/ (Discount) of offer price over/ (from) VWAP for 3-months period prior to announcement (%)	P/NAV (times) ⁽²⁾
Raffles United Holdings Ltd.	25-Oct-19	96.1	(1.5)	0.0	10.0	0.3 ⁽³⁶⁾
United Engineers Limited	25-Oct-19	35.3	1.5	5.7	4.6	0.8 ⁽³⁷⁾
PACC Offshore Services Holdings Ltd.	4-Nov-19	84.1	69.3	99.4	93.0	1.0 ⁽³⁸⁾
Breadtalk Group Limited	24-Feb-20	70.5	19.4	30.1	24.0	2.8 ⁽³⁹⁾
Elec & Eltek Int Co Ltd	3-Apr-20	75.9	93.0	61.3	43.8	1.0 ⁽⁴⁰⁾
Dynamic Colours Limited	1-Jun-20	86.9	13.6	22.8	29.1	1.0 ⁽⁴¹⁾
Perennial Real Estate Holdings Limited	12-Jun-20	82.4	88.1	105.2	124.1	0.6 ⁽⁴²⁾
Luzhou Bio-Chem Technology Limited	30-Jun-20	41.2	100.0	87.5	130.8	n.m. ⁽⁴³⁾
Teckwah Industrial Corporation Ltd	12-Aug-20	58.1	17.8	23.1	25.0	0.8 ⁽⁴⁴⁾
China Jishan Holdings Limited	20-Aug-20	78.7	84.2	101.3	106.4	0.8 ⁽⁴⁵⁾
SK Jewellery Group Limited	2-Sep-20	90.3	70.5	90.2	94.8	1.3 ⁽⁴⁶⁾
LCT Holdings Limited	16-Sep-20	27.7	39.5	60.9	61.7	0.9 ⁽⁴⁷⁾
MAXIMUM		96.1	195.0	266.7	267.5	4.5
MINIMUM		0.0	(1.5)	0.0	4.6	0.3
MEDIAN		70.3	25.1	30.4	31.4	0.9
SIMPLE AVERAGE		64.2	40.3	48.6	51.7	1.2
Group	20-Nov-20	0.0	27.3	40.0	(3.4)	0.2⁽⁴⁸⁾

Source: SGX-ST announcements, offer documents and circulars to shareholders in relation to the respective transactions.

Notes:

- (1) Where applicable, it includes the percentage shareholding of the undertaking shareholder(s) as the date of the offer document.
- (2) P/NAV ratios are based on the offer price and NAV per share for the respective companies.
- (3) Based on the revalued NAV per share of Auric Pacific Group Limited as at 31 December 2016.
- (4) Based on the revalued NAV per share of Global Premium Hotels Limited as at 31 December 2016.
- (5) Based on pre-conditional offer announcement date, being 9 April 2017.
- (6) Based on the revalued NAV per share of CWT Limited as at 30 June 2017.

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

- (7) Based on the revalued NAV per share of Nobel Design Holdings Limited as at 31 March 2017.
- (8) Based on the revalued NAV per share of Changfian Plastic & Chemical Limited as at 31 March 2017.
- (9) Based on the revalued NAV per share of China Flexible Holdings Limited as at 30 June 2017, which includes the net proceeds from the exercise of warrants and the revaluation of appraised assets.
- (10) Based on pre-conditional offer announcement date, being 10 August 2017.
- (11) Based on the revalued NAV per share of GP Batteries International Limited as at 30 June 2017.
- (12) Based on the revalued NAV per share of Poh Tiong Choong Logistics Limited as at 30 June 2017.
- (13) Based on initial announcement date, being 21 September 2017.
- (14) Based on the revalued NAV per share of Tat Hong Holdings Ltd as at the latest reported financial statements.
- (15) Based on the revalued NAV per share of Cogent Holdings Limited as at 30 September 2017.
- (16) Based on the revalued NAV per share of CWG International Limited as at 31 December 2017.
- (17) Based on pre-conditional offer announcement date, being 21 February 2018.
- (18) Based on the latest revalued NAV per share of Lee Metal Group Ltd as at 31 March 2018.
- (19) Based on the revalued NAV per share of Wheelock (Singapore) Properties Limited as at 30 June 2018.
- (20) Based on the historical NAV per share of Keppel Telecommunications & Transportations Ltd as at 30 June 2018.
- (21) Based on pre-conditional offer announcement date, being 27 September 2018.
- (22) Based on the revalued NAV per share of M1 Limited as at 30 September 2018.
- (23) Based on the revalued NAV per share of Cityneon Holdings Limited as at 30 September 2018.
- (24) Based on the revalued NAV per share of PCI Limited as at 31 December 2018.
- (25) Based on the revalued pro-forma NAV per share of Declout Limited as at 30 September 2018.
- (26) Based on the pro-forma NAV per share of Courts Asia Limited as at 15 January 2019.
- (27) Based on the revalued NAV per share of Kingboard Copper Foil Holdings Limited as at 31 December 2018.
- (28) Based on the unaudited NAV per share of 800 Super Holdings Limited as at 31 March 2019.
- (29) Based on the unaudited NAV per share of Memtech International Ltd. as at 31 March 2019.
- (30) Based on the unaudited NAV per share of Boardroom Limited as at 31 March 2019 adjusted with dividend payment.

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

- (31) Based on the unaudited NAV per share of Delong Holdings Limited as at 30 June 2019. Please note there were two offers where the first offer which was announced on 27 September 2018 was withdrawn at a later date. For the purpose of our analysis we have used the second offer which, *inter alia*, was successful.
- (32) Based on the revalued NAV per share of Star Pharmaceutical Limited as at 30 June 2019.
- (33) Based on the revalued NAV per share of PS Group Holdings Ltd. as at 30 June 2019.
- (34) Based on the unaudited NAV per share of AVIC International Maritime Holdings Limited as at 30 September 2019.
- (35) Based on the revalued NAV per share of San Teh Limited as at 30 June 2019.
- (36) Based on the unaudited NAV per share of Raffles United Holdings Ltd as at 30 June 2019.
- (37) Based on the adjusted NTA per share of United Engineers Limited as at 30 September 2019.
- (38) Based on the revalued NAV per share of PACC Offshore Services Holdings Limited as at 30 September 2019.
- (39) Based on the adjusted NAV per share of BreadTalk Group Limited as at 31 December 2019.
- (40) Based on the adjusted offer price and adjusted revalued NAV per share of Elec & Eltek Int Co Ltd as at 31 December 2019.
- (41) Based on the adjusted NAV per share of Dynamic Colours Limited as at 31 December 2019.
- (42) Based on the adjusted revalued NAV per share of Perennial Real Estate Holdings Limited as at 31 December 2019.
- (43) Luzhou Bio-Chem Technology limited was in a net liabilities position as at 31 December 2019
- (44) Based on Teckwah Industrial Corporation Ltd revalued NAV as at 30 June 2020.
- (45) Based on China Jishan Holdings Limited revalued NAV as at 30 June 2020.
- (46) Based on SK Jewellery Group Limited unaudited NAV per share as at 30 June 2020.
- (47) Based on LCT Holdings Limited adjusted NAV per share as at 30 June 2020.
- (48) Based on the Group's Offer Price and NAV per Share as at 31 December 2019.

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

For illustrative purposes only, we noted the following from the above table:

- (i) As disclosed in the Offer Announcement, the Offeror and its Concert Parties did not have any interest in Shares of the Company. We note that this is within the range, equal to the minimum for the percentage of the shareholding interest of the offeror and parties acting in concert as at the start for each of the Selected Successful Privatisations. In fact, this is lower than any of the transactions listed for the Selected Successful Privatisations, save for Tat Hong Holding Ltd, PCI Limited, and Court Asia Limited.
- (ii) The premium of approximately 27.3% as implied by the Offer Price over the last transacted price for Shares prior to the Offer Announcement Date is within the range, lower than the simple average but higher than the median for the Selected Successful Privatisations, and generally favourable.
- (iii) The premium of approximately 40.0% as implied by the Offer Price over the VWAP for the Shares for the 1-month period prior to the Last Trading Day is within the range, lower than the simple average but higher than the median for the Selected Successful Privatisations, and generally favourable.
- (iv) The discount of approximately 3.4% as implied by the Offer Price over the VWAP for the Shares for the 3-month period prior to the Last Trading Day is out of the range, lower than the minimum and less favourable than any of the Selected Successful Privatisations. We note that there are no other Selected Successful Privatisations which are priced at discount for the 3-month period prior to the Last Trading day.
- (v) Overall, the premiums as implied by the Offer Price over the last transacted price for the Shares as at the Last Trading Day and VWAP for the Shares for the 1-month period prior to the Last Trading Day are generally more favourable or fairly comparable with the Selected Successful Privatisations.
- (vi) The valuation of the Group (as implied by the Offer Price and NAV per Share) in terms of P/NAV ratio is out of the range, lower than the minimum and less favourable as compared to any of the Selected Successful Privatisations.

In summary, the valuation of the Group as implied by the Offer Price in terms of premiums/discount over/from historical prices for the Shares generally appears to be favourable as compared to the Selected Successful Privatisations. In addition, the valuation of the Group, (as implied by the Offer Price and NAV per Share) in terms of P/NAV ratio appears to be out of the range, lower than the minimum and less favourable than any of the Selected Successful Privatisations. Shareholders should note that any comparison of the Offer Price to the historical trading performance of the Shares may not be meaningful given that the Shares have been suspended since 14 January 2019. Various material events and developments announced subsequent to the suspension of the Shares which are likely to be price sensitive may possibly have implications for the transacted prices for the Shares, had trading for Shares not been suspended. Hence, the last closing price for the Shares or traded prices for Shares immediately preceding or prior to the Trading Halt Date may not be reflective of the Company's recent developments as well as the Group's financial performance and position.

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

Selected Successful Delistings

Company	Date of announcement	% shareholding of the offeror and concert parties at the start of transaction ⁽¹⁾	Premium/ (Discount) of offer price over/(from) Last transacted price prior to announcement (%)	Premium/ (Discount) of offer price over/(from) VWAP for 1-month period prior to announcement (%)	Premium/ (Discount) of offer price over/(from) VWAP for 3-months period prior to announcement (%)	P/NAV (times) ⁽²⁾
Global Logistic Properties Limited	14-Jul-17	36.8	25.2	19.4	17.7	1.1 ⁽³⁾
Fischer Tech Limited	27-Jul-17	51.3	31.3	46.9	63.6	1.5 ⁽⁴⁾
Rotary Engineering Limited	2-Oct-17	0.0	20.1	19.3	25.1	1.3 ⁽⁵⁾
Vard Holdings Limited	13-Nov-17	83.5	8.7	16.2	29.3	0.9 ⁽⁶⁾
Weiye Holdings Limited	13-Mar-18	66.9	31.3	40.7	44.1	0.3 ⁽⁷⁾
LTC Corporation Limited	7-Sep-18	88.4	44.5	46.1	45.4	0.5 ⁽⁸⁾
CITIC Envirotech Ltd.	6-Nov-19	79.1	48.6	61.6	68.5	1.2 ⁽⁹⁾
MAXIMUM		88.4	48.6	61.6	68.5	1.5
MINIMUM		0.0	8.7	16.2	17.7	0.3
MEDIAN		66.9	31.3	40.7	44.1	1.1
SIMPLE AVERAGE		58.0	30.0	35.7	42.0	1.0
Group	20-Nov-20	0.0	27.3	40.0	(3.4)	0.2⁽¹⁰⁾

Source: SGX-ST announcements, offer documents and circulars to shareholders in relation to the respective transactions.

Notes:

(1) Where applicable, it includes the percentage shareholding of the undertaking shareholder(s) as the date of the offer document.

(2) P/NAV ratios are based on the offer price and NAV per share for the respective companies.

(3) Based on the implied revalued NAV per share of Global Logistic Properties Limited as at 30 June 2017.

(4) Based on the revalued NAV per share of Fischer Tech Limited as at 31 March 2017.

(5) Based on the revalued NAV per share of Rotary Engineering Limited as at 30 September 2017.

(6) Based on the revalued NAV per share of Vard Holdings Limited as at 31 March 2018.

(7) Based on the revalued NAV per share of Weiye Holdings Limited as at 30 April 2018.

(8) Based on the revalued NAV per share of LTC Corporation Limited.

(9) Based on the unaudited NAV per Share of CITIC Envirotech Ltd. as at 30 September 2019.

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

(10) Based on the Group's Offer Price and NAV per Share as at 31 December 2019.

For illustrative purposes only, we noted the following from the above table:

- (i) As disclosed in the Offer Announcement, the Offeror and its Concert Parties did not have any interest in the Shares of the Company. We note that this is within the range, equal to the minimum for the percentage of the shareholding interest of the offeror and parties acting in concert as at the start for each of the Selected Successful Delistings. In fact, this is lower than any of the transactions listed for the Selected Successful Delistings, save for Rotary Engineering Limited.
- (ii) The premium of approximately 27.3% as implied by the Offer Price over the last transacted price for Shares prior to the Offer Announcement Date is within the range, but slightly lower than both the simple average and median for the Selected Successful Delistings.
- (iii) The premium of approximately 40.0% as implied by the Offer Price over the VWAP for the Shares for the 1-month period prior to the Last Trading Day is within the range, higher than the simple average and comparable to the median for the Selected Successful Delistings, and generally favourable.
- (iv) The discount of 3.4% as implied by the Offer Price from the VWAP for the 3-month period prior to the Last Trading Day is outside & lower than the range in terms of being the only Offer, amongst all the Selected Successful Delistings, which have been priced at a discount to the VWAP for the 3-month period prior to the Last Trading Day.
- (v) The valuation of the Group (as implied by the Offer Price and NAV per Share) in terms of P/NAV ratio is slightly lower than the minimum and less favourable as compared to any of the Selected Successful Delistings.

In summary, the valuation of the Group in general, as implied by the Offer Price in terms of premiums/discounts over/from historical prices for the Shares appears to be comparable to the Selected Successful Delistings given, *inter alia*, the weak financial performance (based on the Adjusted Loss After Tax) and financial position, Disclaimer of Opinion, uncertainties on the Group's ability to continue as a going concern, and suspension etc.

Furthermore, any comparison of the Offer Price to the historical trading performance of the Shares may not be meaningful given the Shares have been suspended since 14 January 2019. Various material events and developments announced subsequent to the suspension of the Shares which are likely to be price sensitive may possibly have implications for the transacted prices for the Shares, had trading for Shares not been suspended. Hence, the last closing price for the Shares or traded prices for Shares immediately preceding or prior to the Trading Halt Date may not be reflective of the Company's recent developments as well as the Group's financial performance and position.

In addition, the valuation of the Group in general, as implied by the Offer Price and the NAV per Share in terms of P/NAV ratio appears to be less favourable as compared to any of the Selected Successful Delistings. Whilst comparisons with the Selected Successful Delistings, provides comparisons for voluntary delistings transactions, we note that the comparisons against Selected Successful Privatisations are relatively more comparable.

Other salient considerations for the Selected Successful Privatisations and Selected Successful Delistings

This should be viewed in the context of, *inter alia*:

- (a) Other material developments as described in the Section 8.2 of this Letter entitled "ANALYSIS OF THE GROUP'S NAV AND NTA".
- (b) Any comparison of the Offer Price to the historical trading performance of the Shares may not be meaningful given the Shares have been suspended since 14 January 2019. Various material events and developments announced subsequent to the suspension of the Shares

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

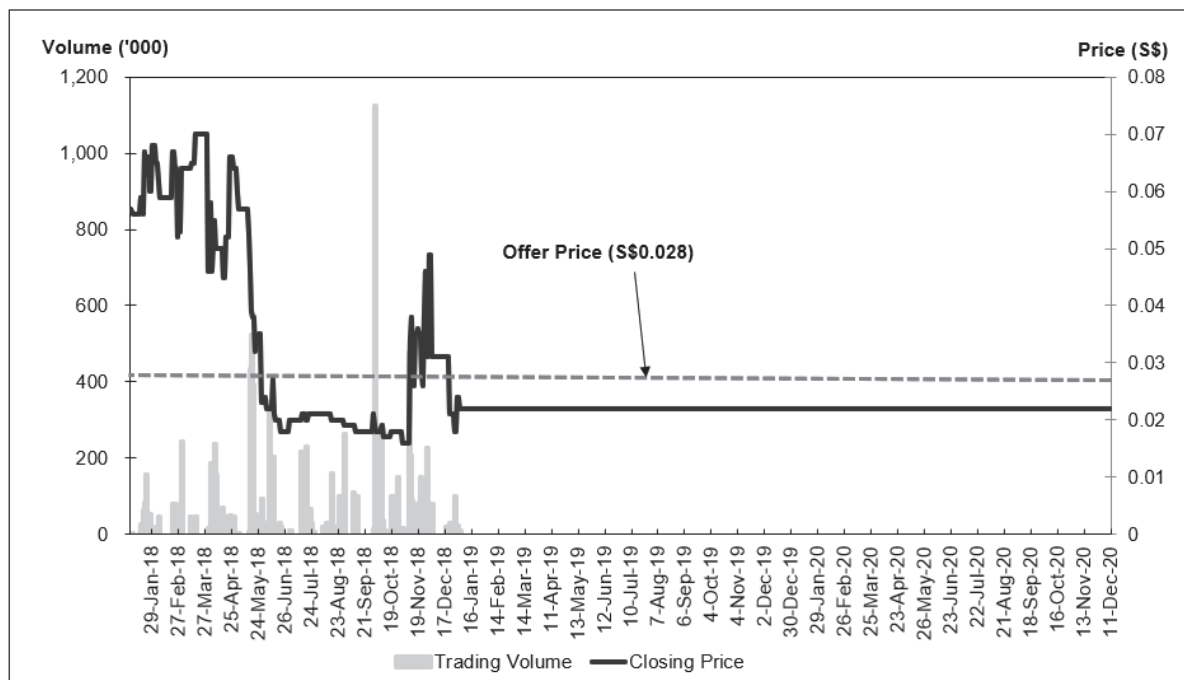
(*inter alia*, matters pertaining to YFC Corporate Guarantee and BOC Corporate Guarantee, disposal of JJP and Taixing Sunke, concerns on governance, compliance and the possibly unclear state of affairs, the Disclaimer of Opinion on, *inter alia*, going concern assumption, etc), which are likely to be price sensitive, and which may possibly have implications for the transacted prices for the Shares, had trading for Shares not been suspended. Hence, the last closing price for the Shares or traded prices for Shares immediately preceding or prior to the Trading Halt Date may not be reflective of the Company's recent developments as well as the Group's financial performance and position. As described earlier on, *inter alia*, the businesses and circumstances prevailing at the start or relevant time of the offer etc, for each of the companies for the Selected Successful Privatisations and Selected Successful Delistings may be different from the Company. Hence, the determination of values based on these transactions may not be applicable. Notwithstanding, we have incorporated control premiums being the simple average of the median for the historical premiums (being the median for the premiums of offer price over last transacted price prior to announcement, and over the VWAP for the shares for the 1-month and 3-months periods prior to announcement) for the Selected Successful Privatisations and the Selected Successful Delistings of approximately 33.8% for the determination of the estimated market values as described in Section 8.3 of the IFA Letter.

In addition, the above analysis is limited and subject to, *inter alia*, the Disclaimer of Opinion issued by the Independent Auditor for financial statements for FY2019, and the Independent Auditor statements therein that they are unable to conclude whether the use of the going concern assumption, which has been adopted in the preparation of the accompanying financial statements, is appropriate. Shareholders should note that the above NAV is based on the financial statements for FY2019, which Directors have confirmed are prepared on a going concern. In the event that the going concern assumption is not appropriate, adjustments and/or reclassifications may have to be made to the amounts recorded for assets and liabilities. Accordingly, after such adjustments and/or reclassifications (where applicable) the values for, *inter alia*, the NAV per Share may be different. Thus, our analysis is necessarily limited.

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

8.5. MARKET QUOTATION AND TRADING ACTIVITIES FOR THE SHARES

The historical price and volume charts for the Shares (based on the closing prices together with the number of Shares traded on a daily basis) for the period commencing from the 5 January 2018 (being one year prior to 4 January 2019, being the last trading day prior to the Offer Announcement Date (“**Last Trading Day**”) to the Latest Practicable Date is set out below. We note that the trading of the Shares was halted on 8 January 2019 (“**Trading Halt Date**”) and subsequently suspended with effect from 14 January 2019 to the Latest Practicable Date.



Source: Bloomberg

For the period commencing from 5 January 2018, being one year prior to Last Trading Day and ending on the Last Trading Day (both dates inclusive), we note that the Shares were traded on 108 Market Days out of a total 248 Market Days (or approximately 43.5%) and the closing prices for the Shares during the said periods were higher than the Offer Price for 125 Market Days out of the 248 Market Days (or approximately 50.4%), were below the Offer Price for 122 Market Days out of the 248 Market Days (or approximately 49.2%) and equivalent to the Offer Price for 1 Market Day out of the 248 Market Days.

It is noted that there have been various material events and developments announced subsequent to the suspension of the Shares (*inter alia*, matters pertaining to YFC Corporate Guarantee and BOC Corporate Guarantee, disposal of JJP and Taixing Sunke, concerns on governance, compliance and the possibly unclear state of affairs, the Disclaimer of Opinion on, *inter alia*, going concern assumption, etc), which are likely to be price sensitive, and which may possibly have implications for the transacted prices for the Shares, had trading for Shares not been suspended. Hence, the last closing price for the Shares or traded prices for Shares immediately preceding or prior to the Trading Halt Date may not be reflective of the Company's recent developments as well as the Group's financial performance and position.

As a general market comparison and observation, the FTSE Straits Times Index (“**FTSE STI**”), decreased by approximately 12.3% for the period commencing from 5 January 2018 and ending on 4 January 2019, being the Last Trading Day preceding Trading Halt Date. For the same period, commencing from 5 January 2018 and ending on the Last Trading Day preceding the Trading Halt Date, the prices for the Shares decreased by approximately 61.4%. We observed that the Shares appeared to have underperformed the FTSE STI for the period commencing from 5 January 2018 till the Last Trading Day preceding Trading Halt Date.

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

The above chart and the analysis below is presented for illustrative purposes only, and they are by no means representative of the future trading performance or prices of the Shares.

	VWAP per Share (\$\$) ⁽¹⁾	Premium/ (Discount) of the Offer Price from the VWAP per Share (%)	Lowest transacted price (\$\$)	Highest transacted price (\$\$)	Average daily trading volume ⁽²⁾	Average daily trading volume as % of free-float ⁽³⁾ (%)
For the period prior to the Last Trading Day						
Last 12 months	0.032	(12.5)	0.016	0.070	40,396	0.020
Last 6 months	0.024	16.7	0.016	0.066	44,096	0.022
Last 3 months	0.029	(3.4)	0.016	0.066	43,095	0.022
Last 1 month	0.020	40.0	0.016	0.031	8,676	0.004
Last transacted price on 4 January 2019 (being the Last Trading Day prior to the Trading Halt Date) ⁽⁴⁾	0.022	27.3	0.022	0.022	10,000	0.005

Source: Bloomberg

Notes:

- (1) The VWAP had been weighted based on the value of the Shares traded and traded volumes for the relevant trading days for each of the periods.
- (2) The average daily trading volume of the Shares is calculated based on the total number of Shares traded during the period divided by the number of Market Days during that period.
- (3) Free float refers to approximately 200,344,400 Shares (or approximately 37.7% of the issued Share capital) held by Shareholders, other than the substantial Shareholders and Directors as at the Latest Practicable Date as enumerated in the Circular.
- (4) This represents the last transacted price instead of VWAP for the Shares, on the Last Trading Day immediately preceding Trading Halt Date.

Based on a general observation of the chart above and after taking into account the summary of the transacted prices for the Shares, we note that the Offer Price: -

- (i) represents a premium of approximately 27.3% over the last transacted price of S\$0.022 per Share for the Shares on the SGX-ST on 4 January 2019, being the Last Trading Day immediately preceding the Trading Halt Date;
- (ii) represents premiums of approximately 16.7% and 40.0% over the VWAP for the Shares for 6-months and 1-month periods prior to the Last Trading Day respectively; and
- (iii) represents discounts of approximately 12.5% and 3.4% from the VWAP for the Shares for the 12-months and 3-months periods prior to the Last Trading Day respectively.

Independent Shareholders should note that any comparison of the Offer Price to the historical trading performance of the Shares may not be meaningful given the Shares have been suspended since 14 January 2019 till the Latest Practicable Date.

For illustrative purposes only, based on the number of Shares traded on a daily basis during the period commencing from 5 January 2018, being one year prior to Last Trading Day and ending on the Latest Practicable Date, we note that:

- (i) from 5 January 2018 to 4 January 2019, being the Last Trading Day immediately preceding the Trading Halt Date (both dates inclusive), Shares were traded on 108 Trading Days (approximately 43.5%) out of the total 248 Market Days during the period, with the total number of Shares traded being approximately 10.0 million Shares and an average daily trading volume

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

(based on a total of 248 Market Days) of approximately 40,396 Shares, which represents approximately 0.008% of the issued Shares as at the Latest Practicable Date or approximately 0.020% of the issued Shares held by Shareholders other than the substantial Shareholders and the Directors (“**Public Shareholders**”) as at the Latest Practicable Date; and

- (ii) From 8 January 2019 to 13 December 2020, being the Latest Practicable Date (both dates inclusive), no Shares were traded during the period as the Shares were suspended shortly after the Trading Halt Date.

We note that trading for the Shares is erratic and that the daily average number of Shares traded during the 12-months period prior to and including the Last Trading Day immediately preceding the Trading Halt Date is relatively low as compared to the number of issued Shares held by Shareholders other than the substantial Shareholders and the Directors as at the Latest Practicable Date. It is generally accepted that the more actively traded the shares, the greater the reliance on market prices as a determination of the fair value of the shares between willing buyer and willing seller. Whilst historically transacted prices for the Shares may not be a meaningful indicator of its fundamental value in view of the lack of liquidity for the Shares (in terms of number of Shares traded on daily basis), they nonetheless represent for prices for transactions between willing buyer and willing seller.

Independent Directors should note that given the low liquidity of the Shares (in terms of number of Shares traded on a daily basis) and the frequency of trading during the periods observed even before suspension, the Offer may represent a realistic exit opportunity for the Shareholders to realise their entire investment for cash and that the Offer Price is at premiums above the last transacted price for the Shares on the SGX-ST on 4 January 2019, being the Last Trading Day immediately preceding the Trading Halt Date, and the VWAP for the Shares for the 1-month and 6-months period prior to the Last Trading Day.

In the absence of the Offer, such an exit for all Shareholders other than the Offeror and its Concert Parties may not be readily available due to the low trading liquidity for the Shares even before the suspension. For illustrative purposes only and on the assumption that trading for the Shares are not suspended, based on the average daily trading volume of 40,396 Shares for the period 12-months prior to the Last Trading Day, it would take approximately 4,959 Market Days or close to 20 years (based on 248 Market Days per year) for the public Shareholders to be able to sell off their Shares in the market. Furthermore, as described earlier given the fact that trading for the Shares are suspended, the Offer is a realistic opportunity for Shareholders to exit their investments.

Independent Directors should also note that past trading performance for the Shares may not be relied upon as an indication of the fair value of the Company’s securities.

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

9. OTHER CONSIDERATIONS

9.1. Existing shareholding structure of the Company

The shareholding structure of the Company as at the Latest Practicable Date is outlined below:

	Direct Interests	Deemed Interests	Total interests	% of the issued Share Capital as at the Latest Practicable Date ⁽¹⁾
Offeror⁽²⁾				
Harrier Group Pte. Ltd.	-	-	-	-
Directors				
Sun Li Hua	-	-	-	-
Koh Poh Beng	-	-	-	-
Lua Poh Huat	2,504,000	-	2,504,000	0.47%
Substantial Shareholders				
Whitefield Capital Inc.	329,152,241	-	329,152,241	61.87%
Hu Yanping ⁽²⁾	-	329,152,241	329,152,241	61.87%
Public Shareholders⁽³⁾			200,344,400	37.66%
Total			532,001,641	100.00%

Notes:

- (1) Based on 532,001,641 issued Shares (excluding 1,650,000 treasury Shares) as at the Latest Practicable Date.
- (2) From Appendix B1 of the Circular, we note that Hu Yanping is deemed interested in 329,152,241 Shares held by Whitefield Capital Inc. pursuant to Section 7 of the Companies Act as Whitefield Capital Inc. is wholly owned by Hu Yanping. Hu Yanping is the sister-in-law of Sun Li Hua.
- (3) Only total interests for Public Shareholders are shown.

We note from the Offer Document that the Offeror does not hold any Shares. The sole director and sole shareholder of the Offeror is Mr Song Wuying Mr Song Wuying is a private investor and is not related to any director or substantial Shareholder of the Company.

Accordingly, the Offeror does not have any statutory control over the Company, but in the event that Minimum Acceptance Condition is met, it would place the Offeror in a position to have significant influence, *inter alia*, the management, operating and financial policies of the Company and ability to pass all ordinary resolution on matters in which the Offeror does not have an interest, at general meetings of Shareholders.

As an illustration, we note that on the basis that all Public Shareholders accept the Offer and for the Minimum Acceptance Condition to be met, the existing substantial Shareholder needs to accept a minimum of approximately 65.7 million Shares or approximately 19.9% of the Shares held by the existing substantial Shareholder.

Furthermore, any acceptance of the Offer by Public Shareholders will further reduce the free float, number of Shares available for trading and number of Shareholders. This may further exacerbate the illiquidity, volatility and the bid and ask spreads for the Shares and increase transactional or trading cost (other than commissions where applicable) if and when the suspension is uplifted and trading for Shares resumes. Subsequent to the Offer Announcement Date to the Latest Practicable Date, the Offeror did not make any further announcement in connection with changes in its shareholding in the Company or further purchases of Shares.

We note, as at the Latest Practicable Date and from the Offer Document that there are no undertakings from any Shareholder to accept or reject the Offer, and that neither the Offeror nor any

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

party acting in concert with the Offeror has received any irrevocable undertaking from any other party to accept or reject the Offer.

As at the Latest Practicable Date, Mr Lua Poh Huat, who directly hold Shares has informed the Company of his current intentions to accept the Offer in respect of those Shares held by him.

9.2. Dividend track record

For the purposes of assessing the Offer, we have considered the dividend track record of the Company against the Selected Comparable Companies and those from selected alternative investments.

Management has confirmed and represented that the Company had not declared any dividends for the last three (3) financial years (being FY2017 to FY2019). Based on our discussions with Directors, we understand that the Company does not have a fixed dividend policy and for FY2019, the Company did not recommend any dividend as the Board deemed it more appropriate to retain the limited non pledged or restricted cash for the Group's purposes, after taking into account various factors including, *inter alia*, the amount of accumulated losses, level of available cash.

In evaluating the Offer, we have made comparison of dividend yields that may arise from investments in the Selected Comparable Companies and selected alternative equity investments and/or a broad market index instrument such as the STI Exchange Traded Fund ("**STI ETF**").

We note that the Company's dividend profile is worse off as compared to two (2) out of the three (3) of the Selected Comparable Companies which have declared and paid dividends for its most recent financial year. As the Company did not pay any dividend in respect of its most recent financial year, hence as compared to the Selected Comparable Companies, the dividend yield for Company is less favourable. The above analysis is on the assumption that the Company continued not to pay dividend and the Selected Comparable Companies maintain their respective net dividend per share at the same level as that in their last financial year.

As at the Latest Practicable Date, local commercial banks in Singapore offered gross interest rates of approximately 0.10% per annum (on average basis) to depositors who deposit an amount of up to S\$100,000 for a period of 12 months. For illustrative purposes only, a Shareholder who accepts the Offer for 1 million Offer Shares at the Offer Price of S\$0.028 and who decide to reinvest the proceeds in a 12-month period Singapore Dollar fixed deposit with a local commercial bank in Singapore should expect to receive negligible gross interest income of approximately S\$28.0 per annum.

In addition, for illustrative purposes only, the STI ETF's dividend yield for the financial year ended 30 June 2020 was approximately 4.02% (based on the ordinary cash dividends declared for the financial year ended 30 June 2020 and the closing market price as at the Latest Practicable Date. As the Company did not pay any dividend in respect of its most recent financial year, hence as compared to the STI ETF, the dividend yield for Company is less favourable.

On the basis that no dividends have been declared with respect to the last three (3) financial years, the Shareholders should therefore expect an improvement or increase in their investment income by accepting the Offer and depositing the proceeds from the Offer in a 12-month Singapore Dollar fixed deposit account with a local commercial bank in Singapore or using the proceeds from the Offer to invest in the STI ETF. This analysis is on the assumption that, *inter alia*, the STI ETF maintains their respective net dividend per unit at the same level as that in their last financial year.

We wish to highlight that the above dividend analysis serves only as an illustrative guide and is not an indication of the future dividend policy for the Company or the Selected Comparable Companies or the STI ETF or the future deposit interest rate for the local commercial banks. Furthermore, an investment in the equity of the Selected Comparable Companies or STI ETF also presents different risk-return profiles as compared to an investment in the Shares. Moreover, there is no assurance that the Company or any of the above selected alternative equity investments will continue to pay or not to pay any dividends in the future and/or maintain the level of dividends paid in past periods or that the local commercial banks will maintain the level of the deposit interest rate paid in the past periods.

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

9.3. Offer is conditional

We note from Section 2.4 of the Offer Document that the Offer is conditional upon the Offeror having received, by the close of the Offer, valid acceptances in respect of such number of Offer Shares which, when taken together with the Shares owned, controlled or agreed to be acquired by the Concert Group (either before or during the Offer and pursuant to the Offer or otherwise), will result in the Concert Group holding such number of Shares carrying more than 50% of the voting rights attributable to the issued Shares (excluding treasury Shares) as at the close of the Offer.

Save for the Minimum Acceptance Condition, the Offer is unconditional in all other respects.

We note that as at the Latest Practicable Date, the Concert Group does not hold any Shares.

In addition, in Section 1 of Appendix 1 of the Offer document, the Offer (whether revised or not) will not be capable of becoming or being declared to be unconditional as to acceptances after 5.30pm on the 60th day after the date of despatch of the Offer document. We note the Offer is to remain open for 14 days after being declared unconditional as to acceptance.

9.4. Revision of the Offer Price

We note from Section 1.6 of Appendix 1 of the Offer Document that the Offeror reserves the right to revise the terms of the Offer at such time and in such manner as it may consider appropriate. If the Offer is revised, the Offer will remain open for acceptance for at least 14 days from the date of despatch of the written notification of the revision to Shareholders. In any case where the terms are revised, the benefit of the Offer (as so revised) will be made available to each of the Shareholders who had previously accepted the Offer.

9.5. Alternative takeover offer

The Directors confirmed that (a) no other third parties have approached the Company with an intention to make an offer for the Company; and (b) apart from the Offer being made by the Offeror, no other third party has made a firm offer for the Company as at the Latest Practicable Date.

As at the Offer Announcement Date, the Concert Group does not hold any Shares, and subsequent to the Offer Announcement Date to the Latest Practicable Date, the Offeror did not make any further announcement in connection with changes in its shareholding in the Company or further purchases of Shares.

9.6. Compulsory Acquisition and Listing Status

Compulsory acquisition

We note from Section 9.1 of the Offer Document that pursuant to Section 215(1) of the Companies Act, if the Offeror receives valid acceptances pursuant to the Offer (or otherwise acquires Shares during the period when the Offer is open for acceptance) in respect of not less than 90% of the total number of issued Shares (other than those already held by the Offeror, its related corporations or their respective nominees as at the date of the Offer and excluding any treasury Shares), the Offeror would be entitled to exercise the right to compulsorily acquire all the Shares of Shareholders who have not accepted the Offer ("**Dissenting Shareholders**") at a price equal to the Offer Price ("**Compulsory Acquisition**").

In such event, the Offeror intends to exercise its right to compulsorily acquire all the Offer Shares not acquired under the Offer. The Offeror will then proceed to delist the Company from SGX-ST.

Dissenting Shareholders have the right under and subject to Section 215(3) of the Companies Act, to require the Offeror to acquire their Shares at the Offer Price in the event that the Offeror, its related corporations or their respective nominees acquire, pursuant to the Offer, such number of Shares which, together with treasury Shares and the Shares held by the Offeror, its related corporations or

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

their respective nominees, comprise 90% or more of the total number of issued Shares. Dissenting Shareholders who wish to exercise such right are advised to seek their own independent legal advice.

Unlike Section 215(1) of the Companies Act, the 90% threshold under Section 215(3) of the Companies Act does not exclude treasury Shares or Shares held by the Offeror, its related corporations or their respective nominees as at the date of the Offer.

Listing status

We note from Section 9.2 of the Offer Document that pursuant to Rule 1105 of the Listing Manual, upon an announcement by the Offeror that acceptances have been received pursuant to the Offer that bring the holdings owned by the Offeror and the parties acting or presumed to be acting in concert with the Offeror (“**Concert Parties**”) in connection with the Offer (“collectively the Offeror and the Concert Parties will be termed the “**Concert Group**”) to above 90% of the total number of issued Shares (excluding treasury Shares), the SGX-ST may suspend the trading of the Shares on the SGX-ST until such time it is satisfied that at least 10% of the total number of issued Shares (excluding treasury Shares) are held by at least 500 Shareholders who are members of the public. Rule 1303(1) of the Listing Manual provides that if the Offeror succeeds in garnering acceptances exceeding 90% of the total number of issued Shares (excluding treasury Shares), thus causing the percentage of the total number of issued Shares (excluding treasury Shares) held in public hands to fall below 10%, the SGX-ST will suspend trading of the Shares only at the close of the Offer.

In addition, under Rule 724(1) of the Listing Manual, if the percentage of the total number of issued Shares (excluding treasury Shares) held in public hands falls below 10%, the Company must, as soon as practicable, announce that fact and the SGX-ST may suspend the trading of all the Shares. Rule 724(2) of the Listing Manual states that the SGX-ST may allow the Company a period of three (3) months, or such longer period as the SGX-ST may agree, to raise the percentage of Shares (excluding treasury Shares) in public hands to at least 10%, failing which the Company may be delisted from the SGX-ST.

As stated in the Offer Document, **the Offeror intends to privatise the Company and does not intend to preserve the listing status of the Company. In the event that the trading of Shares on the SGX-ST is suspended pursuant to Rule 724, Rule 1105 or Rule 1303(1) of the Listing Manual, the Offeror has no intention to undertake or support any action for any such trading suspension by the SGX-ST to be lifted.**

9.7. Offeror’s intention for the Company

As set out in Section 8 of the Offer Document, the Offeror has no current intention to (a) make material changes to the existing business of the Group, (b) re-deploy the Group’s fixed assets, or (c) discontinue the employment of the employees of the Group, other than in the ordinary course of business. The Offeror however retains the flexibility at any time to consider options or opportunities which may present themselves.

9.8. Suspension and notices of compliances

As announced on 11 January 2019, pursuant to 1303(3) of the Listing Manual of the SGX-ST, the Company was then unable to demonstrate to the SGX-ST and its shareholders that it is able to continue as a going concern arising from the claims by Yixing Futao Credit and/or Bank of China. The announcement further stated that the Board wishes to inform the shareholders of the Company that it will request that the SGX-ST suspends the trading of the Company’s shares on the SGX-ST with effect from 9.00 a.m. (Singapore time) on 14 January 2019.

Further, it was announced that the Company had received a notice of compliance (“**NOC 2019**”) dated 13 February 2019, wherein Singapore Exchange Regulation (“**SGX RegCo**”) stated that, *inter alia*, it has serious concerns over the questionable circumstances surrounding the unauthorised, undisclosed, and significant Corporate Guarantees extended to purported third parties. Pending the outcome of the Audit Committee’s investigations into the veracity of the YFC and BOC Loans and the circumstances surrounding the purported unauthorised Corporate Guarantees, SGX RegCo directs

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

the Company to:

- (i) Place the proceeds from the disposal of Taixing Sunke in an Escrow Account to be operated jointly by the independent directors of the Company, resident in Singapore.
- (ii) All receipts from the disposal of the Group's 45% equity interest in the share capital of Taixing Sunke as announced on 8 November 2018 must be paid into the Escrow Account.
- (iii) The amounts in the Escrow Account cannot be withdrawn until the completion of the investigations and agreed by the Exchange, save for the settlement of expenses and intercompany debts as set out in the payment terms of the equity transfer agreement as described in the announcement(s).

Notwithstanding that the Company has on 5 March 2020 announced that it has reversed in full the provision of the contingent liabilities in connection with the YFC Loan as contingent liabilities from the relevant financial statements of the Group, *inter alia*, as at 31 December 2018 following the completion of the Special Audit, the Company's Independent Auditor, had issued a Disclaimer of Opinion in their report dated 9 December 2020 for the FS2019 on the basis of, among other matters described in the Disclaimer of Opinion, the Corporate Guarantees. Further, the Directors also confirmed that during the FY2019, the Company has reversed in full the provision of the BOC contingent liabilities of approximately RMB42.5 million to the consolidated profit or loss for the year then ended. The reversal was made as the PRC management has advised the Board that the BOC Corporate Guarantee was settled by a third party.

We note that as the Company was unable to demonstrate to the SGX-ST and its Shareholders that it is able to continue as a going concern pursuant to Rule 1303(3) of the Listing Manual and as trading of the listed securities of an issuer was suspended under Rule 1303(3) of the Listing Manual, pursuant to Rule 1304 of the Listing Manual, it must:

- (i) submit a proposal (or proposals) to the Exchange with a view to resuming trading in its securities ("**Resumption Proposals**") within 12 months of the date of suspension. If no resumption proposals are received to enable trading to resume within 12 months of the date of suspension, the Exchange may remove the issuer from the Official List; and
- (iii) implement the Resumption Proposals within 6 months from the date the Exchange indicates that it has no objection to the resumption proposals. If the resumption proposals have not been implemented within the 6 months, the Exchange may remove the issuer from the Official List. The issuer is expected to provide monthly valuation of its assets and utilisation of cash and updates of milestones in completing the relevant transactions to the market via SGXNET.

We note that as at the Latest Practicable Date, trading of the Shares remains suspended, and there is no assurance as to whether the Company will, *inter alia*, be able to make the necessary application in a timely manner for the uplifting of the suspension. Moreover, as at the Latest Practicable Date, it is already more than 12 months since the date of suspension. There are significant uncertainties as to the ability of the Company to request for a resumption of trading for its Shares and on whether the Company may continue to remain (and not be removed) from the Official List.

In addition, as announced on 6 February 2020, the Exchange requires the Company to continue to do quarterly reporting of its financial results ("**QR**") in accordance with the requirements set out in the Amended Rule 705(2) on an ongoing basis and the Company is required to report the next set of quarterly financial statements for the period from 1 January 2020 to 31 March 2020 by 15 May 2020, until further notice from the Exchange.

As at the Latest Practicable Date, we note that the Company had not announced any quarterly financial statements for the period beginning from 1 January 2020. Accordingly, our analysis is limited and there is no assurance as to when the Company will comply with the requirements of the SGX-ST.

We note from Rule 729 of the Listing Manual that where the trading of securities of an issuer is suspended, there must not be any transfers of securities, unless approved by the SGX-ST. Accordingly, the ability of Shareholders to exit or dispose or realise their investments is limited, as

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

trading for Shares has been suspended, and as at the Latest Practicable Date, save for the Offer, the ability of Shareholders to exit or dispose or realise their investments is limited.

9.9. Special Audit

The findings of the Special Audit were announced on 7 November 2019. Shareholders are advised to read the Redacted Special Audit Report (defined and described therein) released on 7 November 2019 carefully.

We note that there are, *inter alia*, a lack of adequate controls and disclosure, with discrepancies as described in the announcement for the Special Audit. There is, thus, no assurance that the Company will be able to address this and provide timely or accurate announcements or have adequate controls.

9.10. Financial Watchlist

The Company remains on the Financial Criteria Watch-list since it was placed on it since 5 June 2018. We note that pursuant to Rule 1314 of the Listing Manual, an issuer on the watch-list may apply to the Exchange to be removed from the watch-list if it records consolidated pre-tax profit for the most recently completed financial year (based on audited full year consolidated accounts) and has an average daily market capitalisation of S\$40 million or more over the last 6 months.

Rule 1315 of the Listing Manual states that an issuer must take active steps to meet the requirements of Rule 1314 of the Listing Manual. If the issuer fails to comply with Rule 1314 of the Listing Manual within 36 months of the date on which it was placed on the watch-list (and for the Company 4 June 2021), the Exchange may either remove the issuer from the Official List or suspend trading of the listed securities of the issuer (without the agreement of the issuer) with a view to removing the issuer from the Official List.

Whilst the Company has recorded consolidated pre-tax profit for the most recently completed financial year, based on the audited financial statements for FY2019, we note that there is a Disclaimer of Opinion, and concerns on the Company's ability to continue as a going concern. Furthermore, the pre-tax profits included, *inter alia*, income or gains from the reversal of contingent liabilities, reversal of impairment loss of property, plant and equipment; gain on disposal of Taixing Sunke, and that if such are excluded from the Group's pre-tax profits, the Group would have registered a pre-tax loss. Moreover, the average market capitalisation was less than S\$40 million for the last 6 months prior to the Last Trading Day or the last transacted price. The Company's Shares remain suspended as at the Latest Practicable Date.

There may thus be no assurance or certainty that the Company will be able to satisfy the SGX-ST and meet the criteria for it to be removed from the financial watch list.

9.11. Escrow Accounts

We note that approximately RMB377.4 million which relates (as described in Note 16 in FS2019) to "Restricted bank balances comprise of net proceeds from disposal of Taixing Sunke of RMB 377,078,000 and interest income of RMB 298,000 as at that date (Note 13 (c))". The Directors have confirmed that as at the Latest Practicable Date, these amounts have been placed into two Escrow Accounts and the restricted bank balances refers to two bank Escrow Accounts designated to receive proceeds from the disposal of Taixing Sunke. All withdrawals from the bank accounts are subjected to certain conditions and approval by the SGX-ST (Note 13(c) of the FS2019). All withdrawals from any of the Escrow Accounts must be, *inter alia*, reviewed by the Company's internal auditor and external auditor, for its basis and veracity, and that the auditors must confirm that they are satisfied that the withdrawals will be disbursed to the right party for proper and legitimate usage of the Company or any of its subsidiaries. In addition, we note as announced on 27 September 2019, in connection with the Escrow Agreement (as defined therein in the announcement) and the Escrow Accounts, at the request of SGX-ST, Mr Koh Poh Beng and Mr Lua Poh Huat issued the Undertaking Letter to SGX-ST dated 5 September 2019, under which each of Mr Koh Poh Beng and Mr Lua Poh Huat have undertaken, *inter alia*, to and for the benefit of SGX-ST that any actions taken by him in relation to the Escrow Accounts are in accordance with the Notice of Compliance and he shall adhere to SGXST's

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

instructions in connection therewith, provided always that such directions and/or instructions by SGX-ST shall be in compliance with any applicable laws and regulations

We note the statements in the Independent Auditor's Report 2019 that as fully disclosed in Note 13(c) of the audited FS2019, due to the technicality as to the remittance of the net sale proceeds of RMB377.4 million (restricted cash including interest income) as at 31 December 2019 following the disposal of Taixing Sunke, the Independent Auditor was unable to ascertain when the fund can be made available to disburse for the use of paying the liabilities owing by the Group to the banks for RMB 397.4 million (2018: RMB 471.4 million) as at 31 December 2019.

In addition, the above has to be assessed with the Group's net cash flow used in operating activities of approximately RMB271.4 million for FY2019 and the cash and cash equivalents which are free from encumbrances and unrestricted of approximately RMB7.8 million as at 31 December 2019.

The Directors confirmed that as at the Latest Practicable Date, the Escrow Accounts remain restricted.

9.12. Unratified Interested Persons Transactions

We note from, *inter alia*, announcements and the Independent Auditor's Report 2019, that there are interested persons transactions. These may be required to be ratified pursuant to the Rules and have yet to be ratified. In the absence of such ratifications there is no assurance that such transactions in the past may have been undertaken on normal commercial terms and not prejudicial to the interest of the company or its minority shareholders. Accordingly, any analysis of the financial statements, and use of the financial statements for, *inter alia*, comparative analysis is limited. This may have implication for, *inter alia*, the Company's resumption of trading and exit from the financial watch-list.

9.13. Material Litigation and Material Contracts with Interested Persons

Material Litigation

We note from Appendix B1 Section 10 of the Circular, that as at the Latest Practicable Date, save as disclosed in the any publicly available information on the Group, none of the Company or its subsidiaries is engaged in any material litigation or arbitration proceedings, either as plaintiff or defendant, which might materially and adversely affect the financial position of the Company or its subsidiaries taken as a whole and the Directors are not aware of any litigation, claims or proceedings pending or threatened against the Company or its subsidiaries or any facts likely to give rise to any proceedings which might materially and adversely affect the financial position of the Company and its subsidiaries taken as a whole.

Material contracts with Interested Persons

We note from Appendix B1 Section 9 of the Circular that as at the Latest Practicable Date, save as disclosed in Appendix B2 of the Circular, neither the Company nor any of its subsidiaries has entered into material contracts (not being contracts entered into in the ordinary course of business of the Group) with persons who are Interested Persons (during the period beginning three (3) years before the Offer Announcement Date and ending on the Latest Practicable Date).

10. OPINION

In arriving at our opinion in respect of the Offer, we have reviewed and examined the following factors and taken into account, *inter alia*, the limitations summarised below as well as others elaborated elsewhere in our Letter which we have considered to be pertinent in our assessment of the Offer, including the views of and representations by the Directors. We have not been furnished with any valuations and pursuant to our discussion with the Directors and arising from the said discussion, the Directors have confirmed that as at the Latest Practicable Date, a valuation of the non-current assets of the Group may not be a significant factor in the assessment of the Offer and evaluation of whether, *inter alia*, on a P/NAV basis, the Offer is favourable or fair (for further details, please refer to pages 21 and 22 of this Letter). Our views, recommendation and opinion are thus necessarily limited and subject to these matters.

Our recommendation or opinion is by no means an indication of the merits, prospects, financial performance and position of the Company or the Group or the ability of the Company or Group to service its borrowings (both principal and interest payment) when it falls due or the adequacy of the working capital or the ability to continue as a going concern, or the ability of the Company to comply with the various requirements of the SGX-ST or SGX RegCo or ability of the Company to resume trading or the ability of the Company to remain on the Official List, following completion of the Offer.

This is purely a summary of the factors that have been highlighted in this Letter and Shareholders are advised to read the following in conjunction with, and in the context of, the full text of this Letter:

- (a) The rationale for the Offer, intentions of the Offeror and, *inter alia*, the compulsory acquisition rights and listing status as set out in Sections 7, 8, and 9 of the Offer Document respectively.
- (b) The historical financial performance and position of the Group as set out in Section 8.1 of this Letter. Save for FY2019, the Group has not been profitable during the period reviewed, with net losses attributable to owners of the Company of approximately RMB20.3 million, and RMB630.7 million in FY2017 and FY2018 respectively and net profit attributable to owners of the Company of approximately RMB93.4 million in FY2019.

As described in the earlier Sections, this should be viewed in the context that for FY2019, the profit after tax registered by the Group attributable to owners of the Company of approximately RMB93.4 million was attributable to, *inter alia*, gain on disposal of Taixing Sunke of approximately RMB321.4 million. As an illustration, in the event that these reversals or gain on disposal (classified under other income in FS2019), which are non-recurring and non-trade in nature, are excluded from the Group's profit after tax, the Group would have registered a loss after tax for FY2019, being the Adjusted LTM Loss After Tax.

The Group's financial position has generally deteriorated for the period reviewed and is weak. Shareholders' equity had declined by approximately RMB540.8 million (or approximately 55.0%) from approximately RMB983.3 million as at 31 December 2017 to approximately RMB442.4 million as at 31 December 2019, arising from the aggregate consolidated losses attributable to owners of the Company of approximately RMB557.6 million registered for the last three financial years. In addition, for the period reviewed the Group was in a net current liabilities position, and pursuant to the Disclaimer of Opinion, the Independent Auditor has stated that there are, *inter alia*, concerns on the Company's ability to continue as a going concern, and their inability to ascertain, or verify, or determine (as may be applicable) the various matters stated therein limiting the reliance on the use of the information in FS2019 for analysis.

The Directors confirmed that as at the Latest Practicable Date and save for matters disclosed in the Circular, this Letter and the audited financial statements for the Group for FY2019, there has been no material changes to the assets and liabilities, financial position, condition and performance of the Group.

- (c) The historical financial performance and position of the Group *vis-a-vis* the Selected Comparable Companies is generally weaker. The Group's financial position is weaker than any of the Selected Comparable Companies in terms of its ratio of total liabilities to shareholders' equity, and the ratio of total borrowings to shareholders' equity.

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

Based on the Adjusted LTM Loss After Tax, the Group's LTM ROE and net profit margin would be negative and not meaningful. We note that save for Jiutian Chemical, all the Selected Comparable Companies registered net profits and had positive LTM ROE and net profit margin. Accordingly, the Groups' financial performance based on the Adjusted LTM Loss After Tax, in terms of LTM ROE and net profit margin, is relatively weaker, as compared to the other Selected Comparable Companies, save for Jiutian Chemical.

- (d) The Offer Price (as set out in Section 8 of this Letter) after taking into account, *inter alia*, the following factors: -
- (i) The Offer Price represents substantial discounts of approximately 83.5% and 83.2% from the Group's NAV and NTA per Share respectively as at 31 December 2019.
 - (ii) The Offer Price represents a premium of approximately 27.3% over the last transacted price of S\$0.022 per Share for the Shares on the SGX-ST on 4 January 2019, being the Last Trading Day immediately preceding the Trading Halt Date.
 - (iii) The Offer Price represents premiums of approximately 16.7% and 40.0% over the VWAP for the Shares for the 6-months and 1-month periods prior to the Last Trading Day respectively.
 - (iv) The Offer Price represents discounts of approximately 12.5% and 3.4% from the VWAP for the Shares for the 12-months and 3-months periods prior to the Last Trading Day respectively.
 - (v) Trading for the Shares is erratic and the daily average number of Shares traded during the 12-month period prior to and including the Last Trading Day immediately preceding the Trading Halt Date is relatively low as compared to the number of issued Shares held by Shareholders other than the substantial Shareholders and the Directors as at the Latest Practicable Date. We note given the low liquidity of the Shares (in terms of number of Shares traded on a daily basis) and the frequency of trading during the periods observed even before the suspension, the Offer may represent a realistic exit opportunity for the Shareholders to realise their entire investment for cash.
 - (vi) Any comparison of the Offer Price to the historical trading performance of the Shares may not be meaningful given the Shares have been suspended since 14 January 2019. Various material events and developments announced subsequent to the suspension of the Shares (*inter alia*, matters pertaining to YFC Corporate Guarantee and BOC Corporate Guarantee, disposal of JJP and Taixing Sunke, concerns on governance, compliance and the possibly unclear state of affairs, the Disclaimer of Opinion on, *inter alia*, going concern assumption, etc), which are likely to be price sensitive, and which may possibly have implications for the transacted prices for the Shares, had trading for Shares not been suspended. Hence, the last closing price for the Shares or traded prices for Shares immediately preceding or prior to the Trading Halt Date may not be reflective of the Company's recent developments as well as the Group's financial performance and position.
 - (vii) Not fair or unfavourable comparison with the valuation of the Selected Comparable Companies.

The valuation of the Group (as implied by the Offer Price and based on the Adjusted LTM EBITDA and LTM Adjusted Loss After Tax) in terms of LTM EV/EBITDA and LTM PER respectively, is negative and not meaningful.

In addition, the valuation of the Group in terms of P/NAV and P/NTA ratios (as implied by the Offer Price and the Group's NAV per Share and NTA per Share as at 31 December 2019) appears to be lower than any of the Selected Comparable Companies. We understand from Management that Jiutian Chemical which has, *inter alia*, business activities and products/services in the chemical industry and is based in the PRC, may be the most comparable to the Company among the Selected Comparable Companies. The

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

valuation of the Group (as implied by the Offer Price and the Group's NAV or NTA per Share as at 31 December 2019) in terms of both P/NAV and P/NTA ratios is significantly lower than that for Jiutian Chemical. The Offer Price is lower than the estimated market values of the Shares based on, *inter alia*, the Group's NAV and NTA per Share as at 31 December 2019 and the simple average of P/NAV and P/NTA for the Selected Comparable Companies, and after incorporating control premiums. The estimated market values are subject to assumptions of, *inter alia*, resumption of trading for the Shares and transferability of the Shares.

- (viii) Generally reasonable or favourable comparison with the Selected Successful Privatisations - the valuation of the Group as implied by the Offer Price in terms of premiums/discounts over/from historical prices for the Shares. We note that any comparison of the Offer Price to the historical trading performance of the Shares may not be meaningful given that the Shares have been suspended since 14 January 2019, as described in paragraph (vi) above.

Not fair or unfavourable comparison with the Selected Successful Privatisations as the valuation of the Group (as implied by the Offer Price and NAV per Share) in terms of the P/NAV ratio, and it appears to be out of the range, lower than the minimum and less favourable as compared to any of the Selected Successful Privatisations.

When considered in the context of the shareholdings of the Offeror and its Concert Parties at the start of the Offer as set out in the Offer Announcement and the Offer Document, which is within the range and at the minimum for the percentage of shareholding interest for each of the offeror and parties acting in concert as at the start for the Selected Successful Privatisations, the valuation of the Group as implied by the Offer Price in terms of both premiums/discounts over/from historical prices for the Shares is generally comparable to the Selected Successful Privatisations, given *inter alia* the weak financial performance (based on the Adjusted Loss After Tax) and financial position, Disclaimer of Opinion, uncertainties on the Group's ability to continue as a going concern, and suspension etc.

- (ix) Generally, reasonable or comparable with the Selected Successful Delistings - the valuation of the Group as implied by the Offer Price in terms of premiums/discounts over/from historical prices for the Shares. We note that any comparison of the Offer Price to the historical trading performance of the Shares may not be meaningful given that the Shares have been suspended since 14 January 2019, as described in paragraph (vi) above.

Not fair or unfavourable comparison with the Selected Successful Privatisations Delistings as the valuation of the Group (as implied by the Offer Price and NAV per Share) in terms of the P/NAV ratio, and it appears to be out of the range, lower than the minimum and less favourable as compared to any of the Selected Successful Delistings.

When considered in the context of the shareholdings of the Offeror and its Concert Parties at the start of the Offer, as set out in the Offer Announcement and Offer Document, which is within the range, and at the minimum for the Selected Successful Delistings, the valuation of the Group as implied by the Offer Price in terms of both premiums/discounts over/from historical prices for the Shares and the NAV per Share in terms of P/NAV ratio, appears in general to be comparable to the Selected Successful Delistings, given, *inter alia*, the weak financial performance (based on the Adjusted Loss After Tax) and financial position, Disclaimer of Opinion, uncertainties on the Group's ability to continue as a going concern, and suspension etc.

- (e) Our analysis as set out in Section 9.2 of this Letter suggests that the Company's dividend pay-out or yield is relatively not favourable when compared to the Selected Comparable Companies (save for Jiutian Chemical), and the dividend yield of STI ETF.
- (f) As at the Latest Practicable Date, the Offer is conditional upon the Minimum Acceptance Condition. The Offeror is making the Offer with a view to delisting and privatising the Company.

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

In the event, that the trading of Shares on the SGX-ST is suspended pursuant to Rule 724, Rule 1105 or Rule 1303(1) of the Listing Manual, the Offeror has no intention to undertake or support any action for any such trading suspension by the SGX-ST to be lifted. Further, when entitled, the Offeror intends to exercise its right to compulsorily acquire all the Offer Shares not acquired under the Offer. The Offeror will then proceed to delist the Company from the SGX-ST.

- (g) Disclaimer of Opinion issued by the Independent Auditor for the FS2019, and the Independent Auditor's statements therein, *inter alia*, that they were unable to conclude whether the use of the going concern assumption, which has been adopted in the preparation of the accompanying financial statements, is appropriate.
- (h) Suspension of trading of Shares on 14 January 2019, arising from concerns on the Group's ability to continue as a going concern pursuant to demands arising from YFC Corporate Guarantee and BOC Corporate Guarantee extended to purported third parties. In the event the Company is unable to resolve, *inter alia*, these issues to the satisfaction of the SGX-ST, the Company's Shares may remain suspended. As at the Latest Practicable Date, the Company's Shares remain suspended.

We note that the Company is, *inter alia*, required to submit Resumption Proposals to the Exchange with a view to resuming trading in its securities within 12 months of the date of suspension. If no resumption proposals are received to enable trading to resume within 12 months of the date of suspension, the Exchange may remove the issuer from the Official List. As at the Latest Practicable Date, it is already more than 12 months since the date of suspension. There are significant uncertainties as to the ability of the Company to resume trading and on whether the Company may continue to remain on (and not be removed from) the Official List.

We note from Rule 729 of the Listing Manual that where the trading of securities of an issuer is suspended, there must not be any transfers of securities, unless approved by the Exchange. Accordingly, save for the Offer, the ability of Shareholders to exit or dispose or realise their investments is limited, as trading for Shares has been suspended.

- (i) The Company was placed on financial criteria watch-list since 5 June 2018. The Company has 36 months from 5 June 2018 to meet the requirements to be removed from the watchlist under the financial entry criteria, failure of which may subsequently result in the SGX-ST delisting the Company or suspending trading in the Company's Shares with a view to delisting the Company. Whilst the Company has recorded consolidated pre-tax profit for the most recently completed financial year, based on the audited FS2019, we note that, *inter alia*, there is a Disclaimer of Opinion, and concerns on the Company's ability to continue as a going concern. Furthermore, the pre-tax profits for FY2019 included, *inter alia*, income or gain from the reversal of contingent liabilities; reversal of impairment loss of PPE; gain on disposal of Taixing Sunke, and that if such income or gain are excluded from the Group's pre-tax profits, the Group would have registered a pre-tax loss for FY2019. Moreover, the average market capitalisation of the Company was less than S\$40 million for the last 6 months prior to the Last Trading Day or the last transacted price. The Last Trading Day was prior to suspension and more than 6 months prior to the Latest Practicable Date. There is no assurance or certainty that the Company will be able to satisfy the SGX-ST and meet the criteria for it to be removed from the financial watch list.
- (j) Significant uncertainties and risks associated with ownership of the Shares. There are, *inter alia*, significant uncertainties ("**Uncertainties**") described in this Letter and where applicable the Circular, with regards to the Group's state of affairs, *inter alia*, the ability to continue as a going concern, matters as described in the Disclaimer of Opinion, suspension, SGX-ST's notice of compliance in relation to the letters of demand received by the Company's wholly owned subsidiaries, and the circumstances and announcements made as well as the outstanding regulatory requirements for, *inter alia*, "ratification" of past interested persons transactions, findings, recommendations and implementations (if any) of the Special Audit.
- (k) The Directors' confirmation that (a) no other third parties have approached the Company with an intention to make an offer for the Company; and (b) apart from the Offer being made by the

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

Offeror, no other third party has made a firm offer for the Company as at the Latest Practicable Date.

- (I) Other considerations are set out in paragraph 9 or other such sections of this Letter.

In summary, having regard to our analysis and the consideration in this Letter and after having considered carefully the information available to us and based on market, economic and other relevant conditions prevailing as at the Latest Practicable Date, and subject to, *inter alia*, our terms of reference and earlier analysis, and confirmations from the Directors that, *inter alia*, there is no alternative offer, the Offer being a voluntary offer and that save for the Offer, the ability of Shareholders to exit or dispose or realise their investments is limited, as trading for Shares has been suspended, the Offer represents a realistic opportunity for Shareholders to exit or dispose or realise their investments, and for those Shareholders who are not prepared to bear the aforesaid risks associated with the Company a clean cash exit opportunity provided through the Offer. There are, *inter alia*, significant Uncertainties with regards to the Group as described in this Letter. In addition, the Offer Price is lower than the estimated market values for the Shares as described in Section 8.3 of this Letter. Accordingly, we are of the opinion that the financial terms of the Offer is, on balance, **NOT FAIR BUT REASONABLE**.

For the purposes of evaluation of the Offer from a financial point of view, we have adopted the approach that the term “fair and reasonable” comprises two distinct concepts:

- (i) Whether the Offer is “fair” relates to the value of the offer price or consideration compared against the value of the securities subject to the offer (or Shares), which is based strictly on the evaluation of the Offer Price (i.e. by looking at the financial or fundamental analyses of the Offer Price as set out in this Letter and based on information known to us or which is publicly available). An offer is “fair” if the price offered is equal to or greater than the value of the Offeree Securities.
- (ii) Whether the Offer is “reasonable”, after taking into consideration the actual and potential financial impact of other circumstances surrounding the Offer and the Company which we consider relevant (being both quantitative and qualitative factors available and made known to us). This includes but are not limited to, other matters, such as the existing voting rights in the offeree company held by the offeror and its concert parties and the market liquidity of the offeree securities.

We consider the financial terms of the Offer to be **NOT FAIR**, from a financial point of view after factoring, *inter alia*, the following: -

- (i) The substantial discounts of approximately 83.5% and 83.2% from the Group’s NAV per Share and NTA per Share respectively as at 31 December 2019.
- (ii) Not fair or unfavourable comparison with the valuation of the Selected Comparable Companies. in terms P/NAV or P/NTA ratios. Furthermore, the valuation of the Group (as implied by the Offer Price) and based on the Adjusted LTM EBITDA and Adjusted Loss After Tax in terms of LTM EV/EBITDA and LTM PER is negative and may not be meaningful.

The comparisons were made taking into account, *inter alia*: (a) the Group’s relatively weaker financial position (in terms of total liabilities to shareholders’ equity and total borrowings to shareholders’ equity ratios); (b) Group’s financial performance in terms of the LTM ROE and LTM net profit margin based on the LTM Adjusted Loss After Tax, which is relatively weaker as compared to the other Selected Comparable Companies, save for Jiutian Chemical; and (c) the Uncertainties.

- (iii) Not fair or unfavourable comparison with the Selected Successful Privatisations as the valuation of the Group (as implied by the Offer Price and NAV per Share) in terms of the P/NAV ratio, and it appears to be out of the range, lower than the minimum and less favourable than any of the Selected Successful Privatisations.

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

- (iv) Not fair or unfavourable comparison with the Selected Successful Delistings as the valuation of the Group (as implied by the Offer Price and NAV per Share) in terms of the P/NAV ratio, appears to be less favourable as compared to any of the Selected Successful Delistings.
- (v) The Offer Price is lower than the estimated market values for the Shares as described in Section 8.3 of this Letter. We further note that the results from the analysis based on, *inter alia*, the Selected Comparable Companies, the Selected Successful Privatisations and the Selected Successful Delistings are all not fair.
- (vi) Not fair or unfavourable comparison in terms of dividend payout or yield when compared to the Selected Comparable Companies (save for Jiutian Chemical), and the dividend yield for STI ETF.
- (vii) The Disclaimer of Opinion issued by the Independent Auditors for the FS2019, and, *inter alia*, their inability to ascertain, or verify, or determine (as may be applicable) the various matters stated therein, thereby limiting the reliance on the use of the information in FS2019 for analysis.

We consider the financial terms of the Offer to be, on balance, **REASONABLE**, from a financial point of view after factoring, *inter alia*, the following: -

- (i) Generally reasonable or favourable comparison with the Selected Successful Privatisations, and reasonable or comparable with the Selected Successful Delistings with regards to the valuation of the Group as implied by the Offer Price in terms of premiums/discounts over/from historical prices for the Shares, given, *inter alia*, the weak financial performance (based on the Adjusted Loss After Tax) and financial position, Disclaimer of Opinion, uncertainties on the Group's ability to continue as a going concern, or ability to meet the criteria for removal from the financial watch list and suspension etc.
- (ii) The Offer Price represents a premium of approximately 27.3% over the last transacted price of S\$0.022 per Share for the Shares on the SGX-ST on 4 January 2019, being the Last Trading Day immediately preceding the Trading Halt Date, and premiums of approximately 16.7% and 40.0% over the VWAP for the Shares for the Period for 6-months and 1-month periods prior to the Last Trading Day respectively.
- (iii) Any comparison of the Offer Price to the historical trading performance of the Shares may not be meaningful given the Shares have been suspended since 14 January 2019. Various material events and developments announced subsequent to the suspension of the Shares (*inter alia*, matters pertaining to YFC Corporate Guarantee and BOC Corporate Guarantee, disposal of JJP and Taixing Sunke, concerns on governance, compliance and the possibly unclear state of affairs, the Disclaimer of Opinion on, *inter alia*, going concern assumption, etc), which are likely to be price sensitive may possibly have implications for the transacted prices for the Shares, had trading for Shares not been suspended. Hence, the last closing price for the Shares or traded prices for Shares immediately preceding or prior to the Trading Halt Date may not be reflective of the Company's recent developments as well as the Group's financial performance and position. This has implications on the analysis of the Offer Price in terms of historical premiums on its own or for comparisons with Selected Successful Privatisations and Selected Successful Delistings.
- (iv) Low liquidity for the Shares (in terms of daily average trading volume) and frequency of trading of Shares even prior to suspension, and the Offer Announcement Date. Various material events and developments announced after the suspension of the Shares (which are likely to be price sensitive) may possibly have implications for the transacted prices for the Shares, had trading for Shares not been suspended. Hence, the last closing price for the Shares or traded prices for Shares immediately preceding or prior to the Trading Halt Date may not be reflective of the Company's recent developments as well as the Group's financial performance and position. There is no assurance that after the Offer and in the event that the suspension for trading of Shares is lifted, that the prices for which Shares will be traded or its liquidity will be maintained at levels prior to suspension (or that prices for Shares will be more than the Offer Price). Given the low liquidity of the Shares (in terms of number of Shares traded on a daily basis) and the frequency of trading during the periods observed even before suspension, the Offer may

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

represent a realistic exit opportunity for the Shareholders to realise their entire investment for cash.

- (v) The Uncertainties as described in this Letter and where applicable the Circular, with regards to the Group's state of affairs, *inter alia*, the ability to continue as a going concern, matters as described in the Disclaimer of Opinion, suspension, SGX-ST's notice of compliance in relation to the letters of demand received by the Company's wholly owned subsidiaries and the circumstances and announcements made as well as the outstanding regulatory requirements for, *inter alia*, "ratification" of past interested persons transactions, findings and implementations (if any) of the Special Audit.
- (vi) Significant uncertainties as to the ability of the Company to resume trading for its Shares and on whether the Company may continue to remain on (and not be removed from) the Official List.
- (vii) No assurance or certainty that the Company will be able to satisfy the SGX-ST and meet the criteria for it to be removed from the financial watch list.
- (viii) Under Rule 729 of the Listing Manual, where the trading of securities of an issuer is suspended, there must not be any transfers of securities, unless approved by the Exchange. Accordingly, save for the Offer, the ability of Shareholders to exit or dispose or realise their investments is limited, as trading for Shares has been suspended. The Offer represents a realistic opportunity for Shareholders to exit or dispose or realise their investments, and for those Shareholders who are not prepared to bear the aforesaid risks associated with the Company a clean cash exit opportunity provided through the Offer.
- (ix) The Director's confirmation that (a) no other third parties have approached the Company with an intention to make an offer for the Company; and (b) apart from the Offer being made by the Offeror, no other third party has made a firm offer for the Company as at the Latest Practicable Date.

ACA's Recommendation on the Offer

Based on our assessment of the financial terms of the Offer, which is NOT FAIR BUT REASONABLE as set out above, we advise the Independent Directors that they should recommend that Shareholders **ACCEPT** the Offer. This is despite our views that the Offer being "not fair", the Offer is "reasonable" after taking into consideration other matters as well as the value of the Shares. In addition, the Offer represent a realistic opportunity for Shareholders to realise their entire investment in cash taking into account, *inter alia*: the traded prices and low liquidity for the Shares (in terms of daily average trading volume) prior to the suspension or the Offer Announcement Date and the uncertainty as to whether the traded prices or volumes of Shares traded or its frequency will be maintained at levels prior to suspension; the Uncertainties with regards to the Group's state of affairs, *inter alia*, the Escrow Accounts remain restricted as at the Latest Practicable Date; the ability to continue as a going concern; ability of the Company to resume trading for its Shares; whether the Company may continue to remain on (and not be removed from) the Official List; no assurance or certainty that the Company will be able to satisfy the SGX-ST, *inter alia*, to meet the criteria for it to be removed from the financial watch list; and in the absence of an alternative offer.

Further under Rule 729 of the Listing Manual, where the trading of securities of an issuer is suspended, there must not be any transfers of securities, unless approved by the Exchange. Accordingly, save for the Offer, the ability of Shareholders to exit or dispose or realise their investments is limited, as trading for Shares has been suspended. The Offer represents a realistic opportunity for Shareholders to exit or dispose or realise their investments, and for those Shareholders who are not prepared to bear the aforesaid risks associated with the Company a clean cash exit opportunity provided through the Offer.

Matters to highlight

We would also wish to highlight the following matters which may affect the decisions or actions of Shareholders: –

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

1. If the Shareholders are considering selling their Offer Shares in the open market, they should note that trading for the Shares has been suspended. Further, under Rule 729 of the Listing Manual, where the trading of securities of an issuer is suspended, there must not be any transfers of securities, unless approved by the Exchange.
2. The Offeror in Section 1.6 of Appendix 1 of the Offer Document has stated that the Offeror reserves the right to revise the terms of the Offer at such time and in such manner as it may consider appropriate. If the Offer is revised, the Offer will remain open for acceptance for at least 14 days from the date of despatch of the written notification of the revision to Shareholders. In any case where the terms are revised, the benefit of the Offer (as so revised) will be made available to each of the Shareholders who had previously accepted the Offer.
3. Whilst the possibility of a higher offer from a third party cannot be ruled out, as at the Latest Practicable Date, we are not aware of any publicly available evidence of an alternative offer for the Shares. Shareholders should be aware that the chances of such an alternative offer for Shares being made by a third party may be affected by the fact that as at the Latest Practicable Date, the Shares are suspended and there are, *inter alia*, Uncertainties.
4. The Offeror is making the Offer with a view to delist or privatise the Company from the SGX-ST and if entitled to under the Companies Act, the Offeror intends to compulsorily acquire all the Offer Shares.
5. In the event the Company does not meet the free float requirement, the Offeror does not intend to preserve the listing status of the Company.
6. In the event that the trading of Shares on the SGX-ST is suspended pursuant to Rule 724, Rule 1105 or Rule 1303(1) of the Listing Manual, the Offeror has no intention to undertake or support any action for any such trading suspension by the SGX-ST to be lifted.
7. The Directors confirmed that as at the Latest Practicable Date and save for matters disclosed in the Circular, this Letter and the audited financial statements for the Group for FY2019, there has been no material changes to the Group's assets and liabilities, financial position, condition and performance.
8. Our scope does not require us and we have not made any independent evaluation of the Group (including without limitation, market value or economic potential) or appraisal of the Group's assets and liabilities (including without limitation, property, plant and equipment and assets held for sale) or contracts entered into by the Company or the Group and we have not been furnished with any such evaluation and appraisal in respect of assets and liabilities (if any) held or contracts entered into by the Group. With respect to such valuation, we are not experts in the evaluation or appraisal of assets and liabilities (including without limitation, property, plant and equipment and assets held for sale where applicable) including, *inter alia*, the contracts that the Group has embarked upon or are about to embark upon and have relied on the opinion of the Directors.

Limitations

It is also to be noted that as trading of the Shares is subject to possible market fluctuations and accordingly, in the event that the Company resumes trading in the future, our advice on the Offer does not and cannot take into account the future trading activities or patterns or price levels that may be established for the Shares since these are governed by factors beyond the ambit of our review and also such advice, if given, would not fall within our terms of reference in connection with the Offer.

For our opinion and recommendation, we have not had regard to the general or specific investment objectives, financial situation, tax position, risk profiles or unique needs and constraints or plans of any individual Shareholder, or group of Shareholders. As different Shareholders or groups of Shareholders would have different investment profiles and objectives, we would advise Independent Directors to recommend that any individual Shareholder or group of Shareholders who may require advice in the context of his specific investment portfolio, including his investment in the Company,

APPENDIX A – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

should consult his stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.

11. ACTION TO BE TAKEN BY SHAREHOLDERS

Shareholders may choose to accept the Offer in respect of all or part of their holdings of the Offer Shares. Shareholders who **wish to accept the Offer** must do so not later than **5.30 P.M. (SINGAPORE TIME) ON THE CLOSING DATE**. Shareholders who wish to accept the Offer should follow the “Procedures for Acceptance” as set out in Appendix 2 to the Offer Document.

Shareholders who **do not wish to accept the Offer** need not take any further action in respect of the Offer Document, the FAA and the FAT and any related documents which have been sent to them.

The detailed procedures for acceptance and settlement of the Offer are set out in Appendices 1 and 2 to the Offer Document. Information pertaining to CPFIS Investors and SRS Investors can also be found in Section 14 of the Offer Document.

This Letter is addressed to the Independent Directors in connection with and for the sole purpose of their evaluation of the financial terms of the Offer. Whilst a copy of this Letter may be included in the Circular, neither the Company nor the Directors nor the Shareholders, may reproduce, disseminate or quote this Letter (or any part thereof) for any other purpose at any time and in any manner without the prior written consent of ACA in each specific case. This opinion is governed by, and construed in accordance with, the laws of Singapore, and is strictly limited to the matters and the scope of our appointment stated herein and does not apply by implication to any other matter. Save as disclosed, nothing herein shall confer or be deemed or is intended to confer any right of benefit to any third party and the Contracts (Rights of Third Parties) Act Chapter 53B and any re-enactment thereof shall not apply.

The recommendations made by the Independent Directors to the Independent Shareholders in relation to the Offer and the issue of the Circular (as well as any information therein) shall remain the sole responsibility of the Independent Directors and the Directors respectively.

Yours faithfully,

For and on behalf of

ASIAN CORPORATE ADVISORS PTE. LTD.

H.K. LIAU
MANAGING DIRECTOR

FOO QUEE YIN
MANAGING DIRECTOR

APPENDIX B1 – INFORMATION ON THE COMPANY

1. DIRECTORS OF THE COMPANY

The names, addresses and designations of the Directors as at the Latest Practicable Date are set out below:

Name	Address	Designation
Sun Li Hua	c/o 112 Robinson Road, #11-01 Robinson 112, Singapore 068902	Executive Director and Chief Executive Officer
Koh Poh Beng	c/o 112 Robinson Road, #11-01 Robinson 112, Singapore 068902	Lead Independent Director
Lua Poh Huat	c/o 112 Robinson Road, #11-01 Robinson 112, Singapore 068902	Independent Director

2. REGISTERED OFFICE OF THE COMPANY

The registered office of the Company is at 112 Robinson Road, #11-01 Robinson 112, Singapore 068902.

3. LEGAL STATUS AND PRINCIPAL ACTIVITY OF THE COMPANY

The Company was incorporated in Singapore on 27 May 2004 and was listed on the Mainboard of the SGX-ST on 5 February 2007. The principal activity of the Company and its subsidiaries is the manufacture and sale of chemical products in the PRC.

4. SHARE CAPITAL OF THE COMPANY

4.1. Number and Class of Shares

The Company has one (1) class of shares, being the Shares. The Shares are quoted and listed on the Mainboard of SGX-ST.

As at the Latest Practicable Date, the total issued and paid-up share capital of the Company is approximately S\$76,530,402 comprising 533,650,641 Shares (including 1,650,000 treasury Shares).

4.2. Rights of Shareholders in respect of capital, dividends and voting

The rights of Shareholders in respect of capital, dividends and voting are contained in the Constitution. An extract of the relevant provisions in the Constitution relating to the rights of Shareholders in respect of capital, dividends and voting are set out in **Appendix C** to this Circular. The Constitution is available for inspection at the office of the Company's share registrar, Tricor Barbinder Share Registration Services at 80 Robinson Road, #11-02, Singapore 068898.

4.3. Number of Shares issued since the end of the last financial year

No new Shares have been issued by the Company since 31 December 2019, being the end of the last financial year, up to the Latest Practicable Date.

4.4. Convertible instruments

As at the Latest Practicable Date, there are no outstanding instruments convertible into, rights to subscribe for, and options in respect of, securities being offered for or which carry voting rights affecting the Shares in the Company.

APPENDIX B1 – INFORMATION ON THE COMPANY

5. SUMMARY OF FINANCIAL INFORMATION

5.1. Consolidated Statement of Comprehensive Income

A summary of the audited consolidated statements of comprehensive income of the Group for the financial years ended 31 December 2017, 31 December 2018 and 31 December 2019 are set out below:

	Financial year ended 31 December 2019 RMB'000	Financial year ended 31 December 2018 RMB'000	Financial year ended 31 December 2017 RMB'000 (Re-presented)
Continuing operations			
Revenue	940,381	1,577,098	2,246,712
Cost of sales	(934,547)	(1,543,832)	(2,084,536)
Gross profit	5,834	33,266	162,176
Other income			
- Interest	1,903	1,822	585
- Others	387,479	41,935	13,218
Distribution expenses	(4,844)	(37,070)	(40,170)
Administrative expenses	(93,286)	(142,700)	(103,138)
Other operating expenses	(177,412)	(510,032)	(13,305)
Finance costs	(48,753)	(73,062)	(73,365)
Profit/(Loss) before taxation	70,921	(685,841)	(53,999)
Taxation	(16)	(600)	(1,018)
Profit/(Loss) after taxation from continuing operations	70,905	(686,441)	(55,017)
Discontinued operations			
Profit from discontinued operations, net of tax	20,815	13,045	32,154
Profit/(Loss) for the year	91,720	(673,396)	(22,863)
Other comprehensive income after tax: (Item that may be reclassified subsequently to profit or loss)			
Foreign currency translation	203	809	(574)
Total comprehensive profit/(loss) for the year	91,923	(672,587)	(23,437)
Profit/(Loss) attributable to:			
Owners of the Company	93,363	(630,678)	(20,322)
Non-controlling interests	(1,643)	(42,718)	(2,541)
Profit/(Loss) for the year	91,720	(673,396)	(22,863)
Profit/(Loss) attributable to owners of the Company:			
Profit/(Loss) from continuing operations	72,548	(643,723)	(52,476)
Profit from discontinued operations	20,815	13,045	32,154
	93,363	(630,678)	(20,322)

APPENDIX B1 – INFORMATION ON THE COMPANY

	Financial year ended 31 December 2019 RMB'000	Financial year ended 31 December 2018 RMB'000	Financial year ended 31 December 2017 RMB'000 (Re-presented)
Total comprehensive profit/(loss) attributable to:			
Owners of the Company	93,566	(629,869)	(20,896)
Non-controlling interests	(1,643)	(42,718)	(2,541)
Total comprehensive profit/(loss) for the year	91,923	(672,587)	(23,437)
	RMB Cents	RMB Cents	RMB Cents (Re-presented)
Earnings/ (Loss) per share for loss from:			
Basic and diluted loss per share			
- loss for the year	17.5	(118.5)	(3.8)
- continuing operations	13.6	(121.0)	(9.9)
- discontinued operations	3.9	2.5	6.1

The above summary of financial information should be read together with the audited consolidated financial statements of the Group for the relevant financial years, and related notes thereto, copies of which are available for inspection at the office of the Company's share registrar, Tricor Barbinder Share Registration Services at 80 Robinson Road, #11-02, Singapore 068898 during normal business hours for the period for which the Offer remains open for acceptance.

The audited consolidated financial statements of the Group for the financial years ended 31 December 2018 and 31 December 2019 are respectively set out in **Appendix D** and **Appendix E** to this Circular.

5.2. Statement of Financial Position

A summary of the audited consolidated statement of financial position of the Group as at 31 December 2019 is set out below:

	As at 31 December 2019 RMB'000
ASSETS	
Non-current assets	
Property, plant and equipment	131,431
Right-of-use assets	207,419
Intangible assets	7,178
Freehold land / Land use rights	12,577
Investment in subsidiaries	—
Deferred tax assets	—
Value-added tax recoverable	—
Fixed deposits - pledged	—
	358,605

APPENDIX B1 – INFORMATION ON THE COMPANY

	As at 31 December 2019 RMB'000
Current assets	
Inventories	24,058
Trade and other receivables	596,748
Cash and cash equivalents	789,169
	1,409,975
Assets of disposal group classified as held for sale	–
	1,409,975
Total assets	1,768,580
EQUITY AND LIABILITIES	
Capital and Reserves	
Share capital	291,516
Treasury shares	(1,575)
(Accumulated losses)/Retained earnings	(132,768)
Other reserves	285,276
	442,449
Non-controlling interests	(124,020)
Total equity	318,429
Non-current liabilities	
Borrowings	–
Lease liabilities	705
Deferred tax liabilities	7,500
	8,205
Current liabilities	
Borrowings	397,431
Trade and other payables	997,120
Provision for restoration costs	45,573
Lease liabilities	486
Provision for contingent liability – Corporate guarantees	–
Income tax payable	1,336
	1,441,946
Liabilities of disposal group classified as held for sale	–
	1,441,946
Total liabilities	1,450,151
Total equity and liabilities	1,768,580

The above summary of financial information should be read together with the audited consolidated financial statements of the Group for the relevant financial year and related notes thereto, a copy of which is available for inspection at the office of the Company's share registrar, Tricor Barbinder Share Registration Services at 80 Robinson Road, #11-02, Singapore 068898 during normal business hours for the period for which the Offer remains open for acceptance.

The audited consolidated financial statements of the Group for the financial year ended 31 December 2019 are set out in **Appendix E** to this Circular.

APPENDIX B1 – INFORMATION ON THE COMPANY

5.3. Significant Accounting Policies

A summary of the significant accounting policies of the Group is set out in Note 2 to the audited consolidated financial statements of the Group for the financial year ended 31 December 2019, which are set out in **Appendix E** to this Circular.

Save as disclosed in publicly available information on the Group (including but not limited to the disclaimer of opinion issued by the Company's independent auditor, Foo Kon Tan LLP, in their report on the audited consolidated financial statements of the Group for the financial year ended 31 December 2019 as set out in **Appendix E** to this Circular), there are no significant accounting policies or any points from the notes to the financial statements which are of major relevance for the interpretation of the accounts.

5.4. Change in Accounting Policies

Save as disclosed in this Circular and in publicly available information on the Group, as at the Latest Practicable Date, there is no change in the accounting policies of the Group since 31 December 2019, being the date of the last published audited accounts of the Group, which will cause the figures as disclosed in this Circular not to be comparable to a material extent.

6. MATERIAL CHANGES IN FINANCIAL POSITION

Save as disclosed in this Circular and in publicly available information on the Company (including but not limited to the audited consolidated financial statements of the Group for the financial year ended 31 December 2019 as set out in **Appendix E** to this Circular and the announcements released by the Company in respect of its financial results or other matters), as at the Latest Practicable Date, there have been no known material changes in the financial position of the Company since 31 December 2019, being the date to which the Company's last published audited accounts were made up.

7. DISCLOSURE OF INTERESTS OF THE IFA

7.1. Interests of the IFA in Company Securities in the Company

Neither the IFA, its related corporations nor any of the funds whose investments are managed by the IFA on a discretionary basis owns or controls any Company Securities as at the Latest Practicable Date.

7.2. Dealings in Company Securities by the IFA

Neither the IFA, its related corporations nor any of the funds whose investments are managed by the IFA on a discretionary basis has dealt for value in the Company Securities during the Relevant Period.

8. DISCLOSURE OF INTERESTS

8.1. Interests of Directors and Substantial Shareholders of the Company

(a) The table below sets out the interests of Directors and Substantial Shareholders in the Company as at the Latest Practicable Date, based on the information in the Company's Register of Directors' Shareholdings and the Register of Substantial Shareholders respectively.

	Direct Interest		Deemed Interest		Total Interest	
	No. of Shares	% ⁽¹⁾	No. of Shares	% ⁽¹⁾	No. of Shares	% ⁽¹⁾
Name of Directors						
Sun Li Hua ⁽²⁾	—	—	—	—	—	—
Koh Poh Beng	—	—	—	—	—	—
Lua Poh Huat	2,504,000	0.47	—	—	2,504,000	0.47
Substantial Shareholders						
Whitefield Capital Inc.	329,152,241	61.87	—	—	329,152,241	61.87
Hu Yanping ⁽²⁾	—	—	329,152,241 ⁽³⁾	61.87	329,152,241	61.87

APPENDIX B1 – INFORMATION ON THE COMPANY

Notes:

- (1) Based on 532,000,641 Shares as at the Latest Practicable Date.
 - (2) Hu Yanping is the sister-in-law of Sun Li Hua.
 - (3) Hu Yanping is deemed interested in 329,152,241 Shares held by Whitefield Capital Inc. pursuant to Section 7 of the Companies Act as Whitefield Capital Inc. is wholly owned by Hu Yanping.
- (b) Save as disclosed in paragraph 8.1(a) above, none of the Directors has any direct or deemed interest in the Company Securities as at the Latest Practicable Date.
- (c) None of the Directors has dealt for value in the Company Securities during the Relevant Period.

8.2. Interests of the Company and the Directors in the Offeror

- (a) As at the Latest Practicable Date, none of the Directors or the Company has any direct or deemed interest in the shares of the Offeror or convertible securities, warrants, options and derivatives in respect of the shares of the Offeror (collectively, “**Offeror Securities**”) and for the purposes of this paragraph:

“**convertible securities**” refers to securities convertible or exchangeable into new shares or existing shares in the company;

“**derivatives**” includes any financial product whose value in whole or in part is determined directly or indirectly by reference to the price of an underlying security or securities;

“**options**” refers to options to subscribe for or purchase new shares or existing shares in the company; and

“**warrants**” refers to rights to subscribe for or purchase new shares or existing shares in the company.

- (b) None of the Directors or the Company has dealt for value in any Offeror Securities during the Relevant Period.

8.3. Director’s Intentions

Mr Lua Poh Huat has confirmed that he will be accepting the Offer in respect of his Shares.

8.4. Directors’ Service Contracts

As at the Latest Practicable Date, (a) there are no service contracts between any Director or proposed director with the Company or any of its subsidiaries with more than 12 months to run, which the employing company cannot, within the next 12 months, terminate without payment of compensation; and (b) there were no service contracts entered into or amended between any Director or proposed director and the Company or any of its subsidiaries during the period commencing six (6) months prior to the Offer Announcement Date and ending on the Latest Practicable Date.

8.5. Arrangement affecting Directors

As at the Latest Practicable Date:

- (a) there are no payments or other benefits which will be made or given to any Director or any director of any corporation, which is by virtue of Section 6 of the Companies Act, deemed to be related to the Company, as compensation for loss of office or as consideration for or in connection with his retirement from office or otherwise in connection with the Offer;

APPENDIX B1 – INFORMATION ON THE COMPANY

- (b) there are no agreements or arrangements made between any Director and any other person in connection with or conditional upon the outcome of the Offer; and
- (c) none of the Directors has a material personal interest, whether direct or indirect, in any material contract entered into by the Offeror.

9. MATERIAL CONTRACT WITH INTERESTED PERSONS

Save as disclosed in **Appendix B2** to this Circular, neither the Company nor any of its subsidiaries has entered into material contracts (not being contracts entered into in the ordinary course of business of the Group) with persons who are Interested Persons (as defined below), during the period commencing three (3) years before the Offer Announcement Date and ending on the Latest Practicable Date.

An “**Interested Person**”, as defined in the Note on Rule 24.6 of the Code read with the Note on Rule 23.12 of the Code, is:

- (i) a director, chief executive officer, or Substantial Shareholder of the Company;
- (ii) the immediate family of a Director, the chief executive officer, or a Substantial Shareholder (being an individual) of the Company;
- (iii) the trustees, acting in their capacity as such trustees, of any trust of which a Director, the chief executive officer, or a Substantial Shareholder (being an individual) and his immediate family is a beneficiary;
- (iv) any company in which a Director, the chief executive officer, or a Substantial Shareholder (being an individual) together and his immediate family together (directly or indirectly) have an interest of 30% or more;
- (v) any company that is the subsidiary, holding company or fellow subsidiary of the Substantial Shareholder (being a company); or
- (vi) any company in which a Substantial Shareholder (being a company) and any of the companies listed in (e) above together (directly or indirectly) have an interest of 30% or more.

10. MATERIAL LITIGATION

As at the Latest Practicable Date, save as disclosed in any publicly available information on the Group, none of the Company or its subsidiaries is engaged in any material litigation or arbitration proceedings, either as plaintiff or defendant, which might materially and adversely affect the financial position of the Company or its subsidiaries taken as a whole and the Directors are not aware of any litigation, claims or proceedings pending or threatened against the Company or its subsidiaries or any facts likely to give rise to any proceedings which might materially and adversely affect the financial position of the Company and its subsidiaries taken as a whole.

APPENDIX B2 – MATERIAL CONTRACTS WITH INTERESTED PERSONS

(A) CORPORATE GUARANTEES PROVIDED BY INTERESTED PERSONS (CORPORATE GUARANTOR) IN RESPECT OF LOANS/ CREDIT FACILITIES PROVIDED BY LENDERS TO COMPANY'S SUBSIDIARIES (BORROWER)

No.	Interested Person (Corporate Guarantor)	Company's subsidiary (Borrower)	Lender	Date of guarantee contract	Amount guaranteed (RMB)	Term of loan/ credit facility
1.	Jiangsu Yinyan Specialty Chemical Co., Ltd	Jiangsu Jurong Chemical Co., Ltd (" Jiangsu Jurong ")	Agricultural Bank of China Limited (Xiangshui Sub-branch)	9 June 2016	260,000,000	9 June 2016 to 8 June 2019
2.	Taixing Jinyan Chemical Technology Co., Ltd (" Taixing Jinyan ")	Taixing Jurong Chemical Co., Ltd. (" Taixing Jurong ")	Industrial and Commercial Bank of China Limited (Taixing Sub-branch)	24 October 2016	100,000,000	24 October 2016 to 24 October 2021
3.				1 November 2016	100,000,000	1 November 2016 to 1 November 2021
4.			Jiangsu Jurong Rural Commercial Bank Co., Ltd.	15 April 2020	80,000,000	15 April 2020 to 14 April 2021
5.		Yixing Yinyan Import and Export Co., Ltd. (" Yixing Yinyan ")	Bank of China Limited (Yixing Sub-branch)	28 February 2017	450,000,000	28 February 2017 to 28 February 2019
6.				27 February 2018	450,000,000	27 February 2018 to 26 February 2020
7.				6 March 2020	450,000,000	6 March 2020 to 6 March 2023
8.	Yixing Danson Technology Co., Ltd (" Yixing Danson ")	Jiangsu Jurong	Industrial and Commercial Bank of China Limited (Xiangshui Sub-branch)	13 January 2017	200,000,000	14 January 2017 to 31 December 2020
9.			Kunshan Rural Commercial Bank (Xiangshui Branch)	24 May 2017	17,500,000	24 May 2017 to 23 May 2020
10.			China Construction Bank Corporation (Xiangshui Sub-branch)	11 July 2018	100,000,000	11 July 2018 to 10 July 2021

APPENDIX B2 – MATERIAL CONTRACTS WITH INTERESTED PERSONS

No.	Interested Person (Corporate Guarantor)	Company's subsidiary (Borrower)	Lender	Date of guarantee contract	Amount guaranteed (RMB)	Term of loan/ credit facility
11.		Taixing Jurong	China Construction Bank Corporation (Taixing Sub-branch)	18 July 2017	76,000,000	18 July 2017 to 18 July 2019
12.			Shanghai Pudong Development Bank Co., Ltd. (Taizhou Branch)	28 March 2018	80,000,000	28 March 2018 to 27 March 2019
13.			Jiangsu Taixing Rural Commercial Bank Co., Ltd.	12 December 2018	40,000,000	12 December 2018 to 10 December 2019
14.				30 September 2020	40,000,000	30 September 2020 to 29 September 2023

(B) CORPORATE GUARANTEES PROVIDED BY COMPANY'S SUBSIDIARIES (CORPORATE GUARANTOR) IN RESPECT OF LOANS/ CREDIT FACILITIES PROVIDED BY LENDERS TO INTERESTED PERSONS (BORROWER)

No.	Company's subsidiary (Corporate Guarantor)	Interested Person (Borrower)	Lender	Date of guarantee contract	Amount guaranteed (RMB)	Term of loan/ credit facility
1.	Yixing Yinyan	Taixing Jinyan	Bank of China Limited (Taixing Sub-branch)	11 October 2017	70,000,000	11 October 2017 to 28 August 2018
2.				14 March 2019	90,000,000	14 March 2019 to 11 March 2020
3.	Jiangsu Jurong	Taixing Jinyan Cangchu Co., Ltd.	Bank of Communications Limited (Taizhou Branch)	13 July 2016	260,000,000	1 July 2016 to 1 January 2024
4.		Yixing Danson	Jiangsu Yixing Rural Commercial Bank Co., Ltd. (Sales Department)	16 March 2017	20,000,000	20 January 2017 to 20 January 2019
5.			Bank of Communications Limited (Wuxi Branch)	20 July 2017	120,000,000	20 July 2017 to 12 July 2018
6.				10 August 2018	120,000,000	10 August 2018 to 17 July 2019

APPENDIX B2 – MATERIAL CONTRACTS WITH INTERESTED PERSONS

No.	Company's subsidiary (Corporate Guarantor)	Interested Person (Borrower)	Lender	Date of guarantee contract	Amount guaranteed (RMB)	Term of loan/ credit facility
7.			China CITIC Bank Corporation Limited (Wuxi Branch)	16 December 2019	66,000,000	16 December 2019 to 13 December 2020
8.				27 October 2017	60,000,000	27 October 2017 to 27 October 2018
9.				30 November 2018	60,000,000	30 November 2018 to 30 November 2019
10.				21 November 2019	60,000,000	21 November 2019 to 21 November 2020
11.		Taixing Jinyan	Bank of Jiangsu Co., Ltd. (Taixing Sub-branch)	30 June 2017	50,000,000	30 June 2017 to 30 June 2018
12.				25 July 2018	50,000,000	25 July 2018 to 20 June 2019
13.				1 July 2019	20,000,000	4 July 2019 to 24 June 2020
14.				20 July 2020	20,000,000	20 July 2020 to 12 July 2021
15.	Taixing Jurong	Jiaxing Jinyan Chemical Co., Ltd	Bank of Ningbo Co., Ltd. (Jiaxing Branch)	3 May 2018	50,000,000	24 April 2018 to 31 May 2021
16.				23 May 2018	20,000,000	23 May 2018 to 22 May 2019
17.				15 April 2019	15,000,000	15 April 2019 to 14 April 2020
18.				8 April 2020	17,000,000	14 April 2020 to 13 April 2021
19.		Yixing Danson	Bank of China Limited (Yixing Sub-branch)	18 November 2014	219,000,000	18 November 2014 to 31 December 2018
20.				1 March 2018	70,000,000	1 March 2018 to 1 March 2020
21.				14 March 2019	170,000,000	14 March 2019 to 14 March 2021
22.			Agricultural Bank of China	22 January 2017	55,000,000	22 January 2017 to 21 January 2020

APPENDIX B2 – MATERIAL CONTRACTS WITH INTERESTED PERSONS

No.	Company's subsidiary (Corporate Guarantor)	Interested Person (Borrower)	Lender	Date of guarantee contract	Amount guaranteed (RMB)	Term of loan/ credit facility
23.			Limited (Yixing Branch)	7 September 2020	25,000,000	7 September 2020 to 6 September 2023
24.			Bank of Communications Limited (Wuxi Branch)	16 December 2019	66,000,000	16 December 2019 to 13 December 2020
25.			Bank of Nanjing Co., Ltd. (Wuxi Branch)	7 December 2017	30,000,000	12 October 2017 to 12 October 2018
26.				13 February 2019	30,000,000	3 February 2019 to 3 February 2020
27.				2 March 2020	30,000,000	26 February 2020 to 25 February 2021
28.			China Merchants Bank Co., Ltd. (Yixing Sub-branch)	30 December 2017	30,000,000	30 December 2017 to 30 December 2018
29.				19 December 2018	30,000,000	19 December 2018 to 19 December 2019
30.			China Merchants Bank Co., Ltd. (Wuxi Branch)	24 December 2019	20,000,000	20 December 2019 to 19 December 2020
31.			China CITIC Bank Corporation Limited (Wuxi Branch)	27 October 2017	60,000,000	27 October 2017 to 28 October 2018
32.				30 November 2018	60,000,000	30 November 2018 to 30 November 2019
33.				20 November 2019	60,000,000	20 November 2019 to 20 November 2020
34.		Taixing Jinyan	Bank of Jiangsu Co., Ltd. (Taixing Sub-branch)	30 June 2017	50,000,000	30 June 2017 to 30 June 2018
35.				25 July 2018	50,000,000	25 July 2018 to 20 June 2019
36.				1 July 2019	20,000,000	4 July 2019 to 24 June 2020
37.				20 July 2020	20,000,000	20 July 2020 to 12 July 2021

APPENDIX B2 – MATERIAL CONTRACTS WITH INTERESTED PERSONS

No.	Company's subsidiary (Corporate Guarantor)	Interested Person (Borrower)	Lender	Date of guarantee contract	Amount guaranteed (RMB)	Term of loan/ credit facility
38.			(1) Shanghai Pudong Development Bank Co., Ltd. (2) Jiangsu Taixing Rural Commercial Bank Co., Ltd.	25 August 2017	500,000,000	10 August 2017 to 10 August 2023
39.			China Minsheng Bank Corp., Ltd. (Taizhou Branch)	5 September 2017	100,000,000	5 September 2017 to 5 September 2018
40.				10 December 2018	100,000,000	10 December 2018 to 10 December 2019
41.				4 March 2020	80,000,000	9 March 2020 to 9 March 2021
42.			Jiangsu Suning Bank Co., Ltd.	16 May 2018	50,000,000	7 May 2018 to 6 May 2019
43.				23 May 2019	50,000,000	23 May 2019 to 23 May 2020
44.				5 June 2020	50,000,000	2 June 2020 to 1 June 2021
45.			Jiangsu Taixing Rural Commercial Bank Co., Ltd.	8 October 2018	29,000,000	8 October 2018 to 8 October 2021
46.			China CITIC Bank Corporation Limited (Taizhou Branch)	30 November 2018	64,000,000	30 November 2018 to 30 November 2019
47.				19 November 2019	64,000,000	21 November 2019 to 21 November 2020
48.			Industrial and Commercial Bank of China Limited (Taixing Sub-branch)	20 May 2019	120,000,000	20 May 2019 to 20 May 2024
49.			Bank of Beijing Co., Ltd. (Nanjing Branch)	8 April 2020	50,000,000	8 April 2020 to 7 April 2021

APPENDIX B2 – MATERIAL CONTRACTS WITH INTERESTED PERSONS

(C) OTHER MATERIAL CONTRACT BETWEEN COMPANY'S SUBSIDIARY AND INTERESTED PERSON

No.	Date of Invoice	Name of parties	Description	Total Purchase Price (RMB)
1.	29 June 2018	1) Yixing Yinyan 2) Taixing Jinyan	Sale of catalyst by Yixing Yinyan to Taixing Jinyan	94,745,345

APPENDIX C – RELEVANT PROVISIONS OF THE CONSTITUTION OF THE COMPANY

The provisions in the Constitution in relation to the rights of Shareholders in respect of capital, dividends and voting are reproduced below.

All capitalised terms used in the following extracts shall have the same meanings ascribed to them in the Constitution and/or the Companies Act, a copy of which is available for inspection at the offices of the Company's share registrar, Tricor Barbinder Share Registration Services at 80 Robinson Road, #11-02, Singapore 068898.

(a) Rights in respect of capital

"ISSUE OF SHARES

3. (A) *Subject to the Act and to this Constitution, no shares may be issued by the Directors without the prior approval of the Company in General Meeting pursuant to Section 161 of the Act, but subject thereto and the terms of such approval, and to Article 5, and to any special rights attached to any shares for the time being issued, the Directors may allot and issue shares or grant options over or otherwise dispose of the same to such persons on such terms and conditions and for such consideration and at such time and whether or not subject to the payment of any part of the amount thereof in cash or otherwise as the Directors may think fit, and any shares may, subject to compliance with Sections 70 and 75 of the Act, be issued with such preferential, deferred, qualified or special rights, privileges, conditions or restrictions, whether as regards Dividend, return of capital, participation in surplus assets and profits, voting, conversion or otherwise, as the Directors may think fit, and preference shares may be issued which are or at the option of the Company are liable to be redeemed, the terms and manner of redemption being determined by the Directors in accordance with the Act, Provided Always that no options shall be granted over unissued shares except in accordance with the Act and the Designated Stock Exchange's listing rules.*

(B) *The Directors may, at any time after the allotment of any share but before any person has been entered in the Register of Members as the holder, recognise a renunciation thereof by the allottee in favour of some other person and may accord to any allottee of a share a right to effect such renunciation upon and subject to such terms and conditions as the Directors may think fit to impose.*

(C) *Except so far as otherwise provided by the conditions of issue or by this Constitution, all new shares shall be issued subject to the provisions of the Statutes and of this Constitution with reference to allotment, payment of calls, lien, transfer, transmission, forfeiture or otherwise.*
4. *The Company shall not exercise any right in respect of treasury shares other than as provided by the Act. Subject thereto, the Company may hold or deal with its treasury shares in the manner authorised by, or prescribed pursuant to, the Act.*
5. (A) *Subject to any direction to the contrary that may be given by the Company in General Meeting or except as permitted by the rules of the Designated Stock Exchange, all new shares shall before issue be offered to such persons who as at the date (as determined by the Directors) of the offer are entitled to receive notices from the Company of General Meetings in proportion, as far as the circumstances admit, to the number of the existing shares to which they are entitled. The offer shall be made by notice specifying the number of shares offered, and limiting a time within which the offer, if not accepted, will be deemed to be declined, and, after the expiration of that time, or on the receipt of an intimation from the person to whom the offer is made that he declines to accept the shares offered, the Directors may dispose of those shares in such manner as they think most beneficial to the Company. The Directors may likewise so dispose of any new shares which (by reason of the ratio which the new shares bear to shares held by persons entitled to an offer of new shares) cannot, in the opinion of the Directors, be conveniently offered under this Article 5(A).*

APPENDIX C – RELEVANT PROVISIONS OF THE CONSTITUTION OF THE COMPANY

(B) Notwithstanding Article 5(A) above, the Company may by Ordinary Resolution in General Meeting give to the Directors a general authority, either unconditionally or subject to such conditions as may be specified in the Ordinary Resolution, to:-

- (a) (i) issue shares in the capital of the Company (“shares”) whether by way of rights, bonus or otherwise; and/or
- (ii) make or grant offers, agreements or options (collectively, “Instruments”) that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into shares; and
- (b) (notwithstanding the authority conferred by the Ordinary Resolution may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors while the Ordinary Resolution was in force,

Provided that-

- (1) the aggregate number of shares to be issued pursuant to the Ordinary Resolution (including shares to be issued in pursuance of Instruments made or granted pursuant to the Ordinary Resolution) shall be subject to such limits and manner of calculation as may be prescribed by the Designated Stock Exchange;
- (2) in exercising the authority conferred by the Ordinary Resolution, the Company shall comply with the provisions of the listing rules of the Designated Stock Exchange for the time being in force (unless such compliance is waived by the Designated Stock Exchange) and this Constitution; and
- (3) (unless revoked or varied by the Company in General Meeting) the authority conferred by the Ordinary Resolution shall not continue in force beyond the conclusion of the Annual General Meeting of the Company next following the passing of the Ordinary Resolution, or the date by which such Annual General Meeting of the Company is required by law to be held, or the expiration of such other period as may be prescribed by the Act (whichever is the earliest).

(C) The Company may, notwithstanding Articles 5(A) and 5(B) above, authorise the Directors not to offer new shares to Members to whom by reason of foreign securities laws, such offers may not be made without registration of the shares or a prospectus or other document, but to sell the entitlements to the new shares on behalf of such Members on such terms and conditions as the Company may direct.

- 6. The Company may pay commissions or brokerage on any issue of shares at such rate or amount and in such manner as the Directors may deem fit. Such commissions or brokerage may be satisfied by the payment of cash or the allotment of fully or partly paid shares or partly in one way and partly in the other.
- 7. Where any shares are issued for the purpose of raising money to defray the expenses of the construction of any works or buildings or the provision of any plant which cannot be made profitable for a lengthened period, the Company may pay interest on so much of that share capital (except treasury shares) as is for the time being paid up for the period and charge the same to capital as part of the cost of the construction of the works or buildings or the provision of the plant, subject to the conditions and restrictions mentioned in the Act.
- 8. (A) Preference shares may be issued subject to such limitation thereof as may be prescribed by the Designated Stock Exchange. Preference shareholders shall have the same rights as ordinary shareholders as regards receiving of notices, reports and balance-sheets and attending General Meetings of the Company, and preference shareholders shall also have the right to vote at any

APPENDIX C – RELEVANT PROVISIONS OF THE CONSTITUTION OF THE COMPANY

General Meeting convened for the purpose of reducing capital or winding-up or sanctioning a sale of the undertaking of the Company or where the proposal to be submitted to the General Meeting directly affects their rights and privileges or when the Dividend on the preference shares is more than six (6) months in arrears.

(B) The Company has power to issue further preference capital ranking equally with, or in priority to, preference shares already issued.

VARIATION OF RIGHTS

9. (A) *Whenever the share capital of the Company is divided into different classes of shares, the variation or abrogation of the special rights attached to any class may, subject to the provisions of the Act, be made either with the consent in writing of the holders of three-quarters of the total number of the issued shares of the class or with the sanction of a Special Resolution passed at a separate General Meeting of the holders of the shares of the class (but not otherwise) and may be so made either whilst the Company is a going concern or during or in contemplation of a winding-up. To every such separate General Meeting all the provisions of this Constitution relating to General Meetings of the Company and to the proceedings thereat shall mutatis mutandis apply, except that the necessary quorum shall be two (2) or more persons holding at least one-third of the total number of the issued shares of the class present in person or by proxy or attorney and that any holder of shares of the class present in person or by proxy or attorney may demand a poll and that every such holder shall on a poll have one (1) vote for every share of the class held by him where the class is a class of equity shares within the meaning of Section 64(1) of the Act or at least one (1) vote for every share of the class where the class is a class of preference shares within the meaning of Section 180(2) of the Act, Provided Always that where the necessary majority for such a Special Resolution is not obtained at such General Meeting, the consent in writing, if obtained from the holders of three-quarters of the total number of the issued shares of the class concerned within two (2) months of such General Meeting, shall be as valid and effectual as a Special Resolution carried at such General Meeting.*

(B) The provisions in Article 9(A) shall mutatis mutandis apply to any repayment of preference capital (other than redeemable preference capital) and any variation or abrogation of the rights attached to preference shares or any class thereof.

(C) The special rights attached to any class of shares having preferential rights shall not, unless otherwise expressly provided by the terms of issue thereof, be deemed to be varied by the creation or issue of further shares ranking as regards participation in the profits or assets of the Company in some or all respects pari passu therewith but in no respect in priority thereto.

ALTERATION OF SHARE CAPITAL

10. *The Company may by Ordinary Resolution:-*

- (a) consolidate and divide all or any of its share capital;*
- (b) sub-divide its shares, or any of them, provided always that in such subdivision the proportion between the amount paid and the amount (if any) unpaid on each reduced share shall be same as it was in the case of the share from which the reduced share is derived;*
- (c) convert or exchange any class of shares into or for any other class of shares; and/or*
- (d) cancel the number of shares which at the date of the passing of the resolution in that behalf have not been taken or agreed to be taken by any person or which have been forfeited and diminish the amount of its share capital by the number of the shares so cancelled.*

APPENDIX C – RELEVANT PROVISIONS OF THE CONSTITUTION OF THE COMPANY

11. (A) *The Company may reduce its share capital or any other undistributable reserve in any manner permitted, and with, and subject to, any incident authorised, and consent or confirmation required, by law.*

(B) *The Company may purchase or otherwise acquire its issued shares subject to and in accordance with the provisions of the Statutes and any applicable rules of the Designated Stock Exchange (hereafter, the “Relevant Laws”), on such terms and subject to such conditions as the Company may in General Meeting prescribe in accordance with the Relevant Laws. Any shares purchased or acquired by the Company as aforesaid shall, unless held in treasury in accordance with the Act, be deemed to be cancelled immediately on purchase or acquisition by the Company. On the cancellation of any share as aforesaid, the rights and privileges attached to that share shall expire. In any other instance, the Company may hold or deal with any such share which is so purchased or acquired by it in such manner as may be permitted by, and in accordance with the Relevant Laws. Without prejudice to the generality of the foregoing, upon cancellation of any share purchased or otherwise acquired by the Company pursuant to this Constitution and the Statutes, the number of issued shares of the Company shall be diminished by the number of shares so cancelled, and, where any such cancelled share was purchased or acquired out of the capital of the Company, the amount of share capital of the Company shall be reduced accordingly.*

SHARE CERTIFICATES

12. (A) *Every certificate shall be issued under the Seal and shall bear the facsimile signatures or the autographic signatures of at least any two Directors or one of the Director and the Secretary or such other person as may be authorised by the Directors, and shall specify the number and class of shares to which it relates, whether the shares are fully paid up or partly paid up, and the amount (if any) unpaid thereon. The facsimile signatures may be reproduced by mechanical or other means provided the method or system of reproducing signatures has first been approved by the Directors of the Company. No certificate shall be issued representing shares of more than one class.*

(B) *The provisions in this Article and in Articles 13 to 16 (so far as they are applicable) shall not apply to transfer of book-entry securities.*

13. (A) *The Company shall not be bound to register more than three (3) persons as joint holders of a share except in the case of executors, trustees or administrators of the estate of a deceased Member.*

(B) *In the case of a share held jointly by several persons, the Company shall not be bound to issue more than one (1) certificate therefor and delivery of a certificate to any one (1) of the joint holders shall be sufficient delivery to all.*

14. *Every person whose name is entered as a Member in the Register of Members shall be entitled, within ten market days (or such period as the Directors may determine having regard to any limitation thereof as may be prescribed by the Designated Stock Exchange from time to time) after the closing date of any application for shares or (as the case may be) the date of lodgement of a registrable transfer, to one certificate for all his shares of any one class or to several certificates in reasonable denominations each for a part of the shares so allotted or transferred.*

15. (A) *Where a Member transfers part only of the shares comprised in a certificate or where a Member requires the Company to cancel any certificate or certificates and issue new certificates for the purpose of subdividing his holding in a different manner, the old certificate or certificates shall be cancelled and a new certificate or certificates for the balance of such shares (in the case of transfer) and the whole of such shares (in the case of sub-division) shall be issued in lieu thereof and the Member shall pay (in the case of sub-division) a maximum fee of S\$2.00 (or such other fee as the Directors may determine having regard to any limitation thereof as may be prescribed by the Designated Stock Exchange from time to time) for each new certificate. Where some only of the shares comprised in a share certificate are transferred, the new certificate for the balance of such shares shall be issued in lieu thereof without charge.*

APPENDIX C – RELEVANT PROVISIONS OF THE CONSTITUTION OF THE COMPANY

(B) Any two or more certificates representing shares of any one class held by any Member may at his request be cancelled and a single new certificate for such shares shall be issued in lieu thereof without charge.

16. *Subject to the provisions of the Statutes, if any share certificate shall be defaced, worn out, destroyed, lost or stolen, it may be renewed on such evidence being produced and a written indemnity (if required) being given by the shareholder, transferee, person entitled, purchaser, member firm or member company of the Designated Stock Exchange or on behalf of its or their client or clients as the Directors shall require, and (in case of defacement or wearing out) on delivery up of the old certificate, and in any case on payment of such sum not exceeding S\$2.00 (or such other fee as the Directors may determine having regard to any limitation thereof as may be prescribed by the Designated Stock Exchange from time to time) as the Directors may from time to time require. In the case of destruction, loss or theft, a shareholder or person entitled to, and to whom such renewed certificate is given shall also bear the loss and pay to the Company all expenses incidental to the investigations by the Company of the evidence of such destruction or loss.*

CALLS ON SHARES

17. *The Directors may from time to time make calls upon the Members in respect of any moneys unpaid on their shares but subject always to the terms of issue of such shares. A call shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed and may be made payable by instalments.*
18. *Each Member shall (subject to receiving at least fourteen (14) days' notice specifying the time or times and place of payment) pay to the Company at the time or times and place so specified the amount called on his shares. The joint holders of a share shall be jointly and severally liable to pay all calls in respect thereof. A call may be revoked or postponed as the Directors may determine.*
19. *If a sum called in respect of a share is not paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate (not exceeding ten per cent. per annum) as the Directors may determine but the Directors shall be at liberty in any case or cases to waive payment of such interest in whole or in part.*
20. *Any sum which by the terms of issue of a share becomes payable upon allotment or at any fixed date shall for all the purposes of this Constitution be deemed to be a call duly made and payable on the date on which by the terms of issue the same becomes payable. In the case of non-payment, all the relevant provisions of this Constitution as to payment of interest and expenses, forfeiture or otherwise shall apply as if such sum had become payable by virtue of a call duly made and notified.*
21. *The Directors may on the issue of shares differentiate between the holders as to the amount of calls to be paid and the times of payment.*
22. *The Directors may if they think fit receive from any Member willing to advance the same all or any part of the moneys uncalled and unpaid upon the shares held by him and such payment in advance of calls shall extinguish pro tanto the liability upon the shares in respect of which it is made and upon the moneys so received (until and to the extent that the same would but for such advance become payable) the Company may pay interest at such rate (not exceeding eight per cent. per annum) as the Member paying such sum and the Directors may agree. Capital paid on shares in advance of calls shall not, whilst bearing interest, confer a right to participate in profits.*

APPENDIX C – RELEVANT PROVISIONS OF THE CONSTITUTION OF THE COMPANY

FORFEITURE AND LIEN

23. *If a Member fails to pay in full any call or instalment of a call on the due date for payment thereof, the Directors may at any time thereafter serve a notice on him requiring payment of so much of the call or instalment as is unpaid together with any interest which may have accrued thereon and any expenses incurred by the Company by reason of such non-payment.*
24. *The notice shall name a further day (not being less than fourteen (14) days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment in accordance therewith, the shares on which the call has been made will be liable to be made forfeit.*
25. *If the requirements of any such notice as aforesaid are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls and interest and expenses due in respect thereof has been made, be made forfeit by a resolution of the Directors to that effect. Such forfeiture shall include all Dividends declared in respect of the forfeit share and not actually paid before forfeiture. The Directors may accept a surrender of any share liable to be made forfeit hereunder.*
26. *A share so made forfeit or surrendered shall become the property of the Company and may be sold, re-allotted or otherwise disposed of either to the person who was before such forfeiture or surrender the holder thereof or entitled thereto or to any other person upon such terms and in such manner as the Directors shall think fit, and at any time before a sale, re-allotment or disposal, the forfeiture or surrender may be cancelled on such terms as the Directors shall think fit. The Directors may, if necessary, authorise some person to transfer a share so made forfeit or surrendered to any such other person as aforesaid.*
27. *A Member whose shares have been made forfeit or surrendered shall cease to be a Member in respect of such shares but shall, notwithstanding the forfeiture or surrender, remain liable to pay to the Company all moneys which at the date of forfeiture or surrender were presently payable by him to the Company in respect of such shares with interest thereon at eight per cent. per annum (or such lower rate as the Directors may determine) from the date of forfeiture or surrender until payment and the Directors may at their absolute discretion enforce payment without any allowance for the value of such shares at that time of forfeiture or surrender or waive payment in whole or in part.*
28. *The Company shall have a first and paramount lien on every share (not being a fully paid share) and Dividends from time to time declared in respect of such shares. Such lien shall be restricted to unpaid calls and instalments upon the specific shares in respect of which such moneys are due and unpaid, and to such amounts as the Company may be called upon by law to pay in respect of the shares of the Member or deceased Member. The Directors may waive any lien which has arisen and may resolve that any share shall for some limited period be exempt wholly or partially from the provisions of this Article 28.*
29. *The Company may sell in such manner as the Directors think fit any share on which the Company has a lien, but no sale shall be made unless some sum in respect of which the lien exists is presently payable nor until the expiration of fourteen (14) days after a notice in writing stating and demanding payment of the sum presently payable and giving notice of intention to sell in default shall have been given to the holder for the time being of the share or the person entitled thereto by reason of his death or bankruptcy.*
30. *The net proceeds of such sale after payment of the costs of such sale shall be applied in or towards payment or satisfaction of the debts or liabilities and any residue shall be paid to the person entitled to the shares at the time of the sale or to his executors, administrators or assigns, as he may direct. For the purpose of giving effect to any such sale, the Directors may authorise some person to transfer the shares sold to the purchaser.*

APPENDIX C – RELEVANT PROVISIONS OF THE CONSTITUTION OF THE COMPANY

31. *A statutory declaration in writing that the declarant is a Director or the Secretary of the Company and that a share has been duly made forfeit or surrendered or sold to satisfy a lien of the Company on a date stated in the declaration shall be conclusive evidence of the facts therein stated as against all persons claiming to be entitled to the share. Such declaration and the receipt by the Company of the consideration (if any) given for the share on the sale, re-allotment or disposal thereof together with the share certificate delivered to a purchaser (or where the purchaser is a Depositor, the Depository Register) or allottee thereof shall (subject to the execution of a transfer if the same be required) constitute a good title to the share and the person to whom the share is sold, re-allotted or disposed of shall be registered as the holder of the share, or where such person is a Depositor, the Company shall procure that his name be entered in the Depository Register in respect of the share so sold, re-allotted or disposed of. Such person shall not be bound to see to the application of the purchase money (if any) nor shall his title to the share be affected by any irregularity or invalidity in the proceedings relating to the forfeiture, surrender, sale, re-allotment or disposal of the share.*

TRANSFER OF SHARES

32. *All transfers of shares shall be effected by written instruments of transfer in the form for the time being approved by the Directors and the Designated Stock Exchange. The instrument of transfer of any share shall be signed by or on behalf of both the transferor and the transferee and be witnessed, provided always that an instrument of transfer in respect of which the transferee is the CDP shall be effective although not signed or witnessed by or on behalf of the CDP. The transferor shall be deemed to remain the holder of the shares concerned until the name of the transferee is entered in the Register of Members in respect thereof.*
33. *The Registers of Members and of Transfers may be closed at such times and for such periods as the Directors may from time to time determine, Provided Always that such Registers shall not be closed for more than thirty (30) days in any year, and that the Company shall give prior notice of each such closure, as may be required, to the Designated Stock Exchange, stating the period and purpose or purposes for which such closure is made.*
34. (A) *There shall be no restriction on the transfer of fully paid up shares (except where required by law or by the rules, bye-laws or listing rules of the Designated Stock Exchange) but the Directors may in their discretion decline to register any transfer of shares upon which the Company has a lien, and in the case of shares not fully paid up, may refuse to register a transfer to a transferee of whom they do not approve, Provided Always that in the event of the Directors refusing to register a transfer of shares, the Company shall within ten (10) market days (or such period as the Directors may determine having regard to any limitation thereof as may be prescribed by the Designated Stock Exchange from time to time) after the date on which the application for a transfer of shares was made, serve a notice in writing to the applicant stating the facts which are considered to justify the refusal as required by the Statutes.*
- (B) *The Directors may decline to register any instrument of transfer unless:-*
- (a) *such fee not exceeding S\$2.00 (or such other fee as the Directors may determine having regard to any limitation thereof as may be prescribed by the Designated Stock Exchange from time to time) as the Directors may from time to time require is paid to the Company in respect thereof;*
 - (b) *the amount of proper duty (if any) with which each instrument of transfer is chargeable under any law for the time being in force relating to stamps is paid;*

APPENDIX C – RELEVANT PROVISIONS OF THE CONSTITUTION OF THE COMPANY

- (c) *the instrument of transfer is deposited at the Office or at such other place (if any) as the Directors may appoint accompanied by a certificate of payment of stamp duty (if stamp duty is payable on such instrument of transfer in accordance with any law for the time being in force relating to stamp duty), the certificates of the shares to which it relates, and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer and, if the instrument of transfer is executed by some other person on his behalf, the authority of the person so to do; and*
 - (d) *the instrument of transfer is in respect of only one (1) class of shares.*
- 35. *All instruments of transfer which are registered may be retained by the Company.*
- 36. *The Company shall be entitled to destroy all instruments of transfer which have been registered at any time after the expiration of six (6) years from the date of registration thereof and all Dividend mandates and notifications of change of address at any time after the expiration of six (6) years from the date of recording thereof and all share certificates which have been cancelled at any time after the expiration of six (6) years from the date of the cancellation thereof and it shall conclusively be presumed in favour of the Company that every entry in the Register of Members purporting to have been made on the basis of an instrument of transfer or other document so destroyed was duly and properly made and every instrument of transfer so destroyed was a valid and effective instrument duly and properly registered and every share certificate so destroyed was a valid and effective certificate duly and properly cancelled and every other document hereinbefore mentioned so destroyed was a valid and effective document in accordance with the recorded particulars thereof in the books or records of the Company, Provided Always that:-*
 - (a) *the provisions aforesaid shall apply only to the destruction of a document in good faith and without notice of any claim (regardless of the parties thereto) to which the document might be relevant;*
 - (b) *nothing herein contained shall be construed as imposing upon the Company any liability in respect of the destruction of any such document earlier than as aforesaid or in any other circumstances which would not attach to the Company in the absence of this Article; and*
 - (c) *references herein to the destruction of any document include references to the disposal thereof in any manner.*

TRANSMISSION OF SHARES

- 37. (A) *In case of the death of a Member whose name is registered in the Register of Members, the survivors or survivor, where the deceased was a joint holder, and the executors or administrators of the deceased, where he was a sole or only surviving holder, shall be the only person(s) recognised by the Company as having any title to his interest in the shares.*
- (B) *In the case of the death of a Member who is a Depositor, the survivors or survivor, where the deceased is a joint holder, and the executors or administrators of the deceased, where he was a sole or only surviving holder and where such executors or administrators are entered into the Depository Register in respect of any shares to the deceased Member, shall be the only person(s) recognised by the Company as having any title to his interest in the shares.*
- (C) *Nothing herein contained shall release the estate of a deceased holder (whether sole or joint) from any liability in respect of any share held by him.*

APPENDIX C – RELEVANT PROVISIONS OF THE CONSTITUTION OF THE COMPANY

38. Any person becoming entitled to a share in consequence of the death or bankruptcy of a Member may (subject as hereinafter provided) upon supplying to the Company such evidence as the Directors may reasonably require to show his title to the share, elect either to be registered himself as holder of the share or to have another person nominated by him registered as the transferee thereof. If the person so becoming entitled elects to be registered himself, he shall deliver or send to the Company a notice in writing signed by him stating that he so elects. If he elects to have another person registered, he shall testify his election by executing to that person a transfer of the share. All the limitations, restrictions and provisions of this Constitution relating to the right to transfer and the registration of transfers of shares shall be applicable to any such notice or transfer as aforesaid as if the death or bankruptcy of the Member had not occurred and the notice or transfer were a transfer executed by such Member.
39. Save as otherwise provided by or in accordance with this Constitution, a person becoming entitled to a share in consequence of the death or bankruptcy of a Member (upon supplying to the Company such evidence as the Directors may reasonably require to show his title to the share) shall be entitled to the same Dividends and other advantages as those to which he would be entitled if he were the registered holder of the share except that he shall not be entitled in respect thereof (except with the authority of the Directors) to exercise any right conferred by membership in relation to General Meetings of the Company until he shall have been registered as a Member in respect of the share.
40. There shall be paid to the Company in respect of the registration of any probate or letters of administration or certificate of death or stop notice or power of attorney or other document relating to or affecting the title to any shares or otherwise for making any entry in the Register of Members affecting the title to any shares such fee not exceeding S\$2.00 (or such other fee as the Directors may determine having regard to any limitation thereof as may be prescribed by the Designated Stock Exchange from time to time) as the Directors may from time to time require.

CENTRAL DEPOSITORY SYSTEM

41. A reference to a Member shall be a reference to a registered holder of shares in the Company, or where such registered holder is CDP, the Depositors on behalf of whom CDP holds the shares, Provided that:-
- (a) a Depositor shall only be entitled to attend any General Meeting and to speak and vote thereat if his name appears on the Depository Register maintained by CDP seventy-two (72) hours before the General Meeting as a Depositor on whose behalf CDP holds shares in the Company, the Company being entitled to deem each such Depositor, or each proxy of a Depositor who is to represent the entire balance standing to the Securities Account of the Depositor, to represent such number of shares as is actually credited to the Securities Account of the Depositor as at such time, according to the records of CDP as supplied by CDP to the Company, and where a Depositor has apportioned the balance standing to his Securities Account between two proxies, to apportion the said number of shares between the two proxies in the same proportion as previously specified by the Depositor in appointing the proxies; and accordingly no instrument appointing a proxy of a Depositor shall be rendered invalid merely by reason of any discrepancy between the proportion of Depositor's shareholding specified in the instrument of proxy, or where the balance standing to a Depositor's Securities Account has been apportioned between two proxies the aggregate of the proportions of the Depositor's shareholding they are specified to represent, and the true balance standing to the Securities Account of a Depositor as at the time of the General Meeting, if the instrument is dealt with in such manner as is provided above;
- (b) the payment by the Company to CDP of any Dividend payable to a Depositor shall to the extent of the payment discharge the Company from any further liability in respect of the payment;

APPENDIX C – RELEVANT PROVISIONS OF THE CONSTITUTION OF THE COMPANY

- (c) *the delivery by the Company to CDP of provisional allotments or share certificates in respect of the aggregate entitlements of Depositors to new shares offered by way of rights issue or other preferential offering or bonus issue shall to the extent of the delivery discharge the Company from any further liability to each such Depositor in respect of his individual entitlement; and*
- (d) *the provisions in this Constitution relating to the transfers, transmissions or certification of shares shall not apply to the transfer of book-entry securities (as defined in the Statutes).*

EXCLUSION OF EQUITIES

- 42. *Except as required by the Statutes or law, no person shall be recognised by the Company as holding any share upon any trust, and the Company shall not be bound by or compelled in any way to recognise (even when having notice thereof) any equitable, contingent, future or partial interest in any share, or any interest in any fractional part of a share, or (except only as by this Constitution or by the Statutes or law otherwise provided) any other right in respect of any share, except an absolute right to the entirety thereof in the registered holder and nothing in this Constitution contained relating to CDP or to Depositors or in any depository agreement made by the Company with any common depository for shares shall in any circumstances be deemed to limit, restrict or qualify the above.*

STOCK

- 43. *The Company may from time to time by Ordinary Resolution convert any paid-up shares into stock and may from time to time by like resolution reconvert any stock into paid-up shares of any denomination.*
- 44. *The holders of stock may transfer the same or any part thereof in the same manner and subject to the same Articles as and subject to which the shares from which the stock arose might previous to conversion have been transferred (or as near thereto as circumstances admit) but no stock shall be transferable except in such units as the Directors may from time to time determine.*
- 45. *The holders of stock shall, according to the amount of stock held by them, have the same rights, privileges and advantages as regards Dividend, return of capital, voting and other matters, as if they held the shares from which the stock arose; but no such privilege or advantage (except as regards participation in the profits or assets of the Company) shall be conferred by an amount of stock which would not, if existing in shares, have conferred such privilege or advantage, and no such conversion shall affect or prejudice any preference or other special privileges attached to the shares so converted.”*

(b) Rights in respect of voting

“GENERAL MEETINGS

- 46. *An Annual General Meeting shall be held once in every year, at such time (within a period of not more than fifteen (15) months after the holding of the last preceding Annual General Meeting) and place as may be determined by the Directors. All other General Meetings shall be called Extraordinary General Meetings. The interval between the close of a financial year of the Company and the date of the Company’s Annual General Meeting shall not exceed such period as may be prescribed by the Designated Stock Exchange and the provisions of the Act from time to time.*
- 47. *The Directors may whenever they think fit, and shall on requisition in accordance with the Statutes, proceed with proper expedition to convene an Extraordinary General Meeting.*

APPENDIX C – RELEVANT PROVISIONS OF THE CONSTITUTION OF THE COMPANY

NOTICE OF GENERAL MEETINGS

48. Any Annual General Meeting and any Extraordinary General Meeting at which it is proposed to pass a Special Resolution or (save as provided by the Statutes) a resolution of which special notice has been given to the Company, shall be called by twenty-one (21) days' notice in writing at the least and an Annual General Meeting or any other Extraordinary General Meeting, by fourteen (14) days' notice in writing at the least. The period of notice shall in each case be exclusive of the day on which it is served or deemed to be served and of the day on which the General Meeting is to be held and shall be given in manner hereinafter mentioned to all Members other than such as are not under the provisions of this Constitution entitled to receive such notices from the Company, Provided that a General Meeting notwithstanding that it has been called by a shorter notice than that specified above shall be deemed to have been duly called if it is so agreed:-

- (a) in the case of an Annual General Meeting by all the Members entitled to attend and vote thereat; and
- (b) in the case of an Extraordinary General Meeting by a majority in number of the Members having a right to attend and vote thereat, being a majority together holding not less than 95 per cent. of the total voting rights of all the Members having a right to vote at thereat;

Provided also that the accidental omission to give notice to or the non-receipt of notice by any person entitled thereto shall not invalidate the proceedings at any General Meeting. At least fourteen (14) days' notice of any General Meeting shall be given by advertisement in the daily press and in writing to the Designated Stock Exchange, Provided Always that in the case of any Extraordinary General Meeting at which it is proposed to pass a Special Resolution, at least twenty-one (21) days' notice in writing of such Extraordinary General Meeting shall be given to the Designated Stock Exchange.

49. (A) Every notice calling a General Meeting shall specify the place and the day and hour of the meeting, and there shall appear with reasonable prominence in every such notice a statement that a Member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of him and that a proxy need not be a Member of the Company.

(B) In the case of an Annual General Meeting, the notice shall also specify the meeting as such.

(C) In the case of any General Meeting at which business other than routine business ("special business") is to be transacted, the notice shall specify the general nature of such business, and if any resolution is to be proposed as a Special Resolution, the notice shall contain a statement to that effect.

50. Routine business shall mean and include only business transacted at an Annual General Meeting of the following classes, that is to say:-

- (a) declaring Dividends;
- (b) receiving and adopting the accounts, the reports of the Directors and Auditors and other documents required to be attached or annexed to the accounts;
- (c) appointing or re-appointing Directors to fill vacancies arising at the meeting on retirement whether by rotation or otherwise;
- (d) re-appointing the retiring Auditors (unless they were last appointed otherwise than by the Company in General Meeting);
- (e) fixing the remuneration of the Auditors or determining the manner in which such remuneration is to be fixed; and
- (f) fixing the Directors fees.

APPENDIX C – RELEVANT PROVISIONS OF THE CONSTITUTION OF THE COMPANY

51. *Any notice of a General Meeting to consider special business shall be accompanied by a statement regarding the effect of any proposed resolution on the Company in respect of such special business.”*

PROCEEDINGS AT GENERAL MEETINGS

52. *The Chairman of the Board of Directors, failing whom the Deputy Chairman, shall preside as chairman at a General Meeting. If there be no such Chairman or Deputy Chairman, or if at any General Meeting neither be present within five (5) minutes after the time appointed for holding the meeting and willing to act, the Directors present shall choose one (1) of their number (or, if no Director be present or if all the Directors present decline to take the chair, the Members present shall choose one (1) of their number) to be chairman of the General Meeting.*
53. *No business other than the appointment of a Chairman shall be transacted at any General Meeting unless a quorum is present at the time when the meeting proceeds to business. Save as herein otherwise provided, the quorum at any General Meeting shall be two (2) Members present in person or by proxy, provided that (i) a proxy representing more than one (1) Member shall only count as one (1) Member for purpose of determining if the quorum aforesaid is present; and (ii) where a Member is represented by more than one (1) proxy, such proxies of such Member shall only count as one (1) Member for purposes of determining if the quorum aforesaid is present.*
54. *If within thirty (30) minutes from the time appointed for a General Meeting (or such longer interval as the chairman of the meeting may think fit to allow) a quorum is not present, the meeting, if convened on the requisition of Members, shall be dissolved. In any other case, it shall stand adjourned to the same day in the next week (or if that day is a public holiday then to the next business day following that public holiday) at the same time and place or such other day, time or place as the Directors may by not less than ten (10) days’ notice appoint.*
55. *The chairman of any General Meeting at which a quorum is present may with the consent of the meeting (and shall if so directed by the meeting) adjourn the meeting from time to time (or sine die) and from place to place, but no business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting from which the adjournment took place. Where a General Meeting is adjourned sine die, the time and place for the adjourned meeting shall be fixed by the Directors. When a General Meeting is adjourned for thirty (30) days or more or sine die, not less than seven (7) days’ notice of the adjourned meeting shall be given in like manner as in the case of the original meeting.*
56. *Save as hereinbefore expressly provided, it shall not be necessary to give any notice of an adjournment or of the business to be transacted at an adjourned General Meeting.*
57. *If an amendment shall be proposed to any resolution under consideration but shall in good faith be ruled out of order by the chairman of the General Meeting, the proceedings on the substantive resolution shall not be invalidated by any error in such ruling. In the case of a resolution duly proposed as a Special Resolution, no amendment thereto (other than a mere clerical amendment to correct a patent error) may in any event be considered or voted upon.*
58. *At any General Meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded by:-*
- (a) the chairman of the meeting; or*
 - (b) not less than two Members present in person or by proxy and entitled to vote; or*
 - (c) any Member present in person or by proxy, or where such a Member has appointed two proxies any one of such proxies, or any number or combination of such Members or proxies, holding or representing as the case may be not less than 5 per cent. of the total voting rights of all the Members having the right to vote at the General Meeting; or*

APPENDIX C – RELEVANT PROVISIONS OF THE CONSTITUTION OF THE COMPANY

- (d) *any Member present in person or by proxy, or where such a Member has appointed two proxies any one of such proxies, or any number or combination of such Members or proxies, holding shares conferring a right to vote at the General Meeting, of which an aggregate sum has been paid up equal to not less than 5 per cent. of the total sum paid up on all the share conferring that right,*

Provided Always that no poll shall be demanded on the choice of the chairman of the meeting or on a question of adjournment. A demand for a poll may be withdrawn only with the approval of the meeting.

59. *Unless a poll is required, a declaration by the chairman of the General Meeting that a resolution has been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the minute book, shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded for or against such resolution. If a poll is required, it shall be taken in such manner (including the use of ballot or voting papers or tickets) as the chairman of the General Meeting may direct, and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded. The chairman of the General Meeting may (and if so directed by the meeting shall) appoint scrutineers and may adjourn the meeting to some place and time fixed by him for the purpose of declaring the result of the poll.*
60. *In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the General Meeting at which the show of hands takes place or at which the poll is demanded shall be entitled to a casting vote.*
61. *A poll demanded on any question shall be taken either immediately or at such subsequent time (not being more than thirty (30) days from the date of the Meeting) and place as the chairman of the Meeting may direct. No notice need be given of a poll not taken immediately. The demand for a poll shall not prevent the continuance of the General Meeting for the transaction of any business other than the question on which the poll has been demanded.*

VOTES OF MEMBERS

62. (A) *If required by the listing rules of any stock exchange upon which the shares of the Company may be listed, all resolutions at General Meetings shall be voted by poll (unless such requirement is waived by such stock exchange).*
- (B) *Subject to Article 62(A) and any special rights or restrictions as to voting attached by or in accordance with this Constitution to any class of shares, and to Article 4, each Member entitled to vote may vote in person or by proxy. Every Member who is present in person or by proxy shall*
- (a) *on a poll, have one vote for every share which he holds or represents; and*
 - (b) *on a show of hands, have one vote, provided that:*
 - (i) *in the case of a Member who is not a relevant intermediary and who is represented by two proxies, only one of the two proxies as determined by that Member or, failing such determination, by the Chairman of the General Meeting (or by a person authorised by him) in his sole discretion shall be entitled to vote on a show of hands*
 - (ii) *in the case of a Member who is a relevant intermediary and who is represented by two or more proxies, each proxy shall be entitled to vote on a show of hands.*

APPENDIX C – RELEVANT PROVISIONS OF THE CONSTITUTION OF THE COMPANY

(C) For the purposes of determining the number of votes which a Member, being a Depositor, or his proxy may cast at any General Meeting on a poll, the references to shares held or represented shall, in relation to shares of that Depositor, be the number of shares entered against his name in the Depository Register as at 72 hours before the time of the relevant General Meeting as certified by CDP to the Company. A Member who is bankrupt shall not, while his bankruptcy continues, be entitled to exercise his rights as a Member, or attend, vote or act at any General Meeting.

63. In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and for this purpose, seniority shall be determined by the order in which the names stand in the Register of Members or, as the case may be, the order in which the names appear in the Depository Register in respect of the joint holding.
64. Where in Singapore or elsewhere a receiver or other person (by whatever name called) has been appointed by any court claiming jurisdiction in that behalf to exercise powers with respect to the property or affairs of any Member on the ground (however formulated) of mental disorder, the Directors may in their absolute discretion, upon or subject to production of such evidence of the appointment as the Directors may require, permit such receiver or other person on behalf of such Member, to vote in person or by proxy at any General Meeting, or to exercise any other right conferred by membership in relation to General Meetings.
65. No Member shall be entitled in respect of shares held by him to vote at a General Meeting either personally or by proxy or to exercise any other right conferred by membership in relation to General Meetings if any call or other sum payable by him to the Company in respect of such shares remains unpaid.
66. No objection shall be raised as to the admissibility of any vote except at the General Meeting or adjourned General Meeting at which the vote objected to is or may be given or tendered and every vote not disallowed at such meeting shall be valid for all purposes. Any such objection shall be referred to the chairman of the General Meeting whose decision shall be final and conclusive.
67. On a poll, votes may be given either personally or by proxy and a person entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.
68. (A) Save as otherwise provided in the Act:
- (a) a Member who is not a relevant intermediary shall not be entitled to appoint more than two proxies to attend and vote at the same General Meeting; and
 - (b) a Member who is a relevant intermediary may appoint more than two proxies to attend, speak and vote at the same General Meeting, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such Member.
- (B) In any case where a Member is a Depositor, the Company shall be entitled and bound:-
- (a) to reject any instrument of proxy lodged if the Depositor, is not shown, to have any shares entered against his name in the Depository Register as at 72 hours before the time of the relevant General Meeting as certified by CDP to the Company; and
 - (b) to accept as the maximum number of votes which in aggregate the proxy or proxies appointed by the Depositor is or are able to cast on a poll a number which is the number of shares entered into against the name of that Depositor in the Depository Register as at 72 hours before the time of the relevant General Meeting as certified by CDP to the Company, whether that number is greater or smaller than the number specified in any instrument of proxy executed by or on behalf of that Depositor.

APPENDIX C – RELEVANT PROVISIONS OF THE CONSTITUTION OF THE COMPANY

- (C) *Where a Member appoints more than one proxy, the Member shall specify the proportion of his shares to be represented by each such proxy, failing which the nomination shall be deemed to be alternative.*
- (D) *The Company shall be entitled and bound, in determining rights to vote and other matters in respect of a completed instrument of proxy submitted to it, to have regard to the instructions (if any) given by and the notes (if any) set out in the instrument of proxy.*
- (E) *A proxy need not be a Member of the Company.*
69. (A) *An instrument appointing a proxy for any Member shall be in writing in any usual or common form or in any other form which the Directors may approve and:-*
- (a) *in the case of an individual Member, shall be signed by the Member or his attorney duly authorised in writing; and*
- (b) *in the case of a Member which is a corporation shall be either given under its common seal or signed on its behalf by an attorney duly authorised in writing or a duly authorised officer of the corporation.*
- (B) *The signatures on an instrument of proxy need not be witnessed. Where an instrument appointing a proxy is signed on behalf of a Member by an attorney, the letter or power of attorney or a duly certified copy thereof shall (failing previous registration with the Company) be lodged with the instrument of proxy pursuant to the next following Article, failing which the instrument of proxy may be treated as invalid.*
70. *An instrument appointing a proxy must be left at such place or one of such places (if any) as may be specified for that purpose in or by way of note to or in any document accompanying the notice convening the General Meeting (or, if no place is so specified, at the Office) not less than seventy-two hours before the time appointed for the holding of the meeting or adjourned meeting or (in the case of a poll taken otherwise than at or on the same day as the meeting or adjourned meeting) for the taking of the poll at which it is to be used, and in default shall not be treated as valid. The instrument shall, unless the contrary is stated thereon, be valid as well for any adjournment of the General Meeting as for the meeting to which it relates, Provided that an instrument of proxy relating to more than one meeting (including any adjournment thereof) having once been so delivered for the purposes of any meeting shall not require again to be delivered for the purposes of any subsequent meeting to which it relates.*
71. *An instrument appointing a proxy shall be deemed to include the right to demand or join in demanding a poll and to speak at the General Meeting.*
72. *A vote cast by proxy shall not be invalidated by the previous death or insanity of the principal or by the revocation of the appointment of the proxy or of the authority under which the appointment was made provided that no intimation in writing of such death, insanity or revocation shall have been received by the Company at the Office at least one (1) hour before the commencement of the General Meeting or adjourned General Meeting or (in the case of a poll taken otherwise than at or on the same day as the meeting or adjourned meeting) the time appointed for the taking of the poll at which the vote is cast.*
73. *Subject to this Constitution and the Statutes, the Directors may, at their sole discretion, approve and implement, subject to such security measures as may be deemed necessary or expedient, such voting methods to allow Members who are unable to vote in person at any General Meeting the option to vote in absentia, including but not limited to voting by mail, electronic mail or facsimile.”*

APPENDIX C – RELEVANT PROVISIONS OF THE CONSTITUTION OF THE COMPANY

(c) Rights in respect of dividends

“RESERVES

122. *The Directors may from time to time set aside out of the profits of the Company and carry to reserve such sums as they think proper which, at the discretion of the Directors, shall be applicable for any purpose to which the profits of the Company may properly be applied and pending such application, may either be employed in the business of the Company or be invested. The Directors may divide the reserve into such special funds as they think fit and may consolidate into one (1) fund any special funds or any parts of any special funds into which the reserve may have been divided. The Directors may also, without placing the same to reserve, carry forward any profits. In carrying sums to reserve and in applying the same, the Directors shall comply with the provisions of the Statutes.*

DIVIDENDS

123. *The Company may by Ordinary Resolution declare Dividends but no such Dividend shall exceed the amount recommended by the Directors.*
124. *If and so far as in the opinion of the Directors, the profits of the Company justify such payments, the Directors may declare and pay the fixed Dividends on any class of shares carrying a fixed Dividend expressed to be payable on fixed dates on the half-yearly or other dates prescribed for the payment thereof and may also from time to time declare and pay interim Dividends on shares of any class of such amounts and on such dates and in respect of such periods as they think fit.*
125. *Subject to any rights or restrictions attached to any shares or class of shares and except as otherwise permitted under the Act:-*
- (a) *all Dividends in respect of shares must be paid in proportion to the number of shares held by a Member, but where shares are partly paid, all Dividends must be apportioned and paid proportionately to the amounts paid or credited as paid on the partly paid shares; and*
 - (b) *all Dividends must be apportioned and paid proportionately to the amounts so paid or credited as paid during any portion or portions of the period in respect of which the Dividend is paid.*

For the purposes of this Article, an amount paid or credited as paid on a share in advance of a call is to be ignored.

126. (A) *No Dividend shall be paid otherwise than out of profits available for distribution under the provisions of the Statutes. The payment by the Directors of any unclaimed dividends or other moneys payable on or in respect of a share into a separate account shall not constitute the Company a trustee in respect thereof. All Dividends remaining unclaimed after one (1) year from having been first payable may be invested or otherwise made use of by the Directors for the benefit of the Company, and any Dividend or any such moneys unclaimed after six (6) years from having been first payable shall be forfeited and shall revert to the Company provided always that the Directors may at any time thereafter at their absolute discretion annul any such forfeiture and pay the Dividend so forfeited to the person entitled thereto prior to the forfeiture. If CDP returns any such Dividend or moneys to the Company, the relevant Depositor shall not have any right or claim in respect of such Dividend or moneys against the Company if a period of six (6) years has elapsed from the date of the declaration of such Dividend or the date on which such other moneys are first payable.*
- (B) *A payment by the Company to CDP of any Dividend or other moneys payable to a Depositor shall, to the extent of the payment made, discharge the Company from any liability to the Depositor in respect of that payment.*

APPENDIX C – RELEVANT PROVISIONS OF THE CONSTITUTION OF THE COMPANY

127. *No Dividend or other monies payable on or in respect of a share shall bear interest as against the Company.*
128. (A) *The Directors may retain any Dividend or other monies payable on or in respect of a share on which the Company has a lien and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists.*
- (B) *The Directors may retain the Dividends payable upon shares in respect of which any person is under the provisions as to the transmission of shares hereinbefore contained entitled to become a Member, or which any person is under those provisions entitled to transfer, until such person shall become a Member in respect of such shares or shall transfer the same.*
129. *The waiver in whole or in part of any Dividend on any share by any document (whether or not under seal) shall be effective only if such document is signed by the Member (or the person entitled to the share in consequence of the death or bankruptcy of the holder) and delivered to the Company and if or to the extent that the same is accepted as such or acted upon by the Company.*
130. *The Company may upon the recommendation of the Directors by Ordinary Resolution direct payment of a Dividend in whole or in part by the distribution of specific assets (and in particular of paid-up shares or debentures of any other company) and the Directors shall give effect to such resolution. Where any difficulty arises with regard to such distribution, the Directors may settle the same as they think expedient and in particular, may issue fractional certificates, may fix the value for distribution of such specific assets or any part thereof, may determine that cash payments shall be made to any Member upon the footing of the value so fixed in order to adjust the rights of all parties and may vest any such specific assets in trustees as may seem expedient to the Directors.*
131. *Any Dividend or other moneys payable in cash on or in respect of a share may be paid by cheque or warrant sent through the post to the registered address appearing in the Register of Members or (as the case may be) the Depository Register of the Member or person entitled thereto (or, if two (2) or more persons are registered in the Register of Members or (as the case may be) entered in the Depository Register as joint holders of the share or are entitled thereto in consequence of the death or bankruptcy of the holder, to any one (1) of such persons) or to such person and such address as such Member or person or persons may by writing direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent or to such person as the holder or joint holders or person or persons entitled to the share in consequence of the death or bankruptcy of the holder may direct and payment of the cheque or warrant by the banker upon whom it is drawn shall be a good discharge to the Company. Every such cheque or warrant shall be sent at the risk of the person entitled to the money represented thereby.*
132. *If two (2) or more persons are registered in the Register of Members or (as the case may be) the Depository Register as joint holders of any share, or are entitled jointly to a share in consequence of the death or bankruptcy of the holder, any one (1) of them may give effectual receipts for any Dividend or other moneys payable or property distributable on or in respect of the share.*
133. *Any resolution declaring a Dividend on shares of any class, whether a resolution of the Company in General Meeting or a resolution of the Directors, may specify that the same shall be payable to the persons registered as the holders of such shares in the Register of Members or (as the case may be) the Depository Register at the close of business on a particular date and thereupon the Dividend shall be payable to them in accordance with their respective holdings so registered, but without prejudice to the rights inter se in respect of such Dividend of transferors and transferees of any such shares.*

APPENDIX C – RELEVANT PROVISIONS OF THE CONSTITUTION OF THE COMPANY

BONUS ISSUES AND CAPITALIZATION OF PROFITS AND RESERVES

134. (A) *The Directors may, with the sanction of an Ordinary Resolution of the Company (including any Ordinary Resolution passed pursuant to Article 5(B)):*

(a) *issue bonus shares for which no consideration is payable to the Company to the persons registered as holders of shares in the Register of Members or (as the case may be) the Depository Register at the close of business on:*

(i) *the date of the Ordinary Resolution (or such other date as may be specified therein or determined as therein provided); or*

(ii) *(in the case of an Ordinary Resolution passed pursuant to Article 5(B)) such other date as may be determined by the Directors, in proportion to their then holdings of shares; and/or*

(b) *capitalise any sum standing to the credit of any of the Company's reserve accounts or other undistributable reserve or any sum standing to the credit of profit and loss account by appropriating such sum to the persons registered as holders of shares in the Register of Members or (as the case may be) in the Depository Register at the close of business on:*

(i) *the date of the Ordinary Resolution (or such other date as may be specified therein or determined as therein provided); or*

(ii) *(in the case of an Ordinary Resolution passed pursuant to Article 5(B)) such other date as may be determined by the Directors, in proportion to their then holdings of shares and applying such sum on their behalf in paying up in full unissued shares (or, subject to any special rights previously conferred on any shares or class of shares for the time being issued, unissued shares of any other class not being redeemable shares) for allotment and distribution credited as fully paid up to and amongst them as bonus shares in the proportion aforesaid.*

(B) *The Directors may do all acts and things considered necessary or expedient to give effect to any such bonus issue or capitalisation under this Article 134, with full power to the Directors to make such provisions as they think fit for any fractional entitlements which would arise on the basis aforesaid (including provisions whereby fractional entitlements are disregarded or the benefit thereof accrues to the Company rather than to the Members concerned). The Directors may authorise any person to enter on behalf of all the Members interested into an agreement with the Company providing for any such bonus issue or capitalisation and matters incidental thereto and any agreement made under such authority shall be effective and binding on all concerned.*

(C) *In addition and without prejudice to the powers provided for by this Article 134, the Directors shall have power to issue shares for which no consideration is payable and to capitalise any undivided profits or other moneys of the Company not required for the payment or provision of any Dividend on any shares entitled to cumulative or non-cumulative preferential Dividends (including profits or other moneys carried and standing to any reserve or reserves) and to apply such profits or other moneys in paying up in full, in each case on terms that such shares shall, upon issue, be held by or for the benefit of participants of any share incentive or option scheme or plan implemented by the Company and approved by Members in General Meeting and on such terms as the Directors shall think fit."*

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

The audited consolidated financial statements of the Group for the financial year ended 31 December 2018 which are set out below have been reproduced from the Company's annual report for the financial year ended 31 December 2018, and were not specifically prepared for inclusion in this Circular.

A copy of the annual report of the Company for the financial year ended 31 December 2018 is available for inspection at the offices of the Company's share registrar, Tricor Barbinder Share Registration Services at 80 Robinson Road, #11-02, Singapore 068898.

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

45
SUNVIC CHEMICAL HOLDINGS LIMITED

DIRECTORS’ STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

The directors present their statement to the members together with the audited financial statements of the Group for the financial year ended 31 December 2018 and the statement of financial position of the Company as at 31 December 2018.

In the opinion of the directors,

- (a) the accompanying financial statements of the Group and Company are drawn up so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2018 and of the financial performance, changes in equity and cash flows of the Group for the year ended on that date in accordance with the provisions of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards (International); and
- (b) at the date of this statement, based on the disclosure made in Note 3 (going concern assumption) to the accompanying financial statements, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

Names of directors

The directors of the Company in office at the date of this report are:

Sun Lihua	(appointed as Executive Director and Chief Executive Officer on 29 February 2020)
Sun Xiao	(resigned as Executive Director and Chief Executive Officer effective from 8 February 2020)
Yang Guoqiang	(resigned on 28 November 2019)
Zhu Wuling	(resigned on 29 February 2020)
Koh Poh Beng (Gao Baoming)	
Lua Poh Huat	

Arrangements to enable directors to acquire shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object was to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

46

SUNVIC CHEMICAL HOLDINGS LIMITED

DIRECTORS’ STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Directors’ interests in shares or debentures

According to the Register of Directors’ Shareholdings kept by the Company under Section 164 of the Companies Act, Cap. 50, none of the directors who held office at the end of the financial year had any interest in the shares or debentures of the Company or its related corporations, except as follows:

Name of directors	Holdings registered in the name of director		Holdings in which director is deemed to have an interest	
	As at 31.12.2018		As at 31.12.2018	
	As at 1.1.2018	and 21.1.2019 [#]	As at 1.1.2018	and 21.1.2019 [#]
SunVic Chemical Holdings Limited	Number of ordinary shares			
Yang Guoqiang	190,000	190,000	–	–
Zhu Wuling	356,000	356,000	–	–
Lua Poh Huat	2,504,000	2,504,000	–	–

[#] There was no change in any of the above mentioned interests in the Company between the end of the financial year and 21 January 2019.

Share options

No options to take up unissued shares of the Company or any subsidiaries have been granted during the financial year.

No shares were issued during the financial year to which this report relates by virtue of the exercise of options to take up unissued shares of the Company or any subsidiaries.

There were no unissued shares of the Company or any subsidiaries under option at the end of the financial year.

Audit Committee

The audit committee (“AC”) at the end of the financial year comprises the following members:

Koh Poh Beng (Gao Baoming) (Chairman)
Lua Poh Huat

Section 201B of the Companies Act states that every listed company shall have an audit committee comprising of more than 3 members. If a member of an audit committee resigns, dies or for any other reason ceases to be a member with the result that the number of members is reduced below 3, the Board of Directors shall, within 3 months of that event, appoint such number of new members as may be required to make up the minimum number of 3 members. The Company is currently looking into the appointment of another audit committee member.

All members of the audit committee were non-executive directors and all members were independent.

DIRECTORS’ STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Audit Committee (Continued)

The audit committee performs the functions set out in Section 201B (5) of the Companies Act, Cap. 50, the SGX Listing Manual and the Code of Corporate Governance. In performing those functions, the committee reviewed the following:

- (i) overall scope of the external audits and the assistance given by the Company’s officers to the auditors. It met with the Company’s external auditors to discuss the results of their respective examinations and their evaluation of the Company’s system of internal accounting controls;
- (ii) the audit plan of the Company’s independent auditor and any recommendations on internal accounting controls arising from the statutory audit;
- (iii) the quarterly financial information and the statement of financial position of the Company and the consolidated financial statements of the Group for the financial year ended 31 December 2018 as well as the auditor’s report thereon;
- (iv) effectiveness of the Company’s material internal controls, including financial, operational and compliance controls and information technology controls and risk management systems;
- (v) met with the external auditor, other committees, and management in separate executive sessions to discuss any matters that these groups believe should be discussed privately with the audit committee;
- (vi) reviewed legal and regulatory matters that may have a material impact on the financial statements, related compliance policies and programmes and any reports received from regulators;
- (vii) reviewed the cost effectiveness and the independence and objectivity of the external auditor;
- (viii) reviewed the nature and extent of non-audit services provided by the external auditor;
- (ix) recommended to the Board of Directors the external auditor to be nominated, approved the compensation of the external auditor, and reviewed the scope and results of the audit;
- (x) reported actions and minutes of the audit committee to the Board of Directors with such recommendations as the audit committee considered appropriate; and
- (xi) interested person transactions (as defined in Chapter 9 of the Listing Manual of the Singapore Exchange).

The audit committee has full access to management and is given the resources required for it to discharge its functions. It has full authority and the discretion to invite any director or executive officer to attend its meetings. The audit committee also recommends the appointment of the external auditor and reviews the level of audit and non-audit fees.

In view of the appointment of the Special Auditor on 2 April 2019 to conduct the Special Audit in relation to the Unauthorised Corporate Guarantees, the Group has not appointed the internal auditors for FY2018 due to cash flow constraints.

The audit committee is satisfied with the independence and objectivity of the external auditor and has recommended to the Board of Directors that the auditor, Foo Kon Tan LLP, be nominated for re-appointment as auditors at the forthcoming Annual General Meeting of the Company.

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

48
SUNVIC CHEMICAL HOLDINGS LIMITED

DIRECTORS’ STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Audit Committee (Continued)

The audit committee has reviewed the independent auditor’s report as set out in the following section and would like to highlight that the independent auditor does not express an opinion on the financial statements of the Group for the financial year ended 31 December 2018 due to the significance of the matters described in the Basis for Disclaimer of Opinion section of their report.

Full details regarding the audit committee are provided in the Corporate Governance Report.

In appointing our auditors for the Company and subsidiaries, we have complied with Rules 712 and 715 of the SGX Listing Manual.

Independent auditor

The independent auditor, Foo Kon Tan LLP, Public Accountants and Chartered Accountants, has expressed its willingness to accept re-appointment.

Other information required by the SGX-ST

Material information

There is no material contract to which the Company or any of its subsidiaries, is a party which involve directors’ interests subsisted or have been entered into during the financial year except as disclosed under “Disclosure of Remuneration” in the “Corporate Governance Report” and in Notes 6(c) and 25(c) to the financial statements.

Interested person transactions

There was no interested person transaction as defined in Chapter 9 of the Listing Manual of the Singapore Exchange conducted during the financial year except as disclosed under “Interested Person Transactions” in the “Corporate Governance Report” section of the Annual Report and on Note 25(a),(b) and Note 27(a) to the financial statements.

On behalf of the Directors

.....
SUN LIHUA

.....
KOH POH BENG

Dated: 19 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 RMB222.5 million (consisting of two financial guarantee contracts of RMB180 million (the "YFC Corporate Guarantee" transaction) and RMB42.5 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.

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 RMB180 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.

**INDEPENDENT
AUDITOR'S REPORT**
TO THE MEMBERS OF SUNVIC CHEMICAL HOLDINGS LIMITED

Basis for Disclaimer of Opinion (Continued)

1. Discrepancies surrounding the veracity of the YFC Agreements (Continued)

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 RMB180 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 FY2017 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.

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 RMB2.7 billion (2017: RMB1.3 billion). Such Transactions entered are a common practice carried out in the People's Republic of China (PRC). 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 RMB471.4 million (2017 – RMB936.5 million) as at 31 December 2018 for which the amount loaned to a PRC subsidiary, YYIE, was RMB181.5 million (2017 – RMB226.1 million). YYIE recorded external revenues of RMB475.2 million (2017 – RMB523.5 million) for the year ended 31 December 2018. As disclosed in Note 25(b), the bank facilities sum as at 31 December 2018 was RMB923 million (2017: RMB1.1 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 RMB920.2 million and RMB1.4 billion in FY2017 and FY2018 respectively although the Company did not obtain shareholders' mandate to approve the related party transactions, since 2011.

**INDEPENDENT
AUDITOR'S REPORT**
TO THE MEMBERS OF SUNVIC CHEMICAL HOLDINGS LIMITED

Basis for Disclaimer of Opinion (Continued)

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

(ii) Banking (Continued)

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 RMB1.61 billion (2017 – RMB1.45 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.

3. Provision for restoration

As detailed in Note 23 to the financial statements, the Group recorded a provision for restoration amounting to RMB45.6 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 RMB12,700,000 (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.

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

52
SUNVIC CHEMICAL HOLDINGS LIMITED

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SUNVIC CHEMICAL HOLDINGS LIMITED

Basis for Disclaimer of Opinion (Continued)

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.

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 RMB'millions	Impairment loss recognised for the year ended 31/12/2018 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
iv. Value-added tax recoverable	28(e)	9.5	83.9
v. Advances and prepayments to suppliers for the purchase of raw materials	28(f)(g)	8.5	19.6
vi. Inventories	28(h)	8.5	Nil

**INDEPENDENT
AUDITOR'S REPORT**
TO THE MEMBERS OF SUNVIC CHEMICAL HOLDINGS LIMITED

Basis for Disclaimer of Opinion (Continued)

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

Property, plant and equipment

As disclosed in Note 28(i) and Note 28(j), an impairment loss of RMB32.4 million on certain property, plant and equipment with a carrying amount of RMB260.9 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 RMB260.9 million as at 31 December 2018.

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 RMB12.4 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 RMB340.2 million (2017 – RMB340.2 million) and trade receivable amounts due from JJC of RMB37.7 million (2017 – RMB32.1 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.

**INDEPENDENT
AUDITOR'S REPORT**
TO THE MEMBERS OF SUNVIC CHEMICAL HOLDINGS LIMITED

Basis for Disclaimer of Opinion (Continued)

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

As at 31 December 2018, JJC has reported net assets of RMB809.4 million as at 31 December 2018 and incurred losses of RMB175.5 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.

10. Going concern

We draw attention to Note 3.1 to the financial statements, which indicates that the Group incurred a loss of RMB673.4 million (2017 – loss of RMB22.9 million) during the financial year ended 31 December 2018. The Group's current liabilities exceeded the current assets by approximately RMB544.9 million (31 December 2017 – RMB256.2 million; 1 January 2017 – RMB261.5 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 RMB175.4 million. As at 30 June 2019, the Group's current liabilities had exceeded its current assets by RMB905.1 million, and it had a deficit in its shareholder's funds of RMB134.4 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 RMB471.4 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 RMB166.1 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 RMB35.0 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

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.

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 RMB224.2 million (2017 – RMB195.7 million), purchase of inventories of RMB35.1 million (2017 – RMB65.7 million) and sales of waste material of RMB Nil (2017 – RMB14.9 million).

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

56

SUNVIC CHEMICAL HOLDINGS LIMITED

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SUNVIC CHEMICAL HOLDINGS LIMITED

Report on Other Legal and Regulatory Requirements (Continued)

Other Matters (Continued)

Related party transactions (Continued)

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 RMB260.6 million (2017 – RMB349.4 million), purchase of inventories of RMB14.4 million (2017 – RMB11.2 million) and purchase of raw material RMB Nil (2017 – RMB2.1 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 – RMB572,000), purchase of inventories of RMB164,000 (2017 – RMB35.0 million).

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 Sun Xiao, the Chief Executive Officer of the Company) own in aggregate 94.0% of the equity interest in Jiangsu Yinyan. Mr Sun Liping 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 RMB71.6 million (2017 – RMB58.5 million), purchase of inventories of RMB18.0 million (2017 – RMB11.4 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

**APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE
GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

57
SUNVIC CHEMICAL HOLDINGS LIMITED

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Note	Year ended 31 December 2018 RMB'000	Year ended 31 December 2017 RMB'000 (Re-presented)
Continuing operations			
Revenue	4	1,577,098	2,246,712
Cost of sales		(1,543,832)	(2,084,536)
Gross profit		33,266	162,176
Other income			
– Interest	5(a)	1,822	585
– Others	5(b)	41,935	13,218
Distribution expenses		(37,070)	(40,170)
Administrative expenses		(142,700)	(103,138)
Other operating expenses	6(a)	(510,032)	(13,305)
Finance costs	6(b)	(73,062)	(73,365)
Loss before taxation	6(c)	(685,841)	(53,999)
Taxation	7	(600)	(1,018)
Loss after taxation from continuing operations		(686,441)	(55,017)
Discontinued operations			
Profit from discontinued operations, net of tax	12(c)	13,045	32,154
Loss for the year		(673,396)	(22,863)
Other comprehensive income after tax: (Item that may be reclassified subsequently to profit or loss)			
Foreign currency translation		809	(574)
Total comprehensive loss for the year		(672,587)	(23,437)
Loss attributable to:			
Owners of the Company		(630,678)	(20,322)
Non-controlling interests		(42,718)	(2,541)
Loss for the year		(673,396)	(22,863)
Loss attributable to owners of the Company:			
Loss from continuing operations		(643,723)	(52,476)
Profit from discontinued operations		13,045	32,154
		(630,678)	(20,322)
Total comprehensive loss attributable to:			
Owners of the Company		(629,869)	(20,896)
Non-controlling interests		(42,718)	(2,541)
Total comprehensive loss for the year		(672,587)	(23,437)
		RMB Cents	RMB Cents (Re-presented)
Earnings/(Loss) per share for loss from:			
Basic and diluted loss per share			
– loss for the year		(118.5)	(3.8)
– continuing operations	8	(121.0)	(9.9)
– discontinued operations	8	2.5	6.1

The annexed notes form an integral part of these financial statements.

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

58

SUNVIC CHEMICAL HOLDINGS LIMITED

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Note	31 December 2018 RMB'000	Group 31 December 2017 RMB'000	1 January 2017 RMB'000	31 December 2018 RMB'000	Company 31 December 2017 RMB'000	1 January 2017 RMB'000
ASSETS							
Non-current assets							
Property, plant and equipment	9	337,767	1,135,353	1,206,559	33	–	–
Intangible assets	10	7,885	9,259	9,915	–	–	–
Land use rights	11	44,900	59,173	48,772	–	–	–
Investment in subsidiaries	12(a)	–	–	–	342,623	342,623	342,623
Deferred tax assets	13	–	24,430	24,430	–	–	–
Value-added tax recoverable	14	–	84,931	86,380	–	–	–
Long-term prepayments	16	–	6,027	–	–	–	–
Fixed deposits – pledged	17	76,739	76,739	–	–	–	–
		467,291	1,395,912	1,376,056	342,656	342,623	342,623
Current assets							
Inventories	15	18,544	109,132	81,893	–	–	–
Trade and other receivables	16	751,708	954,950	990,299	53,299	46,996	45,283
Cash and cash equivalents	17	228,865	278,164	262,216	810	306	1,036
		999,117	1,342,246	1,334,408	54,109	47,302	46,319
Assets of disposal group classified as held for sale	12(c)	791,883	–	–	–	–	–
Non-current assets held for sale	18	–	–	12,532	–	–	–
		1,791,000	1,342,246	1,346,940	54,109	47,302	46,319
Total assets		2,258,291	2,738,158	2,722,996	396,765	389,925	388,942
EQUITY AND LIABILITIES							
Capital and Reserves							
Share capital	19	291,516	291,516	291,516	291,516	291,516	291,516
Treasury shares	19	(1,575)	(1,575)	(1,575)	(1,575)	(1,575)	(1,575)
(Accumulated losses)/ Retained earnings		(226,237)	404,441	424,763	63,885	64,426	66,726
Other reserves	20	289,706	288,897	289,471	–	–	–
		353,410	983,279	1,004,175	353,826	354,367	356,667
Non-controlling interests		(122,377)	(79,659)	(77,118)	–	–	–
Total equity		231,033	903,620	927,057	353,826	354,367	356,667
Non-current liabilities							
Borrowings	21	75,631	228,631	180,000	–	–	–
Deferred tax liabilities	13	7,500	7,500	7,500	–	–	–
		83,131	236,131	187,500	–	–	–
Current liabilities							
Borrowings	21	395,740	707,853	957,300	–	–	–
Trade and other payables	22	1,058,446	877,483	645,956	42,939	35,558	32,275
Provision for restoration costs	23	45,573	–	–	–	–	–
Contingent liability	27(b)	42,500	–	–	–	–	–
Income tax payable		1,750	13,071	5,183	–	–	–
		1,544,009	1,598,407	1,608,439	42,939	35,558	32,275
Liabilities of disposal group classified as held for sale	12(c)	400,118	–	–	–	–	–
		1,944,127	1,598,407	1,608,439	42,939	35,558	32,275
Total liabilities		2,027,258	1,834,538	1,795,939	42,939	35,558	32,275
Total equity and liabilities		2,258,291	2,738,158	2,722,996	396,765	389,925	388,942

The annexed notes form an integral part of these financial statements.

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

59
SUNVIC CHEMICAL HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Attributable to owners of the Company										
	Share capital (Note 19) RMB'000	Treasury shares (Note 19) RMB'000	Foreign currency translation reserve			Special safety reserve RMB'000	Other reserves total (Note 20) RMB'000	Equity attributable to owners of the Company		Non-controlling interests RMB'000	Total equity RMB'000
			Capital reserve RMB'000	Merger reserve RMB'000	Retained earnings RMB'000			Company RMB'000			
The Group											
Balance at 1 January 2017	291,516	(1,575)	255,286	(15,630)	(499)	50,314	289,471	424,763	1,004,175	(77,118)	927,057
Loss for the year	-	-	-	-	-	-	-	(20,322)	(20,322)	(2,541)	(22,863)
Other comprehensive loss	-	-	-	(574)	-	-	(574)	-	(574)	-	(574)
Total comprehensive loss for the year	-	-	-	(574)	-	-	(574)	(20,322)	(20,896)	(2,541)	(23,437)
Balance at 31 December 2017	291,516	(1,575)	255,286	(16,204)	(499)	50,314	288,897	404,441	983,279	(79,659)	903,620
Loss for the year	-	-	-	-	-	-	-	(630,678)	(630,678)	(42,718)	(673,396)
Other comprehensive income	-	-	-	809	-	-	809	-	809	-	809
Total comprehensive income/(loss) for the year	-	-	-	809	-	-	809	(630,678)	(629,869)	(42,718)	(672,587)
Balance at 31 December 2018	291,516	(1,575)	255,286	(15,395)	(499)	50,314	289,706	(226,237)	353,410	(122,377)	231,033

The annexed notes form an integral part of these financial statements.

**APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE
GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

60
SUNVIC CHEMICAL HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Note	2018 RMB'000	2017 RMB'000 (Re-presented)
Cash Flows from Operating Activities			
Loss before taxation from continuing operations		(685,841)	(53,999)
Profit before taxation from discontinued operation	12(c)	23,052	36,840
		(662,789)	(17,159)
Adjustments for:			
Interest expense	6(b)	80,159	81,634
Interest income	5(a)	(2,593)	(3,988)
Depreciation of property, plant and equipment	9	109,654	135,053
Impairment loss of property, plant and equipment	9	199,030	–
Amortisation of intangible assets	10	812	774
Amortisation of land use rights	11	1,334	1,404
Gain on disposal of land use rights	5	(9,429)	–
Gain on disposal of property, plant and equipment	5	(36)	(232)
Property, plant and equipment written off	6(a)	–	707
Unrealised currency translation difference		809	574
Impairment loss of trade receivables	16	–	355
Impairment loss on value added tax recoverable		83,951	–
Impairment loss on prepayment	16	19,625	–
Contingent liabilities – third parties	27(b)	42,500	–
Provision for restoration costs	23	45,573	–
Provision for severance compensation	22	12,700	–
Reversal of doubtful debt provision	16	(80)	–
Reversal of inventory write-down	15	–	(2,588)
Operating (loss)/profit before working capital changes		(78,780)	196,534
Decrease/(increase) in inventories		45,446	(24,654)
(Increase)/decrease in trade and other receivables		(12,327)	32,568
Decrease in trade and other payables		443,426	317,620
Cash generated from operations		397,765	522,068
Income tax (paid)/refund		(21,368)	2,185
Net cash flows generated from operating activities		376,397	524,253
Cash Flows from Investing Activities			
Interest received		2,593	3,988
Purchase of property, plant and equipment (Note A)		(36,002)	(152,014)
Purchase of intangible assets	10	–	(2)
Proceeds from disposal of property, plant and equipment		978	1,484
Net cash flows used in investing activities		(32,431)	(146,544)
Cash Flows from Financing Activities			
Proceeds from borrowings		631,205	1,339,256
Repayments of borrowings		(943,318)	(1,540,072)
Interest paid		(80,159)	(81,634)
Increase in pledged fixed deposits		(99,014)	(131,870)
Net cash flows used in financing activities		(491,286)	(414,320)
Net decrease in cash and cash equivalents		(147,320)	(36,611)
Cash and cash equivalents at beginning		157,324	196,507
Effects of exchange rate changes		(994)	(2,572)
Cash and cash equivalents at end	17	9,010	157,324

The annexed notes form an integral part of these financial statements.

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

61
SUNVIC CHEMICAL HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Notes:

A. Property, plant and equipment

During the year, the Group paid cash of RMB36.0 million (2017 – RMB152.0 million) for the additions to property, plant and equipment amounting to RMB6.8 million (2017 – RMB74.4 million). The difference was mainly due to payment made for prior year payables for property, plant and equipment.

The Group	2018 RMB'000	2017 RMB'000
Amounts payable to suppliers at beginning	45,059	122,667
Purchases of property, plant and equipment (Note 9)	6,829	74,406
Amounts payable to suppliers at end	(15,886)	(45,059)
Cash paid on addition of property, plant and equipment	36,002	152,014

B. Reconciliation of liabilities arising from financing activities

The following is the disclosures of the reconciliation of items for which cash flows have been, or would be, classified as financing activities, excluding equity items:

	1 January 2018	Non-cash flows	Cash flows		31 December 2018
			Cash outflow	Cash inflow	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Borrowings	936,484	(153,000)*	(943,318)	631,205	471,371

	1 January 2017	Non-cash flows	Cash flows		31 December 2017
			Cash outflow	Cash inflow	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Borrowings	1,137,300	–	(1,540,072)	1,339,256	936,484

* Relates to disposal of 45% equity interest in Taixing Sunke Chemicals Co., Ltd.

The annexed notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

1 General information

The financial statements of the Company and of the Group for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the directors on the date of the Directors' statement.

The Company is listed on the Singapore Exchange Securities Trading Limited ("SGX-ST") and is incorporated as a limited liability company and domiciled in Singapore. The holding company is Whitefield Capital Inc. ("Whitefield Capital") which is incorporated in the British Virgin Islands.

The registered office is located at 112 Robinson Road #11-01 Robinson 112, Singapore 068902.

2 Summary of significant accounting policies

(a) Basis of preparation

The financial statements are prepared in accordance with Singapore Financial Reporting Standards (International) ("SFRS(I)") including related Interpretations promulgated by the Accounting Standards Council (ASC). The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The financial statements are presented in Chinese Renminbi which is the Company's functional currency. All the financial information is presented in thousands of Chinese Renminbi (RMB'000), unless otherwise stated.

(b) Adoption of SFRS(I)

As required by the listing requirements of Singapore Exchange, the Group has adopted SFRS(I) on 1 January 2018. These financial statements for the year ended 31 December 2018 are the first set of financial statements the Group prepared in accordance with SFRS(I). The Group's previously issued financial statements for periods up to and including the financial year ended 31 December 2017 were prepared in accordance with Singapore Financial Reporting Standards ("SFRS").

In adopting SFRS(I) on 1 January 2018, the Group is required to apply all of the specific transition requirements in SFRS(I) 1 *First-time Adoption of SFRS(I)*.

Under SFRS(I) 1, these financial statements are required to be prepared using accounting policies that comply with SFRS(I) effective as at 31 December 2018. The same accounting policies are applied throughout all periods presented in these financial statements, subject to the mandatory exceptions and optional exemptions under SFRS(I) 1.

The Group's opening statement of financial position has been prepared as at 1 January 2017, which is the Group's date of transition to SFRS(I) ("date of transition").

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2 Summary of significant accounting policies (Continued)

(b) Adoption of SFRS(I) (Continued)

Optional exemptions applied

SFRS(I) 1 allows the exemption from application of certain requirements under SFRS(I) on a retrospective basis. The Group has applied the following exemptions in preparing this first set of financial statements in accordance with SFRS(I):

(i) Short-term exemption on adoption of SFRS(I) 9 *Financial Instruments*

The Group has elected to apply the short-term exemption to adopt SFRS(I) 9 on 1 January 2018. Accordingly, the requirements of SFRS 39 *Financial Instruments: Recognition and Measurement* are applied to financial instruments up to the financial year ended 31 December 2017. The Group is also exempted from complying with SFRS(I) 7 *Financial Instruments: Disclosure* to the extent that the disclosures required by SFRS(I) 7 relate to the items within scope of SFRS(I) 9.

As a result, the requirements under SFRS are applied in place of the requirements under SFRS(I) 7 and SFRS(I) 9 to comparative information about items within scope of SFRS(I) 9.

There were no material adjustments to the Group's statement of cash flows arising from the transition from SFRS to SFRS(I).

Adoption of SFRS(I) 9

SFRS(I) 9 *Financial Instruments* sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. It also introduces a new 'expected credit loss' (ECL) model and a new general hedge accounting model. The Group adopted SFRS(I) 9 from 1 January 2018.

In accordance with the exemption in SFRS(I) 1, the Group elected not to restate comparative information for 2017. Accordingly, the information presented for 2017 is presented, as previously reported, under SFRS 39 *Financial Instruments: Recognition and Measurement*. Differences in the carrying amounts of financial assets resulting from the adoption of SFRS(I) 9 are recognised in retained earnings as at 1 January 2018.

Arising from this election, the Group is exempted from providing disclosures required by SFRS(I) 7 *Financial Instruments: Disclosures* for the comparative period to the extent that these disclosures relate to items within the scope of SFRS(I) 9. Instead, disclosures under SFRS 107 *Financial Instruments: Disclosures* relating to items 68 within the scope of SFRS 39 are provided for the comparative period.

The accounting policies for financial instruments under SFRS(I) 9 is as disclosed in Note 3.4.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2 Summary of significant accounting policies (Continued)

(b) Adoption of SFRS(I) (Continued)

Adoption of SFRS(I) 9 (Continued)

Classification and measurement of financial assets and financial liabilities

Under SFRS(I) 9, financial assets are classified in the following categories: measured at amortised cost, FVOCI – debt instrument, FVOCI – equity instrument; or FVTPL. The classification of financial assets under SFRS(I) 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. SFRS(I) 9 eliminates the previous SFRS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under SFRS(I) 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification. No reclassifications resulting from the management's assessment.

The adoption of SFRS(I) 9 has not had a significant effect on the Group's accounting policies for financial liabilities (Note 22).

The following table presents original measurement categories under SFRS 39 and the new measurement categories under SFRS(I) 9 for each class of the Group's financial assets as at 1 January 2018.

Group and Company	Original classification under SFRS 39 (Up to financial year ended 31 December 2017)	New classification under SFRS(I) 9 (Effective from 1 January 2018)
Financial assets		
Trade and other receivables	Loan and receivables	Amortised cost
Cash and bank balances	Loan and receivables	Amortised cost

Impairment of financial assets

SFRS(I) 9 requires the Group and Company to record expected credit losses on all of its financial assets at amortised cost or debt instruments at FVOCI, either on a 12-month or lifetime basis. Upon adoption of SFRS(I) 9, there is no additional impairment required on the Group's financial assets at amortised cost except for financial guarantee contracts.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2 Summary of significant accounting policies (Continued)

(b) Adoption of SFRS(I) (Continued)

Adoption of SFRS(I) 9 (Continued)

Impairment of financial assets (Continued)

Set out below is the reconciliation of the ending impairment allowances in accordance with FRS 39 to the opening loss allowances determined in accordance with SFRS(I) 9:

Group	Allowance for impairment under FRS 39 as at 31 December 2017 RMB'000	Remeasurement RMB'000	ECL under SFRS(I) 9 as at 1 January 2018 RMB'000
Loans and receivables under FRS 39/Financial assets at amortised cost under SFRS(I) 9	1,092	–	1,092

Adoption of SFRS(I) 15

In accordance with the requirements of SFRS(I) 1, the Group adopted SFRS(I) 15 retrospectively. The adoption of SFRS(I) 15 did not result in adjustments to the previously issued SFRS financial statements as the impact is not material based on the assessment performed by the management.

Accounting for contracts with separate performance obligations

Under SFRS(I) 15, each contract for sales of chemical products was assessed to be one contract with revenue recognised at a point in time when the control of the goods was transferred to the buyer and when the amount of the costs of the transactions can be measured reliably.

Presentation of contract liabilities

Upon adoption of SFRS(I) 15, the Group has changed the presentation of advance from customers of RMB17.3 million as at 31 December 2017 and RMB11.2 million as at 1 January 2017 to contract liabilities.

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

66
SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2 Summary of significant accounting policies (Continued)

(c) SFRS(I) issued but not yet effective

Below are the mandatory standards, amendments and interpretations to existing standards that have been published, and are relevant for the Group's accounting periods beginning on or after 1 January 2019 and which the Group has not early adopted:

Reference	Description	Effective date (Annual periods beginning on or after)
SFRS(I) 16	<i>Leases</i>	1 January 2019
Amendments to SFRS(I) 9	<i>Prepayment Features with Negative Compensation</i>	1 January 2019
SFRS(I) INT 23	<i>Uncertainty Over Income Tax Treatments</i>	1 January 2019
SFRS(I) 1-19	<i>Plan Amendment: Curtailment or Settlement</i>	1 January 2019
SFRS(I) 3	<i>Amendments to SFRS(I) 3: Definition of a Business</i>	1 January 2020
SFRS(I) 1-1, SFRS(I) 1-8	<i>Amendments to SFRS(I) 1-1 and SFRS(I) 1-8: Definition of Material</i>	1 January 2020

The directors do not anticipate that the adoption of the above SFRS(I)s in future periods will have a material impact on the financial statements of the Group and the Company in the period of their initial adoption, except the following:

SFRS(I) 16 Leases

SFRS(I) 16 introduces a single, on-balance sheet lease accounting model for lessees. This will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not change significantly.

The Group will apply the standard from 1 January 2019, using the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use ("ROU") assets for property leases will be measured on transition as if the new rules had always been applied. All other ROU assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses). For lease contracts that contain the option to renew, the Group is expected to use hindsight in determining the lease term.

The Group has performed a preliminary assessment of the new standard on its existing operating lease arrangements as a lessee. Based on the preliminary assessment, the Group and the Company has office where they are operating leases. The Group and the Company expects these operating leases to be recognised as Right-Of-Use assets with corresponding lease liabilities under the new standard. The Group and the Company does not expect any significant impact on the financial statements upon adoption of the new SFRS(I) 16.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2 Summary of significant accounting policies (Continued)

(c) SFRS(I) issued but not yet effective (Continued)

SFRS(I) 16 Leases (Continued)

As at 31 December 2018, the Group and the Company has non-cancellable operating lease commitments of RMB755,000 (Note 26(a)). The standard is effective for annual period beginning on or after 1 January 2019. The Group and the Company does not expect the adoption of SFRS(I) 16 to have significant impact on its financial position and financial results for the financial year ending 31 December 2019.

The Group's activities as lessor are not material and the Group does not expect any significant impact on the financial statements.

(d) Significant accounting policies

Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances. Information on its subsidiaries is given in Note 12(a).

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

Losses and other comprehensive income are attributable to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- de-recognises the assets (including goodwill) and liabilities of the subsidiary at their carrying amounts as at that date when control is lost;
- de-recognises the carrying amount of any non-controlling interest;
- de-recognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss;
- re-classifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

A subsidiary is an investee that is controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2 Summary of significant accounting policies (Continued)

(d) Significant accounting policies (Continued)

Consolidation (Continued)

Thus, the Group controls an investee if and only if the Group has all of the following:

- power over the investee;
- exposure, or rights or variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

A change in the ownership interest

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Group.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable SFRS(I)s).

The fair value of any investment retained in the former subsidiary at the date when the control is lost is regarded as the fair value on the initial recognition for subsequent accounting under SFRS(I) 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2 Summary of significant accounting policies (Continued)

(d) Significant accounting policies (Continued)

Consolidation (Continued)

Acquisition of businesses

The acquisition method of accounting is used to account for business combinations entered into by the Group.

The consideration transferred for the acquisition of a subsidiary or business combination comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes any contingent arrangement and any pre-existing equity interest in the subsidiary measured at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree at the date of acquisition either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of (a) the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the (b) fair value of the identifiable net assets acquired is recorded as goodwill.

Disposals

When a change in the Group's ownership interest in a subsidiary results in a loss of control over the subsidiary, the assets and liabilities of the subsidiary including any goodwill are derecognised. Amounts previously recognised in other comprehensive income in respect of that entity are also reclassified to profit or loss or transferred directly to retained earnings if required by a specific standard.

Any retained equity interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained interest at the date when control is lost and its fair value is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2 Summary of significant accounting policies (Continued)

(d) Significant accounting policies (Continued)

Consolidation (Continued)

Transactions with non-controlling interest

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company, and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to owners of the Company.

Changes in the Company owners' ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. No depreciation is provided on construction-in-progress. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their depreciable amount over their estimated useful lives as follows:

Leasehold buildings	–	20 years
Plant and machinery	–	3 to 10 years
Furniture and fixture	–	3 to 10 years
Motor vehicles	–	5 years

Construction-in-progress is not depreciated until such time when the relevant assets are completed and put into operational use.

The cost of property, plant and equipment includes expenditure that is directly attributable to the acquisition of the items. Dismantlement, removal or restoration costs are included as part of the cost of property, plant and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent expenditure relating to property, plant and equipment that have been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the standard of performance of the asset before the expenditure was made, will flow to the Group and the cost can be reliably measured. Other subsequent expenditure is recognised as an expense during the financial year in which it is incurred.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2 Summary of significant accounting policies (Continued)

(d) Significant accounting policies (Continued)

Property, plant and equipment (Continued)

For acquisitions and disposals during the financial year, depreciation is provided from the month of acquisition and to the month before disposal respectively. Fully depreciated property, plant and equipment are retained in the books of accounts until they are no longer in use.

Depreciation methods, useful lives and residual values are reviewed, and adjusted as appropriate, at the end of each reporting period as a change in estimates.

Intangible assets

Intangible assets acquired separately are measured initially at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial acquisition, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite useful lives are amortised over the estimated useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite useful lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives or not yet available for use are tested for impairment annually, or more frequently if the events and circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the useful life assessment continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2 Summary of significant accounting policies (Continued)

(d) Significant accounting policies (Continued)

Intangible assets (Continued)

The estimated useful lives for the current and comparative years are as follows:

Technology know-how	–	10 years
Computer software	–	5 years

Intangible assets are written off where, in the opinion of the directors, no future economic benefits are expected to arise.

Land use rights

Land use rights are initially measured at cost. Following initial recognition, land use rights are measured at cost less accumulated amortisation. The land use rights are amortised on a straight-line basis over the lease term of 50 years, except for freehold land use right which is not amortised.

Investment in subsidiaries

In the Company's separate financial statements, investments in subsidiaries are stated at cost less allowance for any impairment losses on an individual subsidiary basis.

Investment in joint venture

Joint arrangements

A joint arrangement is a contractual arrangement whereby two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

A joint arrangement is classified either as joint operation or joint venture, based on the rights and obligations of the parties to the arrangement.

To the extent the joint arrangement provides the Group with rights to the assets and obligations for the liabilities relating to the arrangement, the arrangement is a joint operation. To the extent the joint arrangement provides the Group with rights to the net assets of the arrangement, the arrangement is a joint venture.

The Group reassesses whether the type of joint arrangement in which it is involved has changed when facts and circumstances change.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2 Summary of significant accounting policies (Continued)

(d) Significant accounting policies (Continued)

Investment in joint venture (Continued)

Joint operations

The Group recognises in relation to its interest in a joint operation,

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the accounting policies applicable to the particular assets, liabilities, revenues and expenses.

When the Group enters into transaction involving a sale or contribution of assets with a joint operation in which it is a joint operator, the Group recognises gains and losses resulting from such a transaction only to the extent of the interests held by the other parties to the joint operation.

When the Group enters into a transaction involving purchase of assets with a joint operation in which it is a joint operator, the Group does not recognise its share of the gains and losses until it resells those assets to a third party. When such transactions provide evidence of a reduction in the net realisable value of the assets to be purchased or of an impairment loss of those assets, the Group recognises its share of those losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and demand deposits that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis and includes all costs in bringing the inventories to their present location and condition. In the case of manufactured products, cost includes all direct expenditure and production overheads based on the normal level of activity.

Provision is made for obsolete, slow-moving and defective inventories in arriving at the net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2 Summary of significant accounting policies (Continued)

(d) Significant accounting policies (Continued)

Non-current assets (or disposal group) held-for-sale and discontinued operations

Non-current assets (or disposal group) are classified as assets held-for-sale and carried at lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use. The assets, or disposal group, are not depreciated or amortised while they are classified as held-for-sale. Any impairment loss on initial classification and subsequent measurement is recognised as an expense. Any subsequent increase in fair value less cost to sell (not exceeding the accumulated impairment loss that has been previously recognised) is recognised in profit or loss.

If the criteria to classify as held-for-sale are no longer met, the assets, or disposal group, are remeasured at the lower of the carrying amount before the classification as held-for-sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the assets or disposal group not been classified as held-for-sale, and the recoverable amount at the date of the subsequent decision not to sell.

A discontinued operation is a component of an entity that either has been disposed of, or that is classified as held-for-sale and:

- (a) represents a separate major line of business or geographical area of operations; or
- (b) is part of single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- (c) is a subsidiary acquired exclusively with a view to resale.

Financial liabilities

The Group's financial liabilities include borrowings and trade and other payables.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest-related charges are recognised as an expense in "finance cost" in the profit or loss.

Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Borrowings are recognised initially at fair value of proceeds received less attributable transaction costs, if any. Borrowings are subsequently stated at amortised cost which is the initial fair value less any principal repayments. Any difference between the proceeds (net of transaction costs) and the redemption value is taken to the profit or loss over the period of the borrowings using the effective interest method. The interest expense is chargeable on the amortised cost over the period of the borrowings using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2 Summary of significant accounting policies (Continued)

(d) Significant accounting policies (Continued)

Financial liabilities (Continued)

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

Borrowings which are due to be settled within 12 months after the end of reporting period are included in current borrowings in the statement of financial position even though the original terms were for a period longer than twelve months and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the end of reporting period. Borrowings to be settled within the Group's operating cycle are classified as current. Other borrowings due to be settled more than twelve months after the end of reporting period are included in non-current borrowings in the statement of financial position.

Provision

Provisions for contingent liabilities for financial guarantees issued to third parties are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Other provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised in the statement of comprehensive income as finance expense.

Changes in the estimated timing or amount of the expenditure or discount rate are recognised in profit or loss when the changes arise.

Trade and other payables

Trade and other payables are initially measured at fair value, and subsequently measured at amortised cost, using the effective interest method.

Financial guarantee

The Group has issued corporate guarantees to banks for bank borrowings of its related parties and third parties. These guarantees are financial guarantee contracts as they require the Group to reimburse the banks if the related parties and third parties fail to make principal or interest payments when due in accordance with the terms of its borrowings.

Financial guarantee contracts are initially recognised at their fair value plus transaction costs in the statements of financial position.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2 Summary of significant accounting policies (Continued)

(d) Significant accounting policies (Continued)

Financial guarantee (Continued)

Financial guarantee contracts are initially measured at fair value plus transaction costs and subsequently measured at the higher of:

- (a) premium received on initial recognition less cumulative amount of income recognised in accordance with the principles of SFRS(I) 15; and
- (b) the amount of expected loss computed using the impairment methodology under SFRS(I) 9.

Prior to 1 January 2018, financial guarantee contracts are subsequently amortised to the profit or loss over the period of the subsidiaries' borrowings, unless the Company has incurred an obligation to reimburse the bank for an amount higher than the unamortised amount. In this case, the financial guarantee contracts shall be carried at the expected amount payable to the bank.

Employee benefits

Pension obligations

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations.

The subsidiaries in the People's Republic of China (the "PRC") are required to provide certain staff pension benefits to their employees under existing PRC regulations. Pension contributions are provided at rates stipulated by PRC regulations and are contributed to a pension fund managed by government agencies, which are responsible for administering these amounts for the subsidiaries employees.

Pension contributions are recognised as an expense in the period in which the related service is performed.

Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. Accrual is made for the unconsumed leave as a result of services rendered by employees up to the end of reporting period.

Key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Group. Directors and certain managerial personnel are considered key management personnel.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2 Summary of significant accounting policies (Continued)

(d) Significant accounting policies (Continued)

Leases

Where the Group is the lessee

Operating leases

Rentals on operating leases are charged to profit or loss on a straight-line basis over the lease term. Lease incentives, if any, are recognised as an integral part of the net consideration agreed for the use of the leased asset. Penalty payments on early termination, if any, are recognised in the profit or loss when incurred.

Contingent rents are mainly determined as a percentage of revenue in excess of a specified amount during the month. They are charged to the profit or loss when incurred.

Where the Group is the lessor

Operating leases

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Rental income is recognised on a straight-line basis over the lease term. Contingent rents are recognised as revenue in the period in which they are earned.

Income taxes

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of reporting period.

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting or taxable profit or loss at the time of the transaction.

A deferred income tax liability is recognised on temporary differences arising on investments in subsidiaries and joint operation, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2 Summary of significant accounting policies (Continued)

(d) Significant accounting policies (Continued)

Income taxes (Continued)

Deferred income tax is measured:

- (i) at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the date of the financial position; and
- (ii) based on the tax consequence that will follow from the manner in which the Group expects, at the date of the financial position, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income taxes are recognised as income or expense in the profit or loss, except to the extent that the tax arises from a business combination or a transaction which is recognised either in other comprehensive income or directly in equity. Deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Revenue recognition

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Revenue is recognised when the Group satisfied a performance obligation ("PO") by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A PO may be satisfied at a point in time or over time. The amount of revenue recognised is the amount allocated to the satisfied PO.

(i) Sales of chemical products

The Group manufactures and sells of Acrylic Acid ("AA") and Acrylate Esters ("AE"), PMIDA and glyphosate and refined MTBE and petroleum products (collectively "chemical products") in the marketplace. Sales are recognised at a point when control of the products has transferred to its customer, being when the products are delivered to the customer or the customer has taken physical delivery according to the agreed sales term and all criteria for acceptance have been satisfied.

Transaction price is the amount of consideration in the contract to which the Group expects to be entitled in exchange for transferring the promised goods. The goods are usually sold without the right of return, volume discounts or warranty. No element of financing is deemed present as the sales made are usually completed within 3 months. A receivable (financial asset) is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before payment is due.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2 Summary of significant accounting policies (Continued)

(d) Significant accounting policies (Continued)

Revenue recognition (Continued)

(i) Sales of chemical products (Continued)

These accounting policies below are applied before the initial application date of SFRS(I) 15, 1 January 2018:

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue excludes goods and services taxes and is arrived at after deduction of trade discounts. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Revenue from sale of goods is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customer. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(ii) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

(iii) Rental income

Rental and related income are recognised on a straight-line basis over the lease term. Lease incentives, if any, are recognised as an integral part of total lease income. Penalty payments on early termination, if any, are recognised when incurred.

(iv) Dividend income

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Operating segments

For management purposes, operating segments are organised based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the management of the Company who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 24, including the factors used to identify the reportable segments and the measurement basis of segment information.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2 Summary of significant accounting policies (Continued)

(d) Significant accounting policies (Continued)

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against share capital account.

Where the Company purchases the Company's ordinary shares ("treasury shares"), the carrying amount which includes the consideration paid and any directly attributable transaction cost is presented as a component within equity attributable to the Company's equity holders, until they are cancelled, sold or reissued.

When treasury shares are subsequently cancelled, the cost of treasury shares are deducted against the share capital account if the shares are purchased out of capital of the Company, or against the retained profits of the Company if the shares are purchased out of earnings of the Company.

Related parties

A related party is defined as follows:

- (a) A person or a close member of that person's family is related to the Group and the Company if that person:
 - (i) has control or joint control over the Company;
 - (ii) has significant influence over the Company; or
 - (iii) is a member of the key management personnel of the Group or Company or of a parent of the Company.
- (b) An entity is related to the Group and the Company if any of the following conditions applies:
 - (i) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
 - (iii) both entities are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company;

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2 Summary of significant accounting policies (Continued)

(d) Significant accounting policies (Continued)

Related parties (Continued)

- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or
- (viii) the entity, nor any member of a group which is past, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Functional currencies

Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The financial statements of the Group and the Company are presented in Chinese Renminbi, which is also the functional currency of the Company.

Conversion of foreign currencies

Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates at the dates of the transactions. Currency translation differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the end of the reporting period are recognised in profit or loss. However, in the consolidated financial statements, currency translation differences arising from borrowings in foreign currencies and other currency instruments designated and qualifying as net investment hedges and net investment in foreign operations, are recognised in other comprehensive income and accumulated in the currency translation reserve.

When a foreign operation is disposed of or any borrowings forming part of the net investment of the foreign operation are repaid, a proportionate share of the accumulated translation differences is reclassified to profit or loss, as part of the gain or loss on disposal.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement within "finance cost". Foreign currency gains and losses are reported on a net basis as either other income or other operating expense depending on whether foreign currency movements are in a net gain or net loss position.

Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2 Summary of significant accounting policies (Continued)

(d) Significant accounting policies (Continued)

Conversion of foreign currencies (Continued)

Group entities

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) Assets and liabilities are translated at the closing exchange rates at the end of the reporting period of that statement of financial position;
- (ii) Income and expenses for each statement presenting profit or loss and other comprehensive income (i.e. including comparatives) shall be translated at exchange rates at the dates of the transactions; and
- (iii) All resulting currency translation differences are recognised in other comprehensive income and accumulated in the currency fluctuation reserve.

Financial assets

The accounting for financial assets before 1 January 2018 is as follows:

Financial assets, other than hedging instruments, can be divided into the following categories: Financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the assets were acquired. The designation of financial assets is re-evaluated and classification may be changed at the end of the reporting period with the exception that the designation of financial assets at fair value through profit or loss is not revocable.

All financial assets are recognised on their trade date – the date on which the Company and the Group commit to purchase or sell the asset. Financial assets are initially recognised at fair value, plus directly attributable transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value.

Derecognition of financial instruments occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

An assessment for impairment is undertaken at least at the end of each reporting period whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company and the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2 Summary of significant accounting policies (Continued)

(d) Significant accounting policies (Continued)

Financial assets (Continued)

The accounting for financial assets before 1 January 2018 is as follows: (Continued)

Non-compounding interest and other cash flows resulting from holding financial assets are recognised in profit or loss when received, regardless of how the related carrying amount of financial assets is measured.

As at 31 December 2017, the Company and the Group has loans and receivables. The Company and the Group do not designate any held-to-maturity investments, financial assets at fair value through profit or loss and available-for-sale financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company and the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Loans and receivables include trade and other receivables, pledged deposits and cash and bank balances. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. If there is objective evidence that the asset has been impaired, the financial asset is measured at the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. The impairment or write-back is recognised in profit or loss.

The accounting for financial assets from 1 January 2018 is as follows:

Classification and measurement

The Group classifies all its financial assets at amortised cost. The classification depends on the Group's business model for managing the financial assets as well as the contractual terms of the cash flows of the financial asset. The Group reclassifies financial assets at amortised cost when and only when its business model for managing those assets changes.

At initial recognition

At initial recognition, the Group measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2 Summary of significant accounting policies (Continued)

(d) Significant accounting policies (Continued)

Financial assets (Continued)

The accounting for financial assets from 1 January 2018 is as follows: (Continued)

Classification and measurement (Continued)

At subsequent measurement

Debt instruments include cash and cash equivalents, trade and other receivables and amount due from subsidiaries. The subsequent measurement category is depending on the Group's business model for managing the asset and cash flow characteristics of the asset.

Amortised cost

Debt instruments that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt instrument that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss and financial guarantee contracts. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is recognised for credit losses expected over the remaining life of the exposure, irrespective of timing of the default (a lifetime ECL).

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at the end of each reporting period. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2 Summary of significant accounting policies (Continued)

(d) Significant accounting policies (Continued)

Financial assets (Continued)

The accounting for financial assets from 1 January 2018 is as follows: (Continued)

***Impairment of financial assets* (Continued)**

For debt instruments at FVOCI, the Group applies the low credit risk simplification. At the end of each reporting period, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument. In addition, the Group considers that there has been a significant increase in credit risk when the contractual payments are more than days past due.

The Group consider a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade date – the date on which the Group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

On disposal of a debt instrument, the difference between the carrying amount and the sale proceeds is recognised in profit or loss. Any amount previously recognised in other comprehensive income relating to that asset is reclassified to profit or loss.

Trade receivables that are factored out to banks and other financial institutions with recourse to the Group are not derecognised until the recourse period has expired and the risks and rewards of the receivables have been fully transferred. The corresponding cash received from the financial institutions is recorded as borrowings.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

3 Significant accounting estimates and judgements

The preparation of the financial statements in conformity with SFRS(I) requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on the management's best knowledge of current events and actions, actual results may differ from those estimates.

The critical accounting estimates and assumptions used and area involving a significant judgement are described below:

3.1 Significant judgements in applying accounting policies

Income taxes (Note 7) and Deferred taxes (Note 13)

The Group has exposure to income taxes in numerous jurisdictions. Significant judgement is involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Determination of functional currencies

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currencies of the entities in the Group, judgement is required to determine the currency that mainly influences sales prices of goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services. The functional currencies of the entities in the Group are determined based on the management's assessment of the economic environment in which the entities operate and the entities' process of determining sales prices.

Provision for restoration costs (Note 23)

The Group has accrued RMB45,573,000 (2017 – Nil) in the current financial year being environmental remediation and restoration of the land relating to its operations in the Xiangshui Chemical Industry Park which was shut down by the local government in March 2019. Under existing legislation, the PRC government may move further towards more rigorous enforcement of applicable laws, and towards the adoption of more stringent environmental standards due to the hazard area and for public interest of the urban re-planning. The outcome of environmental liabilities under future environmental legislation cannot be ascertained with accuracy although the management believes the current provision for the restoration cost is adequate.

Accrued severance compensation

As disclosed in Note 22, the Group has accrued a severance compensation of RMB12.7 million (2017 – Nil) related to compensation payable to the staffs resulted from the explosion and fire hazard in one of the subsidiary premises in the Xiangshui Chemical Industry Park as at 31 December 2018. The management is of the view that the accrual is based on the management's best estimations and the current accrued severance compensation is adequate.

**NOTES TO THE
FINANCIAL STATEMENTS**
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

3 Significant accounting estimates and judgements (Continued)

3.1 Significant judgements in applying accounting policies (Continued)

Joint arrangement classified as disposal group held for sale and discontinued operations (Note 12(c))

Disposal group classified as held for sale

As disclosed in Note 12(c), despite the arbitration proceedings and related claims made against Taixing Jurong Chemical Co., Ltd. ("Taixing Jurong") who holds a 45% interest in Taixing Sunke Chemicals Co., Ltd. ("Taixing Sunke") during the financial year ended 31 December 2018, the management has classified Taixing Sunke as a disposal group classified as held for sale as at that date. This is because a binding the Letter of Intent ("LOI") has been entered into with Arkema Asie SAS (the "Purchaser") to dispose of the entire 45% interest held by Taixing Jurong to the Purchaser. Pursuant to the LOI, the arbitration proceedings and related claims against Taixing Jurong will be withdrawn upon the completion of the Proposed Disposal. The shareholders of the Company have also approved of the Proposed Disposal on 15 July 2019. The management considers the classification of the joint arrangement as a disposal group classified as held for sale to be appropriate.

Discontinued operations

Taixing Sunke had been previously accounted for as a joint arrangement and classified as a joint operation whereby the Group has proportionally consolidated the financial performance and its share of the assets and liabilities held jointly arising from the joint operation in prior years by the Group. As disclosed in Note 12(b), Taxing Sunke contributed significant cost of sales and expenses and total assets and total liabilities to the Group in 2017 under the proportionate consolidation method of accounting in 2017 and in prior years and is considered to be a significant joint operation of the Group. Consequent to the reclassification of Taixing Sunke from a joint arrangement to a disposal group classified as held for sale in 2018, Taixing Sunke has also been classified as a discontinued operation on the same basis. Comparative figures have been reclassified to reflect the discontinued operation in accordance with SFRS(I) 5.

Investment in subsidiaries (Note 12(a))

As disclosed in Note 12(a), notwithstanding that Company has only a 42.4% equity interest in SVAP, it considers that it has control over SVAP because Whitefield Capital Inc. owns the remaining 57.6% equity interest in SVAP and is a related party to the Company whereby the majority of the key management personnel in SVAP are the same of those of the Company. Consequently, SVAP is accounted for as a subsidiary in the Group.

**NOTES TO THE
FINANCIAL STATEMENTS**
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

3 Significant accounting estimates and judgements (Continued)

3.1 Significant judgements in applying accounting policies (Continued)

Going concern

The Group has incurred a loss of RMB673.4 million (2017 – loss of RMB22.9 million) during the financial year ended 31 December 2018. The Group's current liabilities exceeded the current assets by approximately RMB544.9 million (31 December 2017 – RMB256.2 million; 1 January 2017 – RMB261.5 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 RMB175.4 million. As at 30 June 2019, the Group's current liabilities had exceeded its current assets by RMB905.1 million, and it had a deficit in its shareholder's funds of RMB134.4 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, when this fund can be made available to disburse for the use of paying the liabilities owing by the Group to the banks for RMB471.4 million as at 31 December 2018 is presently uncertain.

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 RMB166.1 million from the China Construction Bank Corporation, the Agricultural Bank of China and the Industrial and Commercial Bank of China in the PRC. These factors indicate the existence of a material uncertainty which may cast a significant doubt on the Group's ability to continue as a going concern. 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 RMB35 million owed by JJC to XCAIH.

The Group has plans to raise funds to meet its operational needs. On this basis, the financial statements of the Group have been prepared on going concern basis, which assume that the Group will continue in operation at least for a period of 12 months from the balance sheet date.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

3 Significant accounting estimates and judgements (Continued)

3.1 Significant judgements in applying accounting policies (Continued)

Related parties' transactions (Note 25 and Note 27)

Certain transactions were entered into with related parties to maintain the Group's existing credit facilities with the banks, which is a common practice carried out in the PRC. The Group presents the results of such transactions, when this presentation reflects the substance of the transaction by netting with related expenses arising on the same transaction. These transactions have been recognised on a net basis for financial reporting purposes.

Impairment of trade and other receivables (Note 16)

The Group and the Company assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group and the Company considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying amount of the receivables as well as impairment or write-back of impairment in the period in which such estimate has been changed. The carrying amount of the Group's and the Company's trade and other receivables at the end of the reporting period is disclosed in Note 16.

Impairment of Value-added tax ("VAT") recoverable (Note 14)

An impairment provision of RMB83,951,000 (2017 – Nil) was made as the chemical zone of which Jiangsu Jurong Petrochemicals Co., Ltd. ("JJP") operates was being ordered to shut down by the local government subsequent to the financial year ended 31 December 2018. The management is of the view that these amounts cannot be recovered from the tax authorities owing to the shut down of operation by the local government and the period of the shut down cannot be presently ascertained.

Impairment of non-financial assets (Note 9)

An impairment exists when the carrying amount of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value-in-use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing the asset. The value-in-use calculation is based on a discounted cash flow model.

**NOTES TO THE
FINANCIAL STATEMENTS**
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

3 Significant accounting estimates and judgements (Continued)

3.1 Significant judgements in applying accounting policies (Continued)

Impairment of non-financial assets (Note 9) (Continued)

During the year, the Group performed an impairment assessment on its property, plant and equipment.

(i) Jiangsu Jurong Chemical Co., Ltd. ("JJC")

As a result of the assessment, an impairment loss of RMB30,554,000 (2017 – RMB Nil) was recognised in profit or loss. The impairment amount was provided to write down the residual values of certain property, plant and equipment to its recoverable amount of nil for the financial year ended 31 December 2018 following the Chemical Explosion at the Xiangshui Chemical Industry Park where JJC was operating.

(ii) Jiangsu Jurong Petrochemical Co., Ltd. ("JJP")

As a result of the assessment, an impairment loss of RMB136,000,000 (2017 – RMB Nil) was recognised in profit or loss. The impairment amount was provided to write down the residual values of certain property, plant and equipment to its recoverable amount of Nil for the financial year ended 31 December 2018 following the Chemical Explosion at the Xiangshui Chemical Industry Park where JJP was operating.

(iii) Taixing Jurong Chemical Co., Ltd. ("Taixing Jurong")

As a result of the assessment and owing to the loss for the year of Taixing Jurong, an impairment loss of RMB32,476,000 (2017 – RMB Nil) was recognised in profit or loss. The impairment amount was provided with reference to the valuation conducted by an independent valuer on its certain plant and machinery at 12 February 2019, adjusted for various factors, to its fair value less cost to sales.

Contingent liabilities (Note 27(b))

As disclosed in Note 27(b), the Group has announced that it had received legal demands totalling RMB222.5 million in respect of financial guarantees issued to third parties in 2018. Subsequent to the findings by EY Advisory, on 5 March 2020, the Company has announced that following the completion of the special audit by EY Advisory and in view of the YFC Veracity Discrepancies (refer to Note 27(b)), the Company has reversed in full the provision of the YFC Contingent Liabilities of RMB180 million from the financial statements of the Group as at 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

3 Significant accounting estimates and judgements (Continued)

3.1 Significant judgements in applying accounting policies (Continued)

Depreciation of property, plant and equipment (Note 9)

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of property, plant and equipment to be within 3 to 20 years. The carrying amount of the Group's property, plant and equipment as at 31 December 2018 is RMB337.8 million (31 December 2017 – RMB1.1 billion; 1 January 2017 – RMB1.2 billion) respectively. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised. If depreciation on property, plant and equipment increases/decreases by 10% from the management's estimates, the Group's loss for the year will increase/decrease by approximately RMB33.8 million (2017 – RMB13.5 million).

Allowance for inventory obsolescence (Note 15)

The Group reviews the ageing analysis of inventories at the end of each reporting period and makes provision for obsolete and slow-moving inventory items identified that are no longer suitable for sale. The net realisable value for such inventories are estimated based primarily on the latest invoice prices and current market conditions. Possible changes in these estimates could result in revisions to the valuation of inventories.

If the net realisable value of the inventory increase/decrease by 10% from the management's estimates, the Group's loss will decrease/increase by RMB1.9 million (2017 – RMB10.9 million). The carrying amount of the inventory is disclosed in Note 15.

Impairment on investment in subsidiaries (Note 12)

The Group reviews the investment in subsidiaries at the end of the reporting period to determine whether there is any indication of impairment. An impairment exists when the carrying amount of an asset or cash generating units exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value-in-use.

The carrying amounts of investment in subsidiaries at the end of the reporting period are disclosed in Note 12.

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

92
SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

4 Principal activities and revenue

The principal activities of the Group are those relating to investment holding. The principal activities of the subsidiaries are as stated in Note 12(a).

Revenue of the Group consists of revenue from trading of chemical products.

	Continuing operations	
	2018	2017
	RMB'000	RMB'000
The Group		
Trading of chemical products – at a point in time	1,577,098	2,246,712

Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines and geographical regions. Revenue is attributed to countries by location of customers.

	Continuing operations	
	2018	2017
	RMB'000	RMB'000
The Group		
Geographical region		
– PRC	1,466,283	2,136,400
– Other countries in Asia	60,053	47,732
– Others	50,762	62,580
	1,577,098	2,246,712
Product lines		
– AA and AE	1,273,713	1,548,332
– Others	303,385	698,380
	1,577,098	2,246,712

Revenue recognised during the financial year from contract liabilities at the beginning of the financial year amounted to RMB17,322,000 (2017 – RMB11,262,000).

The Group applies the practical expedient in SFRS(I)15 and does not disclose information about its remaining performance obligation as the performance obligation is part of contracts that have original expected duration of one year or less.

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

93
SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

5 Other income

The Group	Continuing operations		Discontinued operations		Total	
	2018	2017	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Re-presented)				(Re-presented)	
5(a) Interest income						
Interest income from deposits with banks	1,822	585	771	3,403	2,593	3,988
5(b) Others						
Rental income	549	667	–	–	549	667
Reversal of inventory write-down	–	2,588	–	–	–	2,588
Sale of raw material, other spare parts, steam and provision of waste water treatment services	29,242	3,408	30,583	31,071	59,825	34,479
Exchange gain	1,076	–	–	–	1,076	–
Gain on disposal of property, plant and equipment	36	228	–	4	36	232
Gain on disposal of land use rights	9,429	–	–	–	9,429	–
Other miscellaneous income	1,603	6,327	983	(2,561)	2,586	3,766
	41,935	13,218	31,566	28,514	73,501	41,732

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

94

SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

6(a) Other operating expenses

The Group	Note	Continuing operations		Discontinued operations		Total	
		2018	2017	2018	2017	2018	2017
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Re-presented)				(Re-presented)	
Property, plant and equipment written off		–	14	2,863	693	2,863	707
Cost of raw material and steam sold and provision of waste water treatment services		25,628	2,824	16,805	25,672	42,433	28,496
Employee compensation		–	866	–	–	–	866
Penalty		1	–	2,614	1,379	2,615	1,379
Prepayment written-off		–	5,691	–	–	–	5,691
Inventory written-off		–	–	–	751	–	751
Impairment loss of property, plant and equipment	9	199,030	–	–	–	199,030	–
Contingent liabilities for financial guarantees issued to third parties	27(b)	42,500	–	–	–	42,500	–
Impairment loss on value-added tax recoverable	14	83,951	–	–	–	83,951	–
Impairment loss on prepayment	16	19,625	–	–	–	19,625	–
Restoration and dismantle charges	23	45,573	–	–	–	45,573	–
Share of operating expenses of disposal group classified as held for sale [#]		89,502	–	–	–	89,502	–
Other miscellaneous expenses		4,222	3,910	1,326	(2,561)	5,548	1,349
		510,032	13,305	23,608	25,934	533,640	39,239

This related to share of the fixed costs, depreciation and amortisation incurred by disposal group classified as held for sale, Taixing Sunke, as a result of "stop of supply" order implemented against Taixing Jurong which was stipulated in the products supply agreement between Taixing Sunke and Taixing Jurong.

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

95
SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

6(b) Finance costs

	Continuing operations		Discontinued operations		Total	
	2018	2017	2018	2017	2018	2017
The Group	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Re-presented)					(Re-presented)
Interest paid and payable to banks	73,062	73,365	7,097	8,269	80,159	81,634

6(c) Loss before taxation

Loss before taxation has been arrived at after charging/(crediting):

	Note	Continuing operations		Discontinued operations		Total	
		2018	2017	2018	2017	2018	2017
The Group		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Re-presented)					(Re-presented)
Audit fees paid to:							
– auditor of the Company		1,934	2,056	–	–	1,934	2,056
– others		269	–	180	–	449	–
Cost of inventories included in cost of sales	15	1,467,373	1,495,732	–	–	1,467,373	1,495,732
Net foreign exchange loss/(gain)		1,753	(6,748)	4,054	2,561	5,807	(4,187)
Staff costs		33,936	30,553	16,729	21,750	50,665	52,303
Contributions to defined contribution plans, included in staff costs		3,710	3,391	750	3,358	4,460	6,749
Depreciation of property, plant and equipment	9	109,654	38,714	77,644	96,339	187,298	135,053
Impairment loss of trade receivables	16	–	355	–	–	–	355
Amortisation of intangible assets	10	812	692	82	82	894	774
Amortisation of land use rights	11	1,334	886	518	518	1,852	1,404
Severance compensation	22	12,700	–	–	–	12,700	–
Operating lease expense		887	445	397	330	1,284	775
Directors' fees		250	491	–	–	250	491

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

96

SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

7 Taxation

The Group	2018 RMB'000	2017 RMB'000
From Continuing operations:		
Current taxation	37	739
Under provision in respect of previous years		
– Current taxation	563	279
	600	1,018
From Discontinued operations (Note 12(c)):		
Current taxation	2,677	5,072
Under/(over) provision in respect of previous years		
– Current taxation	7,330	(386)
	10,007	4,686
	10,607	5,704

The tax on the Group's results before tax differs from the theoretical amount that would arise using the applicable rate of income tax in each national jurisdiction as follows:

The Group	2018 RMB'000	2017 RMB'000
Profit before tax from:		
– Continuing operations	(685,841)	(53,999)
– Discontinued operations (Note 12(c))	23,052	36,840
	(662,789)	(17,159)
Income tax using applicable tax rates	(165,654)	(21,465)
Adjustments:		
Non-taxable income ⁽¹⁾	(3,086)	(4,014)
Non-deductible expenses ⁽²⁾	93,888	2,008
Under/(Over)-provision in respect of previous years	7,893	(107)
Deferred tax assets not recognised ⁽³⁾	77,684	31,592
Utilisation of deferred tax assets on temporary difference not recognised in previous years	(56)	(2,109)
Tax incentives	(62)	(123)
Others	–	(78)
	10,607	5,704

(1) This relates to capital gain that is not subject to tax.

(2) This is mainly related to impairment loss of property, plant and equipment of RMB199.0 million (Note 9), impairment loss of VAT recoverable of RMB83.9 million (Note 14), impairment loss on prepayment of RMB19.6 million (Note 16), provision for restoration of RMB45.6 million (Note 23) and the provision for contingent liabilities of RMB42.5 million in respect of the financial guarantee (Note 27(b)) made during the current financial year.

(3) Deferred tax asset has not been recognised as it is not probable that future taxable profits will be available against which the relevant subsidiaries can utilise the benefits (Note 13).

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

97
SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

7 Taxation (Continued)

The above reconciliation is prepared by aggregating separate reconciliation for each national jurisdiction.

JJC, JJP, Taixing Jurong, Yixing Yinyan Import and Export Co., Ltd. ("YYIE") and Taixing Sunke are subject to the PRC income taxes rate at 25% (2017 – 25%) on their taxable profit.

Sunvic Chemical Holdings Limited, Dynix Pte. Ltd. and SunVic Asia Pacific Investments Holdings Pte. Ltd. are subject to Singapore income tax rate at 17% (2017 – 17%) on its taxable profit.

8 Loss per share

Basic loss per share is calculated by dividing the net loss attributable to owners of the Company by the weighted average number of ordinary shares in issue of 532,001,000 (2017 – 532,001,000) shares during the financial year.

	Continuing operation		Discontinued operation		Total	
	2018	2017	2018	2017	2018	2017
The Group	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Re-presented)					(Re-presented)
Net (loss)/profit attributable to owners of the Company (RMB'000)	<u>(643,723)</u>	<u>(52,476)</u>	<u>13,045</u>	<u>32,154</u>	<u>(630,678)</u>	<u>(20,322)</u>
Weighted average number of ordinary shares outstanding for basic earnings per share ('000)	<u>532,001</u>	<u>532,001</u>	<u>532,001</u>	<u>532,001</u>	<u>532,001</u>	<u>532,001</u>
Basic (loss)/earnings per share (RMB cents per share)	<u>(121.0)</u>	<u>(9.9)</u>	<u>2.5</u>	<u>6.1</u>	<u>(118.5)</u>	<u>(3.8)</u>
Diluted (loss)/earnings per share (RMB cents per share)	<u>(121.0)</u>	<u>(9.9)</u>	<u>2.5</u>	<u>6.1</u>	<u>(118.5)</u>	<u>(3.8)</u>

For the purpose of calculating diluted loss per share, loss attributable to owners of the parent of the Company and the weighted average number of ordinary shares outstanding are adjusted for the effects of all dilutive potential shares. As there are no dilutive potential ordinary shares that were outstanding during the year, the basic earnings per share is the same as the diluted earnings per share.

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

98

SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

9 Property, plant and equipment

The Group	Leasehold buildings RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction work-in-progress RMB'000	Total RMB'000
<u>Cost</u>						
At 1 January 2017	674,925	2,298,120	17,030	25,161	273,030	3,288,266
Additions	2,762	1,269	415	–	69,960	74,406
Disposals	(1,236)	(15,834)	(389)	(51)	(209)	(17,719)
Reclassifications	51,478	40,609	1,975	119	(102,781)	(8,600)
At 31 December 2017	727,929	2,324,164	19,031	25,229	240,000	3,336,353
Additions	4	280	216	–	6,329	6,829
Disposals	(1,523)	(28,671)	(39)	(2,996)	–	(33,229)
De-recognition of Joint Operation (Note 12(c))	(112,586)	(692,199)	(6,693)	(1,116)	(12,316)	(824,910)
Reclassifications	26,337	111,869	–	–	(143,656)	(5,450)
At 31 December 2018	640,161	1,715,443	12,515	21,117	90,357	2,479,593
<u>Accumulated depreciation and impairment losses</u>						
At 1 January 2017	374,568	1,674,707	8,626	22,996	810	2,081,707
Depreciation	26,127	105,737	2,271	918	–	135,053
Disposals	(212)	(15,158)	(359)	(31)	–	(15,760)
At 31 December 2017	400,483	1,765,286	10,538	23,883	810	2,201,000
Depreciation	33,769	73,921	1,305	659	–	109,654
Impairment loss recognised	–	199,030	–	–	–	199,030
Disposals	(803)	(28,459)	(37)	(2,987)	–	(32,286)
De-recognition of Joint Operation (Note 12(c))	(62,710)	(267,947)	(4,077)	(838)	–	(335,572)
Reclassification	24,531	(27,531)	3,000	–	–	–
At 31 December 2018	395,270	1,714,300	10,729	20,717	810	2,141,826
Net carrying amount						
At 31 December 2018	244,891	1,143	1,786	400	89,547	337,767
At 31 December 2017	327,446	558,878	8,493	1,346	239,190	1,135,353
At 1 January 2017	300,357	623,413	8,404	2,165	272,220	1,206,559

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

99
SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

9 Property, plant and equipment (Continued)

The Company

Furniture and fixture	RMB'000
Cost	
At 1 January 2017 and 31 December 2017	–
Additions	45
At 31 December 2018	45
Accumulated depreciation and impairment losses	
At 1 January 2017 and 31 December 2017	–
Depreciation	12
At 31 December 2018	12
Net carrying amount	
At 31 December 2018	33
At 1 January 2017 and 31 December 2017	–

(a) Impairment assessments during the year ended 31 December 2018

The details of the property, plant and equipment held by the companies within the Group are as follows:

	JJC	JJP	TXJC	YYIE	The Company	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount	91,425	151,465	293,365	509	33	536,797
Less: Impairment loss						
Recognised in 2018	(30,554)	(136,000)	(32,476)	–	–	(199,030)
Net book value	60,871	15,465	260,889	509	33	337,767
Note	(i)	(ii)	(iii)			

i.m: immaterial

(a) Impairment assessment

(i) JJC

As announced in the previous announcement dated 27 March 2019 and 8 April 2019, it was reported that the local Xiangshui government had decided to completely shut down the chemical zone at the Xiangshui Chemical Industry Park in Yancheng city, Jiangsu Province, PRC, in which a severe explosion occurred where JJC was operating.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

9 Property, plant and equipment (Continued)

(a) Impairment assessments during the year ended 31 December 2018 (Continued)

(a) Impairment assessment (Continued)

(i) JJC (Continued)

In view of the shut down, there is material uncertainty in JJC's ability to generate future economic cash inflow from its property, plant and equipment. During the current financial year, the management made an impairment loss of RMB30.6 million on the plant and machinery of JJC on the prudent assumption that these plants will be permanently shut down. At the end of the reporting period, the accumulated impairment losses on the JJC's plant and machinery amounted to RMB1,045,434,000 (31 December 2017 – RMB1,014,880,000; 1 January 2017: RMB1,014,880,000).

(ii) JJP

The Group has an 82.1% owned subsidiary in the PRC, JJP which owned a cracking plant and a methyl tertiary-butyl ether (MTBE) Plant.

As announced in the previous announcement dated 27 March 2019 and 8 April 2019, it was reported that the local Xiangshui government had decided to completely shut down the chemical zone at the Xiangshui Chemical Industry Park in Yancheng city, Jiangsu Province, PRC, in which a severe explosion occurred where JJP was operating.

During the current financial year, the management made an impairment loss of RMB136.0 million on the plant and machinery of JJP on the prudent assumption that these plants will be permanently shut down. At the end of the reporting period, the accumulated impairment losses on the JJP's plant and machinery amounted to RMB228,662,000 (31 December 2017 – RMB92,662,000; 1 January 2017: RMB92,662,000).

(iii) Taixing Jurong

An impairment loss of RMB32.4 million was recognised in profit or loss for the year ended 31 December 2018 in respect of the property, plant and equipment of Taixing Jurong. The impairment loss was undertaken in view of the net loss suffered by Taixing Jurong following a valuation performed by an independent professional valuer. At the end of the reporting period, the accumulated impairment losses on the Taixing Jurong's plant and machinery amounted to RMB60,461,000 (31 December 2017 – RMB27,985,000; 1 January 2017: RMB27,985,000).

Certain land use rights of Taixing Jurong are subject to the Taixing Sunke arbitration proceeding (Note 12(c)).

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

101
SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

9 Property, plant and equipment (Continued)

(a) Impairment assessments during the year ended 31 December 2018 (Continued)

(b) Security

As at 31 December 2018, property, plant and equipment of the Group with a carrying amount of RMB289,730,000 (31 December 2017 – RMB22,950,000; 1 January 2017 – RMB540,101,000) were pledged as security to secure bank loans (Note 21).

(c) Construction work-in-progress as at 31 December 2018 mainly relates to the construction of an electricity substation, office building and preliminary preparation work in the Economic Development Zone of Taixing City, the PRC, for future construction of chemical production facility. As at 31 December 2018, the capitalised costs amounted to RMB75,200,000 (31 December 2017 – RMB220,420,000; 1 January 2017 – RMB253,240,000).

(d) As at 31 December 2018, the accumulated impairment loss on property, plant and equipment for the Group is RMB1,334,557,000 (31 December 2017 – RMB1,135,527,000; 1 January 2017 – RMB1,135,527,000).

10 Intangible assets

	Technology know-how RMB'000	Computer software RMB'000	Total RMB'000
The Group			
<u>Cost</u>			
At 1 January 2017	12,557	3,083	15,640
Additions	–	2	2
Transfer from construction-in-progress	–	116	116
At 31 December 2017	12,557	3,201	15,758
Disposal of joint operation	–	(1,127)	(1,127)
Transfer from construction-in-progress	–	291	291
At 31 December 2018	12,557	2,365	14,922
<u>Accumulated amortisation</u>			
At 1 January 2017	4,445	1,280	5,725
Amortisation charge	465	309	774
At 31 December 2017	4,910	1,589	6,499
Amortisation charge	478	334	812
Disposal of joint operation	–	(274)	(274)
At 31 December 2018	5,388	1,649	7,037
<u>Net carrying amount</u>			
At 31 December 2018	7,169	716	7,885
At 31 December 2017	7,647	1,612	9,259
At 1 January 2017	8,112	1,803	9,915

Technology know-how relates to production technology and is assessed to have finite useful life of 10 years in view of the changing technology in the chemical industry.

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

102

SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

11 Land use rights

	31 December 2018 RMB'000	31 December 2017 RMB'000	1 January 2017 RMB'000
The Group			
Cost			
At 1 January	66,319	54,514	54,514
Disposal of Joint Operation (Note 12(c))	(12,258)	–	–
Disposals	(3,147)	–	–
Transfer from non-current asset held for sale	–	11,805	–
At 31 December	50,914	66,319	54,514
Accumulated amortisation			
At 1 January	7,146	5,742	4,366
Disposal of Joint Operation (Note 12(c))	(2,243)	–	–
Disposals	(223)	–	–
Amortisation charge	1,334	1,404	1,376
At 31 December	6,014	7,146	5,742
Net carrying amount			
At 31 December	44,900	59,173	48,772
The Group			
Amount to be amortised:			
– Not later than one year	1,334	1,404	857
– Later than one year but not later than five years	5,337	5,616	3,427
– Later than five years	38,229	52,153	44,488
	44,900	59,173	48,772

(a) The Group has land use rights over 8 plots of state-owned land in the PRC where the Group's PRC manufacturing and storage facilities reside. The land use rights have a remaining average tenure of 35 years (31 December 2017 – 36 years; 1 January 2017 – 37 years).

(b) Freehold land in Louisiana –

Included in land use rights were freehold land in Louisiana of RMB12,372,000 (31 December 2017 – RMB11,805,000; 1 January 2017: RMB Nil (classified as non-current assets held for sale (Note 18)).

In the financial year end 2017, the transfer of land use right from non-current assets held for sale relates to the freehold land in Louisiana amounting to RMB11,805,000 (1 January 2017 – classified under non-current assets held for sale).

(c) The Group disposed land use rights of leasehold land in Taixing Jurong to a third party for consideration of RMB12,920,000 for the financial year ended 31 December 2018. The Group recognised a gain on sales of land use rights of RMB9,429,000 for the financial year ended 31 December 2018 (Note 5).

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

103
SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

11 Land use rights (Continued)

- (d) As at 31 December 2018, land use rights of the Group with a carrying amount of RMB27,864,479 (2017 – RMB23,376,000) are pledged as security to secure bank loans (Note 21).
- (e) Certain land use rights of Taixing Jurong are subject to the Taixing Sunke arbitration proceeding (Note 12(c)).

12(a) Investment in subsidiaries

	31 December 2018 RMB'000	31 December 2017 RMB'000	1 January 2017 RMB'000
The Company			
Unquoted equity investments, at cost	399,884	399,884	399,884
Less: Accumulated impairment losses			
Balance at beginning	(57,261)	(57,261)	(57,261)
Impairment charge	–	–	–
Balance at end	(57,261)	(57,261)	(57,261)
	342,623	342,623	342,623

Details of subsidiaries are as follows:

Name of subsidiary	Country of incorporation/ and operation	Principal activities	Proportion of ownership interest and voting rights held by non-controlling interests		
			31.12.2018	31.12.2017	1.1.2017
			%	%	%
Held by the Company:					
Dynix Pte. Ltd. ⁽¹⁾	Singapore	Import and export of chemical products	100	100	100
Jiangsu Jurong Chemical Co., Ltd. ⁽²⁾	PRC	Manufacture and sale of chemical products	100	100	100
SunVic Asia Pacific Investments Holdings Pte. Ltd. ("SVAP") ⁽¹⁾	Singapore	Investment holding	42.4	42.4	42.4
Held through Dynix:					
Jurong Chemical LLC ⁽⁴⁾	United States of America ("USA")	Trading business and provision of after-sales services	100	100	100
Link Way Trading Limited ("LWT") ⁽⁴⁾	British Virgin Islands ("BVI")	Import and export of chemical products	100	100	100
Held through LWT:					
Link Way Louisiana LLC ⁽⁴⁾	USA	Trading business and provision of after-sales services	100	100	100

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

104
SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

12(a) Investment in subsidiaries (Continued)

Details of subsidiaries are as follows: (Continued)

Name of subsidiary	Country of incorporation/ and operation	Principal activities	Proportion of ownership interest and voting rights held by the Group		
			31.12.2018	31.12.2017	1.1.2017
			%	%	%
Held through JJC:					
Yinyan Products Quimicos Ltd. ⁽⁵⁾	Brazil	Import and export of chemical products	–	–	100
Yixing Yinyan Import and Export Co., Ltd. ⁽²⁾	PRC	Import and export of chemical products	100	100	100
Yinyan Argentina SA ⁽³⁾	Argentina	Import and export of chemical products	100	100	100
Taixing Jurong Chemical Co., Ltd. ⁽²⁾	PRC	Manufacture and sale of chemical products	100	100	100
Jiangsu Jurong Petrochemicals Co., Ltd. ⁽²⁾	PRC	Manufacture and sale of chemical products	82.1	82.1	82.1
Held through TJC:					
Taixing Sunke Chemicals Co., Ltd. ⁽²⁾	PRC	Manufacture and sale of chemical products	#	#	#

(1) Audited by Foo Kon Tan LLP, Singapore, Public Accountants and Chartered Accountants

(2) Audited by HLB Liaoning Zhongheng CPAs Co., Ltd., PRC, a member firm of HLB International, for the purpose of consolidation

(3) Unaudited, dormant

(4) Not required to be audited in the country of incorporation

(5) Strike off on 30 October 2017

The Group has 45% equity interest in Taixing Sunke which is accounted for as joint operation (Note 12(b)) and classified as disposal group classified as held for sale and discontinued operations in 2018.

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

105
SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

12(a) Investment in subsidiaries (Continued)

Investment in SVAP

- (i) Notwithstanding that Company has only a 42.4% equity interest in SVAP, it considers that it has control over SVAP because Whitefield Capital Inc. owns the remaining 57.6% equity interest in SVAP and is a related party to the Company whereby the majority of the key management personnel in SVAP are the same of those of the Company. Consequently, SVAP is accounted for as a subsidiary in the Group.
- (ii) Summarised financial information of subsidiaries with material non-controlling interests

Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group. These are presented before inter-company eliminations. There were no transactions with non-controlling interests for the financial year ended 31 December 2018, 31 December 2017 and 1 January 2017.

Name of subsidiary	Country of incorporation/ and operation	Principal activities	Proportion of ownership interest and voting rights held by non-controlling interests		
			31.12.2018	31.12.2017	1.1.2017
			%	%	%
Jiangsu Jurong Petrochemicals Co., Ltd.	PRC	Manufacture and sale of chemical products	17.9	17.9	17.9
			31 December 2018	31 December 2017	1 January 2017
			RMB'000	RMB'000	RMB'000
<u>Summarised statement of financial position</u>					
Current					
Assets			10,601	16,765	21,852
Liabilities			(782,624)	(792,172)	(792,302)
Total net current liabilities			(772,023)	(775,407)	(770,450)
Non-current					
Assets			25,809	267,737	285,994
Net liabilities			(746,214)	(507,670)	(484,456)

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

106
SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

12(a) Investment in subsidiaries (Continued)

Investment in SVAP (Continued)

	2018 RMB'000	2017 RMB'000
<u>Summarised income statement</u>		
Revenue	8,904	27,390
Expenses	(247,447)	(41,502)
Loss before income tax	(238,543)	(14,112)
Income tax expense	–	–
Loss after tax	(238,543)	(14,112)
Other comprehensive income	–	–
Total comprehensive loss	(238,543)	(14,112)
Total comprehensive loss allocated to non-controlling interests	(42,699)	(2,526)
Dividends paid to non-controlling interests	–	–
	2018 RMB'000	2017 RMB'000
<u>Summarised cash flows</u>		
Cash flows (used in)/generated from operating activities	(746)	443
Cash flows generated from investing activities	58	–
Net (decrease)/increase in cash and cash equivalents	(688)	443

12(b) Investment in joint operation

The Group holds 45% equity interest in the joint operation, Taixing Sunke, through its wholly owned subsidiary Taixing Jurong. The joint operation has been classified as disposal group classified as held for sale and discontinued operations in 2018 (Note 12(c)).

Details of joint operation are as follows:

<u>Name of joint operation</u>	<u>Country of incorporation</u>	<u>Principal activities</u>	<u>Proportion of ownership interest and voting rights held</u>	
			<u>31.12.2017</u>	<u>1.1.2017</u>
			%	%
Taixing Sunke	The PRC	Manufacture and sale of chemical products	45	45

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

107
SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

12(b) Investment in joint operation (Continued)

The Group consolidates its 45% share of assets, liabilities, revenues and expenses of its joint operation.

	31 December 2017 RMB'000	1 January 2017 RMB'000
<u>Summarised statement of financial position</u>		
Assets		
Property, plant and equipment	1,934,214	2,089,756
Land use rights	49,721	50,871
Intangible assets	1,485	1,407
Long-term prepayments	13,394	–
Inventories	145,797	94,558
Trade and other receivables	535,906	639,304
Cash and cash equivalents	233,262	346,831
Total assets	2,913,779	3,222,727
Liabilities		
Trade and other payables	(660,305)	(948,024)
Bank borrowing	(340,000)	(400,000)
Income tax payable	(9,641)	(6,677)
Total liabilities	(1,009,946)	(1,354,701)
Net assets	1,903,833	1,868,026
		31 December 2017 RMB'000
<u>Summarised of statement of profit or loss and total comprehensive income</u>		
Revenue		2,545,868
Expenses		(2,513,714)
Profit for the period		32,154
Dividend received from joint operation		–
		2017 RMB'000
<u>Summarised cash flows</u>		
Cash flows generated from operating activities		59,684
Cash flows used in investing activities		(113,253)
Cash flows used in financing activities		(60,000)
Net decrease in cash and cash equivalents		(113,569)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

12(c) Disposal group classified as held for sale

On 2 November 2018, the management has informed the Board of Directors of the Company that an arbitration proceeding was commenced on 27 August 2018 against Taixing Jurong, a wholly-owned subsidiary of the Company, in China International Economic and Trade Arbitration Commission (“CIETAC”) by Taixing Sunke, which is a 45%-55% joint venture between Taixing Jurong and Arkema Asie SAS respectively. The arbitration proceeding was commenced by Taixing Sunke against Taixing Jurong for monies amounting to approximately RMB404 million which are due and owing by Taixing Jurong to Taixing Sunke in respect of Acrylic Acid and Acrylate Esters provided by Taixing Sunke to Taixing Jurong. Taixing Sunke had applied injunctions against Taixing Jurong to freeze effectively all of the assets of Taixing Jurong up to the amount claimed under the arbitration proceeding (the “Injunctions”) and was granted the Injunctions by Taizhou City Intermediate People’s Courts of the People’s Republic of China on 31 August 2018.

Taixing Jurong has entered into a binding letter of intent (“LOI”) with Arkema Asie SAS (the “Purchaser”) on 5 November 2018. Pursuant to the LOI, Taixing Jurong has committed to, amongst others, dispose of its 45% equity interest in the share capital (the “Sale Shares”) of Taixing Sunke, to the Purchaser (or any of its affiliates) (the “Proposed Disposal”).

Pursuant to the LOI, Taixing Jurong and the Purchaser have agreed that the consideration for the Proposed Disposal shall be RMB700.0 million plus Amount X (as defined below) (the “Transfer Price”). Under the Amended and Restated Product Supply Agreement signed between Taixing Jurong and Taixing Sunke on 18 June 2016, Taixing Jurong is liable to pay (i) the fixed costs and a markup fee of 10% accrued from the later of the date on which the Transaction Documents are entered into or 31 December 2018 until the Closing Date, and (ii) depreciation and amortisation and a mark-up fee of 10% accrued from 1 October 2018 until the Closing Date (items (i) and (ii) being collectively referred to the “Amount X”). Amount X is estimated to be RMB108.7 million if Closing Date falls on 30 April 2019 and will vary if the Closing Date is earlier than 30 April 2019.

Taixing Jurong and the Purchaser further agreed that within two (2) business days from the date of the LOI, the Purchaser will procure Taixing Sunke to apply to the CIETAC to suspend the arbitration proceedings commenced against Taixing Jurong and within five (5) business days upon receipt by Taixing Jurong of the Acknowledgement of the Amount X, the Purchaser will procure Taixing Sunke to apply to CIETAC to withdraw the injunctions granted and the arbitration commenced against Taixing Jurong. The estimated net proceeds from the Proposed Disposal is RMB377.1 million.

Taixing Sunke, Taixing Jurong, Arkema Asie and Arkema (China) Investment Co., Ltd. (“Arkema (China)” and together with Arkema Asie, the “Purchasers”), have entered into the Equity Transfer Agreement on 30 January 2019 in respect of the Proposed Disposal. Arkema (China) is a foreign investment holding company incorporated in the PRC, and is a wholly-owned subsidiary of Arkema Asie SAS.

**NOTES TO THE
FINANCIAL STATEMENTS**
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

12(c) Disposal group classified as held for sale (Continued)

Pursuant to the Notice of Compliance by the Singapore Exchange Regulation (“SGX Regco”), as announced by the Company on 13 February 2019, pending the outcome of the Audit Committee’s investigations into the veracity of the YFC and BOC Loans and the circumstances surrounding the purported unauthorised Corporate Guarantees, SGX Regco directs the Company to:

- (i) Place the proceeds from the Proposed Disposal in an Escrow Account (“Escrow Account”) to be operated jointly by the independent directors of the Company, resident in Singapore;
- (ii) All receipts from the Proposed Disposal must be paid into the Escrow Account; and
- (iii) The amounts in the Escrow Account cannot be withdrawn until the completion of the investigations and agreed by the Exchange, save for the settlement of expenses and intercompany debts as set out in the Payment Terms of the Equity Transfer Agreement.

The Notice of Compliance by SGX Regco has been incorporated in the Circular to Shareholders for the Proposed Disposal of Taxing Sunke dated 29 June 2019.

As a safeguard to ensure the compliance with the Notice of Compliance and such other directions of the SGX-ST with regard to the Escrow Account, by way of a letter from Taixing Jurong to the Purchasers dated 17 June 2019 (hereinafter referred to as the Taixing Jurong Letter) and with a copy provided to the SGX-ST, Taixing Jurong had requested, agreed and acknowledged that, notwithstanding any provisions in the Equity Transfer Agreement, the Purchasers shall not be obliged to remit the Transfer Price to Taixing Jurong unless and until the following conditions are satisfied:

- (i) the SGX-ST has given its approval or its no objection in writing to the Purchasers with respect to the selection of the Escrow Agent and terms and conditions of the Escrow Agreement;
- (ii) the Escrow Agreement has been duly signed by the parties thereto; and
- (iii) the Escrow Account has been opened in compliance with applicable laws and regulations in the PRC and the Escrow Agreement and to the satisfaction of all the SGX-ST Escrow Requirements, (collectively, hereinafter referred to as the Escrow Account Conditions). Such request, agreement and acknowledgement by Taixing Jurong to the Purchasers are irrevocable save with the prior approval of the SGX-ST in writing.

By way of a letter from the Purchasers to the SGX-ST dated 17 June 2019 (hereinafter referred to as the Purchasers Letter) and with a copy provided to Taixing Jurong, the Purchasers had provided their undertaking to the SGX-ST that they shall not remit the Transfer Price to Taixing Jurong unless and until the Escrow Account Conditions are satisfied.

On 15 July 2019, the shareholders of the Company had approved of the Proposed Disposal of Taixing Sunke to the Purchasers.

The Proposed Disposal has been completed on 7 August 2019. The arbitration and injunction to freeze the assets of Taixing Jurong have been withdrawn as of the date of these financial statements.

In compliance with SFRS(I) 5 – *Non-current assets held for sale and discontinued operations*, the Proposed Disposal of Taixing Sunke has been presented under discontinued operations in the consolidated statement of profit or loss and other comprehensive income as the Proposed Disposal represents a significant joint operation of the Group that was proportionately consolidated in prior years. Comparative figures have been re-presented.

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

110
SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

12(c) Disposal group classified as held for sale (Continued)

An analysis of the results of discontinued operations, and the results recognised on the remeasurement of the disposal group were as follows:

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2017 RMB'000
Summarised statement of comprehensive income		
Revenue*	1,308,078	1,145,640
Cost of sales*	(1,304,341)	(1,084,884)
Gross profit	3,737	60,756
Other operating income	72,621	31,917
Selling and distribution expense	(2,680)	(2,603)
Administrative expense	(19,921)	(19,027)
Other operating expenses	(23,608)	(25,934)
Finance costs	(7,097)	(8,269)
Profit before taxation	23,052	36,840
Taxation	(10,007)	(4,686)
Profit after taxation from discontinued operations	13,045	32,154

* Share of revenue and cost of sales of Taixing Sunke has being fully eliminated to the extent of Taixing Jurong's share of the revenue and cost of sales of Taixing Sunke.

The impact of the discontinued operations on the cash flows of the Group was as follows:

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2017 RMB'000
Summarised cash flows		
Cash flows generated from operating activities	35,545	26,858
Cash flows used in investing activities	(51,221)	(50,964)
Cash flows used in financing activities	(41,409)	(27,000)
Net decrease in cash and cash equivalents	(57,085)	(51,106)

Assets directly associated with disposal group classified as held for sale:

	Year ended 31 December 2018 RMB'000
Property, plant and equipment	489,338
Land use right	10,015
Intangible asset	853
Inventories	45,143
Trade and other receivables	198,651
Cash and cash equivalents	47,883
	791,883

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

111
SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

12(c) Disposal group classified as held for sale (Continued)

Liabilities directly associated with disposal group classified as held for sale:

	Year ended 31 December 2018 RMB'000
Trade and other payables	285,368
Long-term borrowings	114,750
	400,118

13 Deferred taxation

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority. The amounts, determined after appropriate offsetting, are shown on the statement of financial position as follows:

	31 December 2018 RMB'000	31 December 2017 RMB'000	1 January 2017 RMB'000
The Group			
Deferred tax assets			
– To be recovered after one year	–	24,430	24,430
Deferred tax liabilities			
– To be settled after one year	(7,500)	(7,500)	(7,500)

The balance comprises tax on the following temporary differences:

	Excess of net book value over tax written down value of qualifying property, plant and equipment RMB'000	Unappropriated profits RMB'000	Total RMB'000
The Group			
At 31 December 2018	–	(7,500)	(7,500)
At 31 December 2017, 1 January 2017	24,430	(7,500)	16,930

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

13 Deferred taxation (Continued)

Unrecognised deferred tax liabilities

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on the dividends to foreign investors from foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is tax treaty between the PRC and the jurisdiction of the foreign investor. The Group made provision for deferred tax liabilities on withholding tax at 5% of the retained earnings of all its PRC subsidiaries.

As at 31 December 2018, the aggregate amount of temporary differences relating to undistributed profits of subsidiaries for which deferred tax liabilities have not been recognised is RMB545,831,000 (31 December 2017 – RMB969,140,000; 1 January 2017 – RMB1,103,353,000). Unutilised tax liability totalling approximately RMB27,220,000 (31 December 2017 – RMB48,383,000; 1 January 2017 – RMB55,168,000) has not been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following temporary differences:

	31 December 2018 RMB'000	31 December 2017 RMB'000	1 January 2017 RMB'000
The Group			
Tax losses	832,483	347,495	347,959
Deductible temporary difference	2,008,142	1,639,620	1,522,798
	2,840,625	1,987,115	1,870,757

The Group has unabsorbed tax losses amounting to approximately RMB832,483,000 (31 December 2017 – RMB347,495,000; 1 January 2017 – RMB347,959,000) that will expire between 2019 to 2021 and which are subject to agreement with the relevant tax authorities. These unabsorbed tax losses can be carried forward for offsetting against future taxable income provided that the provisions of the relevant tax legislations are complied with. There is no expiration date on deductible temporary difference amounting to RMB1,839,666,000 (31 December 2017 – RMB1,639,620,000; 1 January 2017 – RMB1,522,798,000).

Unutilised tax benefits totalling approximately RMB628,091,000 (31 December 2017 – RMB495,458,000; 1 January 2017 – RMB465,975,000) arising from deductible temporary difference and tax losses had not been recognised as there was no reasonable certainty of their realisation in the future.

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

113
SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

14 Value-added tax recoverable

	31 December 2018 RMB'000	31 December 2017 RMB'000	1 January 2017 RMB'000
The Group			
Value-added tax recoverable	–	84,931	86,380

Value-added tax recoverable pertains to the tax recoverable on the purchase of property, plant and equipment by JJP since financial year 2014.

An impairment provision of RMB83,951,000 (2017 – Nil) was made as the chemical zone of which JJP operates was being ordered to shut down by the local government subsequent to financial year ended 31 December 2018.

15 Inventories

	31 December 2018 RMB'000	31 December 2017 RMB'000	1 January 2017 RMB'000
The Group			
<u>At cost</u>			
Raw materials	5,306	47,908	32,981
Packaging materials	3,051	3,037	2,738
Goods-in-transit	–	–	9,772
	8,357	50,945	45,491
<u>At net realisable value</u>			
Finished goods	9,937	53,833	32,313
Work-in-progress	250	4,354	4,089
	10,187	58,187	36,402
	18,544	109,132	81,893

	2018 RMB'000	2017 RMB'000
		(Re-presented)
<u>Statement of profit or loss and other comprehensive income:</u>		
Continuing operation		
Inventories recognised as an expense in cost of sales (Note 6(c))	1,467,373	1,495,732
Inventories recognised as an expense in other operating expenses (Note 6(a))	25,628	2,824
Inclusive of the following credit:		
– Reversal of inventory write-down (Note 5(a))	–	(2,588)

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

114
SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

15 Inventories (Continued)

The reversal of inventory write-down was made when the related inventories were sold above their carrying amounts.

Inventories amounting to RMB8,543,000 (31 December 2017 – RMB43,292,000 and 1 January 2017 – RMB38,499,000) relate to inventories that are located in the Xiangshui Chemical Industry Park that have been shut down by the local government.

16 Trade and other receivables

	Group			Company		
	31.12.2018 RMB'000	31.12.2017 RMB'000	1.1.2017 RMB'000	31.12.2018 RMB'000	31.12.2017 RMB'000	1.1.2017 RMB'000
Trade receivables						
Trade receivables						
– third parties	40,335	121,338	201,269	315	340	374
– joint operation	76,731	119,683	239,390	–	–	–
– related parties	542,863	486,177	349,317	–	–	–
– subsidiaries	–	–	–	37,718	32,058	29,884
Notes receivable	1,168	102,139	65,423	–	–	–
	661,097	829,337	855,399	38,033	32,398	30,258
Loss allowances						
Balance at beginning of the year	(1,092)	(737)	(479)	–	–	–
Allowances	–	(355)	(258)	–	–	–
Reversal of loss allowance	80	–	–	–	–	–
Balance at end of the year	(1,012)	(1,092)	(737)	–	–	–
Net trade receivables, current	660,085	828,245	854,662	38,033	32,398	30,258
Other receivables						
Non-trade amounts due from subsidiaries	–	–	–	14,793	14,076	14,825
Other receivables	44,480	70,391	34,662	122	118	194
Prepayments						
– Long-term prepayment						
– current	–	1,592	–	–	–	–
– Other prepayments	18,471	3,736	21,084	351	391	–
Advances to suppliers	38,758	–	–	–	–	–
Less: Loss allowance	(19,625)	–	–	–	–	–
Advance to suppliers, net	19,133	–	–	–	–	–
Value-added tax recoverable	9,539	50,986	79,891	–	13	6
Total other receivables, current	91,623	126,705	135,637	15,266	14,598	15,025
Total trade and other receivables, current	751,708	954,950	990,299	53,299	46,996	45,283
Non-current						
Long-term prepayment						
– due after one year	–	6,027	–	–	–	–
Total trade and other receivables	751,708	960,977	990,299	53,299	46,996	45,283

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

16 Trade and other receivables (Continued)

Trade and other receivables

Trade receivables are generally on 30 to 90 days' terms (31 December 2017 – 30 to 90 days' terms; 1 January 2017 – 30 to 90 days' terms). Trade receivables are non-interest bearing and are recognised at their original invoice amounts which represent their fair value on initial recognition.

At the end of the reporting period, note receivables amounting to RMB1,168,000 (31 December 2017 – RMB102,139,000; 1 January 2017 – RMB65,423,000) are arranged to be settled via letters of credit issued by reputable banks in countries where the customers are based.

As at 31 December 2018, trade receivables and notes receivable amounted to RMB Nil (31 December 2017 – RMB52,393,000; 1 January 2017 – RMB70,549,000) were pledged as securities to obtain credit facilities (Note 21).

Further details of the foreign currencies denomination of trade receivables and the Group's financial risk management of foreign currency risk exposure are set out in Note 30.

Long-term prepayments

Long-term prepayment represent the prepayment of repair and maintenance cost of plant and machinery and water treatment antiseptis. The long-term prepayment was fully written off during the financial year because of explosion and fire hazard in one of the subsidiary premises.

Non-trade amounts due from subsidiaries

Non-trade amounts due from subsidiaries represent expenses paid by the Company on behalf of the subsidiaries. The amounts were unsecured, non-interest bearing and repayable on demand.

Advance to suppliers

This related to prepayments made to suppliers for purchase of materials. During the current financial year, the Group has recognised an impairment loss of RMB19,625,000 (2017 – Nil) as the chemical zone of which JJC operates was being ordered to shut down by the local government. The remaining amount of RMB19,133,000 (2017 – Nil) comprise of amount of RMB8,541,000 recorded in the books of JJP, the operations which are located in the same location of JJC and RMB10,592,000 recorded in the book of YYIE.

Credit risks exposure

The Group uses a provision matrix to measure the lifetime expected credit loss allowance for trade receivables. The Group determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions.

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

116
SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

16 Trade and other receivables (Continued)

Credit risks exposure (Continued)

The Group's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising expected credit losses (ECL)
Performing	The counterparty has a low risk of default and does not have any past-due amounts.	12-month ECL
Doubtful	Amount is >30 days past due or there has been a significant increase in credit risk since initial recognition.	Lifetime ECL – not credit-impaired
In default	Amount is >90 days past due or there is evidence indicating the asset is credit-impaired.	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the group has no realistic prospect of recovery.	Amount is written off

The Group's credit risk exposure in relation to trade receivables under SFRS(I) 9 as at 31 December 2018 is set out in the provision matrix as follows:

	Current	Past due				Total
		Within 30 days	31 to 60 days	61 to 90 days	More than 90 days	
The Group	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Expected loss rate	–	–	–	–	0.7%	–
Trade receivables – Gross	48,582	198,836	118,213	159,649	135,817	661,097
Loss allowance	–	–	–	–	(1,012)	(1,012)

Concentrations of credit risk

Concentrations of credit risk exist when changes in economic, industry or geographical factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Group's total exposure. The Group determines concentrations of credit risk by monitoring the country and industry sector profile of its trade receivables on an ongoing basis.

The credit risk concentration profile of the Group's trade receivables at the end of the reporting period is as follows:

	Group		Company	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	RMB'000	RMB'000	RMB'000	RMB'000
PRC	657,707	825,112	–	–
Asia – others	1,721	1,478	38,033	32,398
Others	657	1,655	–	–
	660,085	828,245	38,033	32,398

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

117
SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

16 Trade and other receivables (Continued)

Concentrations of credit risk (Continued)

There are no significant concentrations of credit risk, whether through exposure to individual customers, business segment and/or geographical regions.

The credit risk for trade and other receivables based on the information provided to key management is as follows:

- (i) Trade and other receivables (excluding prepayments, advances to suppliers and value-added tax recoverable) that are neither past due nor impaired.

	Group			Company		
	31 December 2018 RMB'000	31 December 2017 RMB'000	1 January 2017 RMB'000	31 December 2018 RMB'000	31 December 2017 RMB'000	1 January 2017 RMB'000
Current						
– Trade receivables	48,582	739,760	668,199	37,883	32,224	30,258
– Other receivables	44,480	70,391	34,662	14,915	14,195	15,019
Total	93,062	810,151	702,861	52,798	46,419	45,277

Trade and other receivables that are neither past due nor impaired are credit worthy debtors with a good payment record with the Group and the Company.

- (ii) Trade and other receivables (excluding prepayments, advances to suppliers and value-added tax recoverable) that are past due but not impaired.

The ageing analysis of trade and other receivables (excluding prepayment, advance to suppliers and value-added tax recoverable) past due but not impaired is as follows:

	Group			Company		
	31 December 2018 RMB'000	31 December 2017 RMB'000	1 January 2017 RMB'000	31 December 2018 RMB'000	31 December 2017 RMB'000	1 January 2017 RMB'000
Less than 30 days	198,836	51,359	124,947	–	–	–
30 to 90 days	277,862	24,523	46,071	134	135	–
More than 90 days	134,805	12,603	15,445	16	38	–
Total	611,503	88,485	186,463	150	173	–

Based on historical credit loss rates have been appropriately adjusted to reflect current condition and forecasts of future economic conditions, the Group believes that no impairment allowance is necessary in respect of trade and other receivables not past due or past due but not impaired. These receivables are mainly arising by customers that have a good credit record with the Group.

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

118
SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

16 Trade and other receivables (Continued)

Concentrations of credit risk (Continued)

Trade and other receivables that are individually determined to be impaired at the end of the reporting period relate to debtors that are in significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

	2018 RMB'000
The Group	
As at 31 December (calculated under FRS 39)	1,092
Amounts restated through opening retained earnings	–
Opening loss allowance as at 1 January 2018 (calculated under SFRS(I) 9)	1,092
Reversal of loss allowance during the year	(80)
As at 31 December	1,012

Previous accounting policy for impairment of trade receivables

In determining the impairment loss of trade and other receivables, the Group considers any change in the credit quality of the trade receivables from the date credits were initially granted up to the end of the reporting period. In addition, the management evaluates the adequacy of the allowance for doubtful trade receivables by analysing trade receivables collections trends, historical bad debts, customer concentrations, customer creditworthiness, the credit tightening measures by the PRC government, and the changes in customer payment terms and general financial conditions of the customers. The receivables would be written off if the possibility of collection is determined to be remote.

In 2017, as a result of its critical evaluations performed on the trade receivables, RMB1,092,000 allowances were considered necessary by the management as of 31 December 2017. Trade receivables are individually determined as allowance for impairment or written-off at the end of reporting period as the probability of recovering these trade debts is remote. These trade receivables are not secured by any collateral or credit enhancements. Other than the above, there is no further allowance for impairment in respect of the remaining trade receivables including those receivables that are past due but not impaired.

Trade and other receivables (excluding prepayments, advances to suppliers and value-added tax recoverable) that are past due and/or impaired

The ageing analysis of trade and other receivables (excluding prepayment, advance to suppliers and value-added tax recoverable) determined to be impaired is as follows:

	Group			Company		
	31 December 2018 RMB'000	31 December 2017 RMB'000	1 January 2017 RMB'000	31 December 2018 RMB'000	31 December 2017 RMB'000	1 January 2017 RMB'000
More than 120 days	1,012	1,092	737	–	–	–

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

119
SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

16 Trade and other receivables (Continued)

Previous accounting policy for impairment of trade receivables (Continued)

Trade and other receivables (excluding prepayments, advances to suppliers and value-added tax recoverable) that are past due and/or impaired (Continued)

The carrying amount of trade and other receivables (excluding prepayments, advances to suppliers and value-added tax recoverable) individually determined to be impaired is follows:

	Group			Company		
	31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Gross amount	1,012	1,092	737	-	-	-
Less: Credit allowance	(1,012)	(1,092)	(737)	-	-	-
	-	-	-	-	-	-

Financial assets that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are creditworthy companies or individuals with a good payment record with the Group and the Company. Bank deposits that are neither past due nor impaired are mainly deposits with banks with high credit ratings and no history of default.

Financial assets that are past due but not impaired

There is no other class of financial assets that is past due but not impaired except for trade and other receivables.

17 Cash and cash equivalents

	Group			Company		
	31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current						
Fixed deposits – pledged*	76,739	76,739	-	-	-	-
	76,739	76,739	-	-	-	-
Current						
Cash and bank balances	25,434	157,324	196,507	810	306	1,036
Fixed deposits – pledged	203,431	120,840	65,709	-	-	-
	228,865	278,164	262,216	810	306	1,036
Total	305,604	354,903	262,216	810	306	1,036

* Fixed deposits pledged relating to non-current bank loans.

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

120
SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

17 Cash and cash equivalents (Continued)

For the purpose of presenting the consolidated cash flow statement, the year-end cash and cash equivalents comprise the following:

	31 December 2018 RMB'000	31 December 2017 RMB'000	1 January 2017 RMB'000
The Group			
Cash and cash equivalents	305,604	354,903	262,216
Less: bank balances – pledged	–	–	–
Less: fixed deposits – pledged	(280,170)	(197,579)	(65,709)
	25,434	157,324	196,507

Pledged fixed deposits represent deposits pledged to banks to secure bank borrowings (Note 21) and notes payables (Note 22). The pledged deposits will be released upon the settlement of relevant bank borrowings and the expiry of relevant bank guarantees. At the end of the reporting period, the bank balances of RMB16,424,000 (2017 – Nil) were frozen and subject to the Taixing Sunke arbitration proceeding (Note 12(c)). The arbitration and injunction to freeze the assets of Taixing Jurong have been withdrawn as of the date of these financial statements.

The fixed deposits mature between one month to two years (31 December 2017 – one month to three years; 1 January 2017 – one to nine months) from the end of the reporting period with the weighted average effective interest rate at 2.62 % (31 December 2017 – 4.38%; 1 January 2017 – 1.62%) per annum.

18 Non-current assets held for sale

Land in Louisiana

The Group's freehold land which was classified as non-current assets held for sale in the previous year has yet to be disposed of as at 31 December 2017. The sale was not completed within the last 2 years due to the poor property market conditions whereby the Group was unable to sell the freehold property for the amount that it was valued at. As these assets are unable to meet the conditions required by FRS 105 to continue to be classified as non-current assets held for sale, the Group has reclassified the freehold land from non-current assets held for sale to land use rights as at 31 December 2017 (Note 11).

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

121
SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

19 Share capital

	No. of ordinary shares		Amount	
	Issued share capital '000	Treasury shares '000	Issued share capital RMB'000	Treasury shares RMB'000
Group and Company				
31 December 2018, 31 December 2017 and 1 January 2017				
Beginning and end of financial year	533,651	(1,650)	291,516	(1,575)

All issued ordinary shares are fully paid. There is no par value for these ordinary shares. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

20 Other reserves

	Note	31 December 2018 RMB'000	31 December 2017 RMB'000	1 January 2017 RMB'000
The Group				
Merger reserve	(i)	(499)	(499)	(499)
Capital reserve	(ii)	255,286	255,286	255,286
Foreign currency translation reserve	(iii)	(15,395)	(16,204)	(15,630)
Special safety reserve	(iv)	50,314	50,314	50,314
		289,706	288,897	289,471
Represented by:				
Distributable		(15,395)	(16,204)	(15,630)
Non-distributable		305,101	305,101	305,101
		289,706	288,897	289,471

The movements in other reserves are as follows:

- (i) Merger reserve represents the difference between the consideration paid and the share capital of a subsidiary restructured under common control.
- (ii) Capital reserve comprises accumulated profits transferred by the PRC subsidiaries as required under the local PRC legislation.

The PRC subsidiaries are required to appropriate 10% of its profits after taxation, as determined under the PRC Generally Accepted Accounting Principles (the "PRC GAAP"), to the statutory surplus reserve until the revenue balance reaches 50% of its registered capital. The appropriation to this reserve must be made before the distribution of dividends to investors. Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into paid-in capital in proportion to the existing interests of the investors, provided that the balance after such conversion is not less than 25% of the registered capital.

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

122
SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

20 Other reserves (Continued)

Under the PRC laws, the creation of a discretionary reserve is optional. In accordance with its Articles of Association, YYIE is required to appropriate a percentage of its PRC GAAP profits after taxation as determined by the directors to a discretionary reserve. YYIE has appropriated 5% of such profits after taxation from 2003 onwards.

- (iii) The foreign currency translation reserve comprises foreign exchange differences arising from the translation of the financial statements of subsidiaries whose functional currencies are different from the Group's presentation currency.

	31 December 2018 RMB'000	31 December 2017 RMB'000	1 January 2017 RMB'000
The Group			
Foreign currency translation reserve			
Balance at beginning	(16,204)	(15,630)	(15,979)
Net currency translation differences of financial statements of foreign subsidiaries	809	(574)	349
Balance at end	(15,395)	(16,204)	(15,630)

- (iv) Pursuant to certain regulations issued by the State Administration of Work Safety of the PRC and other relevant regulatory bodies, the plants are required to set aside funds at prescribed rates. These funds can be used for maintenance and/or improvements of safe production and is not available for distribution to shareholders.

21 Borrowings

	31 December 2018 RMB'000	31 December 2017 RMB'000	1 January 2017 RMB'000
The Group			
Non-current			
Secured bank loans	75,631	228,631	180,000
Current			
Secured bank loans	395,740	707,853	942,732
Unsecured bank loans	–	–	14,568
	395,740	707,853	957,300
Total borrowings	471,371	936,484	1,137,300

The amount repayable within one year is included under current liabilities whilst the amount repayable after one year is included under non-current liabilities.

The borrowings of the Group are subjected to fixed interest rate.

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

123
SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

21 Borrowings (Continued)

The borrowings are secured by:

- (a) Property, plant and equipment of the subsidiaries (Note 9(b));
- (b) Land use rights (Note 11);
- (c) Trade and other receivables (Note 16);
- (d) Pledge fixed deposits (Note 17); and
- (e) Guarantee provided by the related parties, a director and a shareholder.

(a) Effective interest rates

The weighted average effective interest rates (per annum) of total borrowings at the end of reporting period are as follows:

The Group	Currency	31 December 2018	31 December 2017	1 January 2017
		%	%	%
Secured bank loans	RMB	4.57 – 7.50	3.63 – 7.50	2.90 – 7.50
Secured bank loans	USD	1.44 – 2.61	1.44 – 3.11	1.18 – 4.60
Unsecured bank loans	USD	–	–	1.95 – 2.10

(b) Carrying amounts and fair values

Fair values of borrowings

The carrying amounts of current borrowings approximate their fair value. The carrying amounts and fair values of non-current borrowings are as follows:

The Group	31 December 2018 RMB'000	31 December 2017 RMB'000	1 January 2017 RMB'000
Secured bank loan			
Carrying amounts	75,631	228,631	180,000
Fair values	78,382	260,155	221,075

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

124
SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

21 Borrowings (Continued)

(b) Carrying amounts and fair values (Continued)

Fair values of borrowings (Continued)

The fair values above are determined from the discounted cash flow analysis, discounted at market borrowing rates (per annum) of an equivalent instrument at the end of reporting period which the directors expect to be available to the Group as follows:

The Group	31 December 2018	31 December 2017	1 January 2017
	%	%	%
Secured bank loans	<u>3.20</u>	<u>3.90</u>	<u>3.00</u>

(c) Undrawn bank facilities

The amount of stand-by credit facilities available to the Group at the end of the reporting period is RMB191,055,000 (31 December 2017 – RMB184,100,000; 1 January 2017 – RMB535,740,000).

22 Trade and other payables

	Group			Company		
	31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables						
– third parties	438,565	303,873	374,808	–	–	–
– related parties	328,505	176,986	144,478	–	–	–
Notes payables	174,410	282,578	–	–	–	–
	<u>941,480</u>	<u>763,437</u>	<u>519,286</u>	<u>–</u>	<u>–</u>	<u>–</u>
Accrued operating expenses	12,934	36,903	42,537	8,116	6,102	7,140
Accrued severance compensation	12,700	–	–	–	–	–
	<u>25,634</u>	<u>36,903</u>	<u>42,537</u>	<u>8,116</u>	<u>6,102</u>	<u>7,140</u>
Contract liabilities	23,288	17,322	11,262	–	–	–
Amounts due to subsidiaries (non-trade)	–	–	–	33,267	27,889	24,542
Other payables	68,044	59,821	72,871	1,556	1,567	593
	<u>1,058,446</u>	<u>877,483</u>	<u>645,956</u>	<u>42,939</u>	<u>35,558</u>	<u>32,275</u>

Trade and other payables are unsecured and non-interest bearing. Trade payables are normally settled on 60 days (31 December 2017 – 60 days; 1 January 2017 – 60 days) terms.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

22 Trade and other payables (Continued)

Notes payables

The notes payables are secured on the fixed deposits of RMB91,708,000 (31 December 2017 – RMB59,798,000; 1 January 2017 – RMB17,257,000) of the Group.

Accrued severance compensation

Accrued severance compensation relates to compensation payable to the staffs who have been retrenched following the Chemical Explosion and fire hazard in one of the subsidiary premises in the Xiangshui Chemical Industry Park.

Contract liabilities

Contract liabilities relate to advance consideration received from customers and billings in excess of revenue recognised to-date. Contract liabilities are recognised as revenue as and when the Group satisfies the performance obligations under its contracts.

Amounts due to subsidiaries

Amounts due to subsidiaries represent the advance received from subsidiaries are unsecured, interest-free, repayable on demand and are to be settled in cash.

Further details of liquidity risks on trade and other payables are disclosed in Note 30(b).

Other payables

Included in other payables is a down payment of RMB50,000,000 received from a third party in prior year for the proposed disposal of the entire interest in JJP to the third party. There has been no further development noted as at 31 December 2018 and as of the date of this report.

23 Provision for restoration costs

JJC and JJP are located and operates at the Xiangshui Chemical Industry Park in Yancheng City, Jiangsu Province. The operations in the Xiangshui Chemical Industry Park are exposed to potential damages and substantial liabilities such as the occurrence of uncontrollable flow of chemicals, gas, personal injury, fire and explosions hazards that could have an adverse effect on its business and operations, financial condition and cash flows.

On 21 March 2019, it was reported in the PRC news that a major explosion had occurred at a chemical plant in Xiangshui Chemical Industry Park and in April 2019, it was reported that the government of Jiangsu Yancheng will completely shut down the Xiangshui Chemical Industry Park following the Chemical Explosion. Since the explosion and the news on the closure of the Xiangshui Chemical Industry Park, JJC and JJP have stopped operations. The potential financial implications from the explosion at the Xiangshui Chemical Industry Park cannot be presently estimated as to any environmental penalties or legal liabilities and/or compensation that may be imposed on JJC and JJP by the local government.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

23 Provision for restoration costs (Continued)

The provision for restoration costs of RMB45,573,000 (31 December 2017 – Nil) relates to the estimated cost of restoring the land located at the Xiangshui Chemical Industry Park which have been shut down by the local government following the Chemical Explosion in March 2019. The Group's subsidiaries, JJC and JJP, operate in location of Xiangshui Chemical Industry Park. The restoration will only occur when the Group return the land use rights to the local government on expiry. However, based on the management's intention, the land may not be returned to the local government for the following reasons:

- (a) The location of the Xiangshui Chemical Industry Park has currently been sealed and protected under the government control;
- (b) The question raised as to whether the return of land and compensation from the government is an ever ongoing for an indefinite period. We have discussed with the management and there is no indication of compensation, if any, from the local government nor any demands being received from the local government to make any compensation payments for the restoration of the land as of the date of this report. The land use right at JJC and JJP has a lease period of between 47 to 50 years. Approximately 12 – 13 years have been used up with a remaining useful life of 38 and 37 years of lease before its expiry in JJC and JJP respectively. On the basis that the extended land use right may not be taking place in the near future, the provision for restoration may not be required for the next 37 – 38 years. There is 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 following the explosion incident. On this basis, we are not able to assess whether the provision is adequate or necessary;
- (c) Whether the land use rights can be returned with legal consequences cannot be ascertained. Under such a situation, JJC and JJP have no legal basis to ask the government to take back the land use right before it expires and pay the compensation to the Group. Only the government has right to take back the land use right before it expires. However, whether or not to exercise this right will depend on the government. According to the relevant PRC laws, the government can take back the land use right for the public interest or for the urban re-planning before it expires and the Group will receive the compensation from the government under this circumstance. At present, the Group can only wait for further action by the government; and
- (d) The land at Xiangshui Chemical Industry Park is under the control and protection of the authorities. Under the relevant PRC laws, the government will take control of the hazard area which cause life threatening for which death and injuries have been reported at the Chemical Explosion incident. The legal consequences are uncertain, and based on the PRC legal counsel's advice, it all depends on the government's decision. JJC and JJP can actively contact the government and wait for the further action by the government under such circumstances.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

24 Segment reporting

The Group has three reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. The Group's Chief Executive Officer ("CEO") reviews internal management reports for each of the strategic business units on at least a quarterly basis. The three reportable segments are:

- Manufacture and sale of Acrylic Acid and Acrylate Esters;
- Manufacture and sale of PMIDA and glyphosate; and
- Manufacture and sale of refined MTBE and petroleum products.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports reviewed by the Group's CEO. Segment profit is used to measure performance as the management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Other operations include the manufacture and sale of other chemical products. None of these segments meets any of the quantitative thresholds for determining reportable segments in 2018 or 2017.

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

128

SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

24 Segment reporting (Continued)

Information about reportable segments is as follows:

	AA and AE		PMIDA and glyphosate		MTBE and Petroleum-related products		Others		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
External revenue	1,273,713	(Re-presented) 1,548,332	-	-	-	-	303,385	(Re-presented) 688,380	1,577,088	(Re-presented) 2,246,712
Interest income	-	-	-	-	-	-	1,822	585	1,822	585
Interest expense	(59,007)	(56,706)	-	-	-	-	(14,055)	(16,659)	(73,062)	(73,365)
Depreciation and amortisation	(95,013)	(3,376)	-	(9,376)	(16,475)	(26,825)	(312)	(715)	(111,800)	(40,292)
Impairment loss on property, plant and equipment	(63,030)	-	-	-	(136,000)	-	-	-	(195,030)	-
Provision on contingent liability	-	-	-	-	-	-	(42,500)	-	(42,500)	-
Provision for sovereign compensation	(12,700)	-	-	-	-	-	-	-	(12,700)	-
Impairment loss on value-added tax recoverable	-	-	-	-	(83,951)	-	-	-	(83,951)	-
Restoration and dismantle charges	(45,573)	-	-	-	-	-	-	-	(45,573)	-
Impairment loss on prepayment	(19,625)	-	-	-	-	-	-	-	(19,625)	-
Reportable segment										
(Loss)/profit before income tax	(346,017)	10,285	-	(9,376)	(239,861)	(26,826)	(99,963)	(28,082)	(685,841)	(53,999)
- continuing operation	23,052	36,840	-	-	-	-	-	-	23,052	36,840
- discontinued operation	(600)	(1,018)	-	-	-	-	-	-	(600)	(1,018)
Income tax expenses from	(10,007)	(4,686)	-	-	-	-	-	-	(10,007)	(4,686)
(Loss)/profit for the year from	(346,617)	9,267	-	(9,376)	(239,861)	(26,826)	(99,963)	(28,082)	(686,441)	(55,017)
- continuing operation	13,045	32,154	-	-	-	-	-	-	13,045	32,154
- discontinued operation										
Reportable segment assets	1,356,412	2,264,262	-	5,202	35,691	205,553	74,305	263,141	1,466,408	2,738,158
- continuing operation	791,883	-	-	-	-	-	-	-	791,883	-
- discontinued operation										
Reportable segment liabilities	1,416,972	1,724,574	-	-	21,189	22,225	188,979	87,739	1,627,140	1,834,538
- continuing operation	400,118	-	-	-	-	-	-	-	400,118	-
- discontinued operation	6,734	74,406	-	-	-	-	95	-	6,829	74,406
Capital expenditure										

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

129
SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

24 Segment reporting (Continued)

Segmental information is presented in respect of the Group's geographical segments. In presenting information on the basis of geographical segments, segment revenue are based on the geographical location of customers. Segment capital expenditure and other assets are based on the geographical location of the assets.

	Asia RMB'000	Europe RMB'000	South America RMB'000	North America RMB'000	Others RMB'000	Consolidated RMB'000
2018						
Revenue from external customers	1,526,336	14,274	5,652	26,161	4,675	1,577,098
Non-current assets	378,180	–	–	12,372	–	390,552
2017						
Revenue from external customers	2,184,132	10,738	5,400	39,624	6,818	2,246,712
Non-current assets	1,191,980	–	–	11,805	–	1,203,785

Information about major customers

Revenue of approximately RMB352,560,000 (2017 – RMB511,717,000) was derived from 3 (2017 – 5) external customers. These revenues are attributable to the AA & AE segments in the PRC.

25 Related party transactions

(a) Sale and purchase of goods and services

In addition to the related party information disclosed elsewhere in the financial statements, the following significant transactions between the Group and related parties took place at terms agreed between the parties during the financial years ended 31 December 2017 and 2018.

The Group	2018 RMB'000	2017 RMB'000
Sale of chemical products	332,730	254,791
Sale of waste material	–	14,921
Purchase of inventories	67,737	123,262
Purchase of raw material	–	2,123
Sale of raw material and other spare parts	224,334	349,422
	624,801	744,519

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

130
SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

25 Related party transactions (Continued)

(b) Sales and purchases transactions

	2018 RMB'000	2017 RMB'000
The Group		
Sales – related parties	1,351,493	654,989
Purchases – related parties	1,350,892	655,222
	2,702,385	1,310,211

During the year, the Group entered into sales and purchases transactions with terms and conditions agreed (collectively known as “Transactions”) with related parties. Such Transactions have been entered to maintain the Group’s, related parties’ existing credit facilities with the banks, which is a common practice carried out in the PRC. The management has presented these transactions on a net basis for financial reporting purpose in the consolidated financial statements. The bank facilities sum as at 31 December 2018 was RMB923 million (2017: RMB1.1 billion) as reported under the facility arrangements in the PRC entered into during the year ended 31 December 2018.

(c) Compensation of directors and key management personnel

	2018 RMB'000	2017 RMB'000
The Group		
Short-term employee benefits	3,765	4,265
CPF contributions	136	122
	3,901	4,387
Comprise amounts paid to:		
Directors of the Company	2,184	2,666
Other key management personnel	1,717	1,721
	3,901	4,387

26 Commitments

(a) Operating lease commitments – as lessee

The Group and the company have entered into a commercial lease on an office premise. The lease has a tenure of 2 – 3 years (2017 – 3 years) with an option to renew at the end of the lease term.

Minimum lease payments are recognised as an expense in profit or loss for the financial year ended 31 December 2018 amounted to RMB561,000 (2017 – RMB775,000).

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

131
SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

26 Commitments (Continued)

(a) Operating lease commitments – as lessee (Continued)

Future minimum rental payable under non-cancellable operating leases at the end of the reporting period are as follows:

	2018 RMB'000	2017 RMB'000
The Group and The Company		
Not later than one year	522	503
Later than one year but not later than five years	233	693
	755	1,196

(b) Operating lease commitments – as lessor

The Company sub-leases office premise to external parties.

Future minimum rental receivable under non-cancellable operating leases at the end of the reporting period are as follows:

	Group		Company	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Not later than one year	70	68	140	136

The leases on the Group and the Company's office premise on which rentals are receivable has expired on 31 May 2020 (2017 – 30 May 2018) with renewals at the then prevailing rates.

27 Corporate guarantees

(a) Corporate guarantees to related parties

The Group acted as a corporate guarantor to provide guarantees to its related parties amounted to RMB1,613,000,000 (31 December 2017 – RMB1,454,000,000; 1 January 2017 – RMB1,390,000,000) to secure banking facilities. As at 31 December 2018, the related parties had drawn down an amount of RMB1,372,810,000 (31 December 2017 – RMB920,200,000; 1 January 2017 – RMB948,180,000) from these facilities. The loan facilities will expire in 2019 (31 December 2017 – expire in 2018).

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

132
SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

27 Corporate guarantees (Continued)

(a) Corporate guarantees to related parties (Continued)

	2018 RMB'000	2017 RMB'000
The Group		
Guarantee given:		
Yixing Danson	509,000	479,000
Jiaxing Jinyan	50,000	–
Taixing Jinyan	794,000	715,000
Jinyan Cangchu	260,000	260,000
	1,613,000	1,454,000
Amount drawn down:		
Yixing Danson	393,000	124,950
Jiaxing Jinyan	10,000	–
Jinyan Cangchu	244,500	260,000
Taixing Jinyan	725,310	535,250
	1,372,810	920,200
The Group		
Guarantee received:		
Yixing Danson	252,500	252,500
Taixing Jinyan	550,000	550,000
Jiangsu Yinyan	84,900	129,900
	887,400	932,400
Amount drawn down:		
Yixing Danson	117,430	410,420
Taixing Jinyan	444,510	230,000
Jiangsu Yinyan	82,900	129,900
	644,840	770,320

At the end of the reporting period, there are no defaults being triggered for the repayment of the principal or interest payments thereon in respect of the guarantee obligations. The management has determined that the expected credit losses arising from the financial guarantee issued to related parties are not material on the basis that there is no significant increase in credit risk and the related expected credit losses are not significant to the Group.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

27 Corporate guarantees (Continued)

(b) Corporate guarantees – third parties (contingent liabilities)

On 10 January 2019, the Company announced that it had received legal claims in the PRC for the principal amounts of RMB222,500,000 (consisting of two financial guarantees contracts of RMB180,000,000 and RMB42,500,000) plus interest for financial guarantees issued by its PRC subsidiaries on behalf of two unrelated parties. The legal claims were received in November and December 2018 but only announced by the Company on 10 January 2019. Details of the two financial guarantees are as follows:

Financial guarantee of RMB180 million

The Company's wholly-owned subsidiary, YYIE, received a letter of demand dated 14 November 2018 (the "YFC Letter of Demand") from the lawyers (江苏科腾律师事务所) ("Jiangsu Keteng") acting on behalf of Yixing City Futao Rural Micro Credit Co., Ltd. (宜兴市富陶农村小额贷款有限公司) ("Yixing Futao Credit") in respect of a loan agreement entered into between Yixing Futao Credit and Jiangsu Donglai Real Estate Development Co., Ltd. (江苏东来房地产开发有限工司) ("Jiangsu Donglai") dated 8 October 2018 for the loan amount of RMB180,000,000 (the "YFC Loan").

In the YFC Letter of Demand, Yixing Futao Credit is seeking repayment of RMB183,700,000 (the "YFC Claim Amount"), comprising of RMB180,000,000 as principal repayment and RMB3,700,000 as accrued interest payable in respect of the YFC Loan, as Jiangsu Donglai has failed to make repayment of the YFC Claim Amount on the repayment date of 15 October 2018. Yixing Futao Credit is seeking repayment of the YFC Claim Amount from YYIE pursuant to a third party guarantee agreement entered into by Yixing Futao Credit, Jiangsu Donglai and YYIE dated 8 October 2018, under which YYIE provided a corporate guarantee to Jiangsu Donglai, a party unrelated to the Company, in favour of Yixing Futao Credit in respect of the YFC Loan (the "YFC Corporate Guarantee").

The intention of YYIE to provide guarantee to Jiangsu Donglai was to give a government officer who cannot be named a favor to enable a short-term 7-day bridging loan to the borrower, Jiangsu Donglai, to borrow from Yixing Futao Credit in order to repay its own loans to the China Construction Bank who in turn was expected to refinance Jiangsu Donglai for the same amount, which can then be used to repay Yixing Futao Credit. The China Construction Bank was supposed to renew the loans to Jiangsu Donglai following the repayment, but it never did. The legal representative of YYIE, Liu Wen, represented that he had conducted a basic assessment before entering into the YFC Corporate Guarantee agreement. On the same basis, no collateral was obtained from the borrower. Liu Wen had approved the financial guarantee contract after discussing it with Sun Xiao.

By way of a supplementary agreement entered into on 13 June 2019 (the "YFC Supplementary Agreement") between Yixing Futao Credit, Jiangsu Donglai and YYIE, the parties agreed, amongst others, whereby Jiangsu Donglai shall liquidate its assets to repay the YFC Loan including the interest payable to Yixing Futao Credit by 30 June 2020 (the "Extended Repayment Date"), and Yixing Futao Credit shall not commence any legal proceedings against Jiangsu Donglai and YYIE at any time prior to the Extended Repayment Date to seek repayment of the YFC Loan and all other due payments including the interest payable under the YFC Guarantee Agreement. The YFC Loan, YFC Corporate Guarantee and the YFC Supplementary Agreement are collectively known as the "YFC Agreements".

**NOTES TO THE
FINANCIAL STATEMENTS**
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

27 Corporate guarantees (Continued)

(b) Corporate guarantees – third parties (contingent liabilities) (Continued)

Financial guarantee of RMB180 million (Continued)

The Company's Audit Committee had 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.

As announced by the Company on 10 July 2019, the management had attempted to negotiate with Yixing Futao Credit to remove YYIE as the guarantor, however this was rejected by Yixing Futao Credit. The YFC Supplemental Agreement represents a compromise reached with Yixing Futao Credit. Yixing Futao Credit has also expressed its willingness to resolve the situation amicably.

The Group has obtained a confirmation from Yixing Futao Credit dated 5 September 2019 as follows:

- (a) Yixing Futao Credit did not sign the YFC Corporate Guarantee contract with YYIE and Jiangsu Donglai;
- (b) Yixing Futao Credit did not authorize Jiangsu Keteng as its legal representative to send lawyer letter to YYIE;
- (c) Yixing Futao Credit did not sign the mortgage contract dated 21 Feb 2019 with Jiangsu Donglai;
- (d) Yixing Futao Credit did not sign the YFC Supplementary Agreement dated 13 June 2019 with YYIE and Jiangsu Donglai.

The Group has obtained a confirmation from the liquidator of Jiangsu Donglai (无锡衡鑫清算事务有限公司) ("Wuxi Hengxin") dated 4 September 2019 as follows:

- (a) Jiangsu Donglai did not borrow from Yixing Futao Credit as stated in the YFC Corporate Guarantee and YFC loan;
- (b) Jiangsu Donglai did not sign any contracts as stated in the YFC Corporate Guarantee and YFC loan;
- (c) The auditor appointed by the liquidator was not aware of any borrowings or amounts owed by Jiangsu Donglai;
- (d) Since the commencement of the liquidation proceedings by the liquidator on 17 April 2019, the liquidator has confirmed that he did not stamp on the YFC Supplementary Agreement dated 13 June 2019.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

27 Corporate guarantees (Continued)

(b) Corporate guarantees – third parties (contingent liabilities) (Continued)

Financial guarantee of RMB42.5 million

JJC received a letter of demand dated 15 December 2018 (the “BOC Letter of Demand”) from the lawyers acting on behalf of Bank of China Co., Ltd., Xiangshui County Sub-branch (“Bank of China”) in respect of a loan agreement entered into between Bank of China and Jiangsu Dahe Lvjian Chemical Co., Ltd. (江苏大和绿碱化工有限公司) (“Jiangsu Dahe”) dated 10 January 2018 for the loan amount of RMB42,500,000 (the “BOC Loan”). In the BOC Letter of Demand, Bank of China is seeking repayment of RMB42,971,061.50 (the “BOC Claim Amount”), comprising of RMB42,500,000 as principal repayment and RMB471,061.50 as accrued interest payable in respect of the BOC Loan, as Jiangsu Dahe has failed to make repayment of the BOC Claim Amount on the repayment date of 9 December 2018. Bank of China is seeking repayment of the BOC Claim Amount from JJC pursuant to a corporate guarantee entered into by JJC and Bank of China dated 5 January 2018, under which JJC provided a corporate guarantee to Jiangsu Dahe, a party unrelated to the Company, in favour of Bank of China in respect of the BOC Loan (the “BOC Corporate Guarantee” or “Corporate Guarantees”).

The management has confirmed to the Board that save for the YFC Corporate Guarantee and the BOC Corporate Guarantee, there is currently no other guarantee provided by the Group to secure the indebtedness of any unrelated party.

The Board has been informed by the management that JJC started to provide corporate guarantee as part of an arrangement with Jiangsu Dahe since 2011, under which JJC and Jiangsu Dahe had respectively provided corporate guarantees up to the loan amount of RMB200,000,000 to facilitate the securing of the other party’s bank loans. According to the management, the amounts guaranteed under such an arrangement by JJC has been progressively reduced over the years and the BOC Corporate Guarantee as described above represents the only outstanding corporate guarantee provided by JJC for Jiangsu Dahe.

Apart from the BOC Corporate Guarantee by Jiangsu Jurong, the BOC Loan was also secured by eight other corporate and personal guarantees in favour of Bank of China entered into by parties unrelated to the Company (the “Other BOC Guarantors”). The Board has been informed by the management that the Other BOC Guarantors who are related to Jiangsu Dahe have expressed their willingness to repay the BOC Claim Amount.

Pending the outcome of further investigations, given the involvement by Mr Yang Guoqiang and Mr Liu Wen in relation to the BOC Corporate Guarantee and the YFC Corporate Guarantee respectively, the Board has announced on 19 February 2019 that it had decided to temporarily suspend their rights as legal representatives to enter into any agreement for and on behalf of JJC and YYIE respectively without the prior approval of Mr Sun Xiao, and to temporarily suspend Mr Yang Guoqiang from his office as a director of the Company.

As at the end of the reporting period, Jiangsu Donglai and Jiangsu Dahe have not settled their outstanding debts with the lenders. The management made full provision of RMB222,500,000 as contingent liabilities on the above two corporate guarantees as at 31 December 2018.

**NOTES TO THE
FINANCIAL STATEMENTS**
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

27 Corporate guarantees (Continued)

(b) Corporate guarantees – third parties (contingent liabilities) (Continued)

Financial guarantee of RMB42.5 million (Continued)

As stated in the Company's announcement dated 18 January 2019, the management did not obtain the Board's approval prior to signing of the YFC Corporate Guarantee and BOC Corporate Guarantee. Company's Board of directors' approval for the issuance of the financial guarantees. The management also did not comply with the Group's internal control policy, whereby the approval by the Jurong Group Chairman of the Board of Directors in the PRC is required for the provision of financial guarantees schemes.

The legal representatives of YYIE and JJC had signed the financial guarantees contract at their own initiative without any formal authorisation and approval by the Board of Directors of the Company.

EY Investigation

On 2 April 2019, the Company has engaged Ernst & Young Advisory Pte. Ltd. ("EY Advisory") as the external auditor to form part of a special investigative committee to conduct an independent assessment and investigation into the circumstances leading to and surrounding the BOC Corporate Guarantee and the YFC Corporate Guarantee. As announced by the Company on 7 November 2019, EY Advisory has, on 6 November 2019 submitted the full report on its findings to the SGX-ST and the Audit Committee, and the key findings were as follows:

- Discrepancies surrounding the veracity of the YFC Agreements consisting of the YFC loan, YFC Corporate Guarantee and the YFC Supplemental Agreement
- Discrepancies in the announcement dated 19 February 2019 issued by the Company
- Lack of adequate controls over approving and monitoring of corporate guarantees extended to third parties
- Absence of disclosure surrounding the corporate guarantees given by Jiangsu Jurong Chemical Co., Ltd. since 2016

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, the Company has reversed in full the provision of the YFC Contingent Liabilities of RMB180,000,000 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. Refer to Note 33(l).

**NOTES TO THE
FINANCIAL STATEMENTS**
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

28 Impairment of assets

Jiangsu Jurong Chemical Co., Ltd. (“JJC”) and Jurong Petrochemicals Co., Ltd. (“JJP”)

- (a) An impairment loss of RMB166.6 million on the property, plant and equipment located at the Xiangshui Chemical Industry Park (consisting impairment loss of RMB136.0 million in respect of JJP and RMB30.6 million in respect of JJC) was recognised in profit and loss during the year ended 31 December 2018 based on management assessment. No valuation was performed by an independent professional valuer.
- (b) No impairment assessment was performed on the carrying amount of the property, plant and equipment with an aggregate carrying amount of RMB76.3 million as at 31 December 2018 located at Xiangshui Chemical Industry Park (consisting of JJC of RMB60.8 million and JJP of RMB15.5 million) due to the shutdown of the operations of JJC and JJP and access to the Xiangshui Chemical Industry Park was restricted.
- (c) Recorded in the books of JJC and JJP were land-use rights with the carrying amount of RMB7.2 million (2017 – RMB7.4 million) and RMB3.2 million (2017 – RMB3.3 million) respectively as at 31 December 2018. No impairment assessment has been performed by the management owing to the shutdown of the operations at the Xiangshui Chemical Industry Park and restricted access.
- (d) Recorded in the books of JJC and JJP, were intangible assets comprising technology know-how and software with an aggregate carrying amount of RMB7.9 million (2017 – RMB8.6 million) as at 31 December 2018. No impairment has been provided on these intangible assets owing to the shutdown of the operations at the Xiangshui Chemical Industry Park and restricted access.
- (e) Included in the impairment loss in profit or loss for the year ended 31 December 2018, was an impairment of value-added tax (“VAT”) recoverable of RMB83.9 million (2017 – Nil) made in respect of JJP arising from the shut-down to the area in the Xiangshui Chemical Industry Park. No impairment loss was made in respect of the VAT recoverable of RMB9.5 million that was recorded in the books of JJC as at 31 December 2018.
- (f) The management has recorded an impairment expense of RMB19.6 million in profit or loss in respect of the prepayments to various suppliers for purchases of raw material by JJC for the year ended 31 December 2018 owing to the shutdown of operations at the Xiangshui Chemical Industry Park.
- (g) No impairment loss was made in respect of the advances paid to the suppliers for the purchases of the raw material of RMB8.5 million that was recorded in the books of JJP as of 31 December 2018.
- (h) As of 31 December 2018, JJC and JJP had inventory balances amounting to RMB7.1 million and RMB1.4 million respectively. No impairment assessment has been made by the management as it is of the view that these inventory can be sold in subsequent periods.

**NOTES TO THE
FINANCIAL STATEMENTS**
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

28 Impairment of assets (Continued)

Taixing Jurong Chemical Co., Ltd. (“Taixing Jurong”)

- (i) An impairment loss of RMB32.4 million was recognised in profit or loss for the year ended 31 December 2018 in respect of the plant and equipment with a carrying amount of RMB108.3 million (before impairment loss) of Taixing Jurong, a wholly-owned subsidiary of the Group. The impairment loss was undertaken following a valuation performed by an independent professional valuer.
- (j) No impairment assessment was performed on the carrying amount of the property, plant and equipment with an aggregate carrying amount of RMB260.9 million of Taixing Jurong as at 31 December 2018 as the management is of the view that the carrying amount reflects its recoverable amount notwithstanding there are indicators of impairment for the period then ended.

Link Way Louisiana LLC

- (k) Included in land use rights of the Group is a freehold land that is held by a wholly-owned subsidiary, Link Way Louisiana LLC. The freehold land was carried at a historical cost of RMB12,372,000 (2017: RMB11,805,000). The subsidiary has incurred a loss of RMB65,000 (2017: Loss of RMB74,000) for the year ended 31 December 2018. Notwithstanding the indicators of impairment, no impairment assessment has been carried out by the management as it is of the view that the carrying amount represents fair value as at that date.

29 Fair value measurement

Definition of fair value

SFRS (I) defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

29.1 Fair value measurement of financial instruments

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three Levels of a fair value hierarchy. The three Levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1 : quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 : inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 : unobservable inputs for the asset or liability

There were no financial assets and financial liabilities measured at fair value as at 31 December 2018, 31 December 2017 and 1 January 2017.

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

139
SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

29 Fair value measurement (Continued)

29.2 Accounting classifications of financial assets and financial liabilities

The carrying amounts of financial assets and financial liabilities in each category are as follows:

	Note	31 December 2018 RMB'000	31 December 2017 RMB'000	1 January 2017 RMB'000
The Group				
Trade and other receivables	16	704,565	898,636	889,324
Pledged deposits and cash and bank balances (including non-current fixed deposits pledged)	17	305,604	354,903	262,216
Total loans and receivables		1,010,169	1,253,539	1,151,540
Total financial assets at amortised cost		–	–	–
Financial liabilities:				
Borrowings	21	471,371	936,484	1,137,300
Trade and other payables	22	1,035,158	860,161	634,694
Provision for restoration costs	23	45,573	–	–
Contingent liabilities	27(b)	42,500	–	–
Total		1,594,602	1,796,645	1,771,994
The Company				
Loans and receivables:				
Trade and other receivables	16	52,948	46,592	45,277
Cash and bank balances	17	810	306	1,036
Total loans and receivables		–	46,898	46,313
Total financial assets at amortised cost		53,758	–	–
Financial liabilities:				
Trade and other payables	22	42,939	35,558	32,275

30 Financial risk management objectives and policies

The Group and the Company financial risk management policies set out the Group's and the Company's overall business strategies and its risk management philosophy.

The Group and the Company are exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, interest rate risk and foreign currency risk. The Board of Directors reviews and agrees policies and procedures for the management of these risks, which are executed by the management. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's and the Company's activities.

There has been no change to the Group's and the Company's exposure to these financial risks or the manner in which it manages and measures the risk. The following sections provide details regarding the Group's and the Company's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

30 Financial risk management objectives and policies (Continued)

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the Group or the Company to incur a financial loss. The Group's and the Company's exposure to credit risk arises primarily from trade and other receivables and bank deposits. For trade receivables, the Company and the Group adopt the policy of dealing only with customers of appropriate credit history, and obtaining sufficient security where appropriate to mitigate credit risk. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. For other financial assets (including cash and bank balances and pledged deposits), the Group and the Company minimises credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure.

Exposure to credit risk

As the Group and the Company do not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the statement of financial position, except for financial guarantees provided by the Group to related parties.

The Group's and the Company's major classes of financial assets are trade and other receivables, deposits and bank deposits. Cash is held with reputable financial institutions. Further details of credit risks on trade and other receivables are disclosed in Note 16.

Financial guarantee

The maximum exposure of the Group in respect of the financial guarantee (see Notes 25 and 27) at the end of the reporting period is if the facility is drawn down by the related parties to the maximum amount of RMB1,613,000,000 (31 December 2017 – RMB1,454,000,000; 1 January 2017 – RMB1,390,000,000) and to third parties – contingent liabilities of RMB42,500,000 (31 December 2017 and 1 January 2017: Nil). At the end of the reporting period, the group does not consider it probable that a claim will be made against the group under intra-group financial guarantees and the expected credit loss are insignificant.

(b) Liquidity risk

Liquidity risk is the risk that the Group and the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments that are settled by delivering cash or another financial asset. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

141
SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

30 Financial risk management objectives and policies (Continued)

(b) Liquidity risk (Continued)

The Group's and the Company's liquidity risk management policy is that to maintain sufficient liquid financial assets and stand-by credit facilities with different banks and business alliances. The amount of stand-by credit facilities available to the Group at the end of the reporting period is RMB191,044,000 (31 December 2017 – RMB184,100,000; 1 January 2017 – RMB535,740,000).

If the guarantees provided to related parties were to be crystallised on the assumption of default arising from the unfulfillment of loan obligations, the extent of the exposure to loss from guarantee contracts at the end of the reporting period would be RMB1,372,810,000 (31 December 2017 – RMB920,200,000; 1 January 2017 – RMB948,180,000) (Note 27).

The table below summarises the maturity profile of the Group's and the Company's financial liabilities at the end of the reporting period based on contractual undiscounted cash flows:

	31 December 2018			
	One year or less RMB'000	One to five years RMB'000	Over five years RMB'000	Total RMB'000
The Group				
Trade and other payables	1,035,158	–	–	1,035,158
Borrowings	401,258	78,382	–	479,640
Financial guarantee contracts	1,613,000	–	–	1,613,000
Provision for restoration costs	45,573	–	–	45,573
Contingent liabilities	42,500	–	–	42,500
	3,137,489	78,382	–	3,215,871
	31 December 2017			
	One year or less RMB'000	One to five years RMB'000	Over five years RMB'000	Total RMB'000
The Group				
Trade and other payables	860,161	–	–	860,161
Borrowings	720,332	260,155	–	980,487
Financial guarantee contracts	1,454,000	–	–	1,454,000
	3,034,493	260,155	–	3,294,648
	1 January 2017			
	One year or less RMB'000	One to five years RMB'000	Over five years RMB'000	Total RMB'000
The Group				
Trade and other payables	634,694	–	–	634,694
Borrowings	958,523	221,075	–	1,179,598
Financial guarantee contracts	1,390,000	–	–	1,390,000
	2,983,217	221,075	–	3,204,292

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

142
SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

30 Financial risk management objectives and policies (Continued)

(b) Liquidity risk (Continued)

	31 December 2018			
	One year or less RMB'000	One to five years RMB'000	Over five years RMB'000	Total RMB'000
The Company				
Trade and other payables	42,939	–	–	42,939
	<u>42,939</u>	<u>–</u>	<u>–</u>	<u>42,939</u>
	31 December 2017			
	One year or less RMB'000	One to five years RMB'000	Over five years RMB'000	Total RMB'000
The Company				
Trade and other payables	35,558	–	–	35,558
	<u>35,558</u>	<u>–</u>	<u>–</u>	<u>35,558</u>
	1 January 2017			
	One year or less RMB'000	One to five years RMB'000	Over five years RMB'000	Total RMB'000
The Company				
Trade and other payables	32,275	–	–	32,275
Financial guarantee contracts	–	69,370	–	69,370
	<u>32,275</u>	<u>69,370</u>	<u>–</u>	<u>101,645</u>

The Group and the Company ensure that there are adequate funds to meet all its obligations in a timely and cost-effective manner. In determining the adequacy of funds to meet the liabilities of the Group and the Company, the Group has obtained financial support from its related parties who had agreed to provide an undertaking to pay the liabilities of the Group and the Company as and when due including any liabilities arising from financial guarantees issued to related parties and third parties within 12 months from the date of this financial statements as disclosed in Note 3.1.

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk arises primarily from their borrowings. However, the Group's loans given to related parties are unsecured, interest bearing, repayable on demand and are to be settled in cash.

The Group's policy is to manage interest costs using a mix of fixed and floating rate debts taking into consideration the funding requirements of the Group.

Sensitivity analysis for interest rate risk

The Company and the Group are not exposed to any cash flows risk as it does not have any monetary financial instruments with variable interest rates.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

30 Financial risk management objectives and policies (Continued)

(d) Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises when transactions are denominated in foreign currencies.

The Group has transactional currency exposures mainly arising from borrowings that are denominated in a currency other than the functional currency of Renminbi. The foreign currencies in which these transactions are denominated are mainly United States Dollar (USD) and Singapore Dollar (SGD).

Currently, the PRC government imposes control over foreign currencies. RMB, the official currency in the PRC, is not freely convertible. Enterprises operating in the PRC can enter into exchange transactions through the People's Bank of China or other authorised financial institutions.

Exchanges of RMB for foreign currency must be arranged through the People's Bank of China or other authorised financial institutions. Approval for exchanges at the People's Bank of China or other authorised financial institutions is granted to enterprises in the PRC for valid reasons such as purchase of imported materials and remittance of earnings. While conversion of RMB into foreign currencies can generally be effected at the People's Bank of China or other authorised financial institutions, there is no guarantee that it can be effected at all times.

The Group's and the Company's exposures to various currencies are as follows:

	SGD RMB'000	USD RMB'000
The Group		
31 December 2018		
Trade and other receivables	12,215	102,717
Cash and cash equivalents	1,258	2,281
Borrowings	–	(75,631)
Trade and other payables	(3,279)	(26,823)
	10,194	2,544
31 December 2017		
Trade and other receivables	340	2,198
Cash and cash equivalents	409	16,335
Borrowings	–	(112,634)
Trade and other payables	(2,904)	(79,555)
	(2,155)	(173,656)
1 January 2017		
Trade and other receivables	567,715	167
Cash and cash equivalents	1,312	2,708
Borrowings	–	(77,832)
Trade and other payables	(2,960)	–
	566,067	(74,957)

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

144
SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

30 Financial risk management objectives and policies (Continued)

(d) Foreign currency risk (Continued)

	SGD RMB'000	USD RMB'000
The Company		
31 December 2018		
Trade and other receivables	1,700	51,599
Cash and cash equivalents	762	47
Trade and other payables	(19,577)	(18,362)
	(17,115)	33,284
31 December 2017		
Trade and other receivables	1,281	45,511
Cash and cash equivalents	267	39
Trade and other payables	(1,567)	(33,991)
	(19)	11,559
1 January 2017		
Trade and other receivables	1,123	44,154
Cash and cash equivalents	993	43
Trade and other payables	(2,732)	(24,543)
	(616)	19,654

The following table demonstrates the sensitivity of the Group and the Company's foreign currency balances denominated in USD held by the Group and the Company whose functional currency is RMB, to a reasonably possible change in the USD exchange rates against the RMB, with all other variables held constant.

	Group Profit net of tax Increase/(Decrease)		Company Profit net of tax Increase/(Decrease)	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
USD/RMB				
strengthened 3% (2017 – 3%)	(285)	(5,210)	1,286	1
weakened 3% (2017 – 3%)	285	5,210	(1,286)	(1)
SGD/RMB				
strengthened 3% (2017 – 3%)	(254)	(65)	16	*
weakened 3% (2017 – 3%)	254	65	(16)	*

* amount less than RMB1,000.

(e) Market price risk

Price risk is the risk that the value of a financial instrument will fluctuate due to changes in market prices. As at the end of the reporting period, the Group is not subject to significant market price risk.

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

145
SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

31 Capital management

The Company's and the Group's objectives when managing capital are:

- (a) To safeguard the Company's and the Group's abilities to continue as a going concern;
- (b) To support the Company's and the Group's stabilities and growth;
- (c) To provide capital for the purpose of strengthening the Company's and the Group's risk management capabilities; and
- (d) To provide an adequate return to shareholders.

The Company and the Group actively and regularly review and manage its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Company and the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Company and the Group currently do not adopt any formal dividend policy.

The Company and the Group monitor capital using capital net debt ratio, which is net debt divided by total capital plus net debt. The Company's and the Group's policy is to keep the gearing ratio at acceptable level. The Company and the Group include within net debt, loans and borrowings, less cash and short-term deposits. Capital includes equity attributable to the owners of the Company.

The immediate focus is to continue to optimise its operations with prudent cash management so as to maximise shareholders' value. The Group will continue to be guided by prudent financial policies.

The Group monitors capital using a gearing ratio, which is total net debt divided by total capital:

	Group			Company		
	31.12.2018	31.12.2017	1.12.2017	31.12.2018	31.12.2017	1.1.2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Borrowings	471,371	936,484	1,137,300	–	–	–
Less: Cash and cash equivalents (including non-current fixed deposits pledged)	(305,604)	(354,903)	(262,216)	(810)	(306)	(1,036)
Total net debt	165,767	581,581	875,084	(810)	(306)	(1,036)
Total equity	231,033	903,620	927,057	353,826	354,367	356,667
Total capital	396,800	1,485,201	1,802,141	353,016	354,061	355,631
Gearing ratio	42%	39%	49%	n.a	n.a	n.a

n.a: ratio not meaningful

Total capital is calculated as equity plus total net debt.

There was no change to the Group's approach to capital management during the financial years ended 31 December 2018 and 2017.

The Group is not subject to externally imposed capital requirement.

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

146
SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

32 Comparative figures

Following the classification of the joint venture with Taixing Sunke as a Disposal Group classified as held for sale and as a discontinued operations in the current financial year, the consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flow of the Group for the financial year ended 31 December 2017 has been re-presented as follows.

Consolidated statement of profit or loss and other comprehensive income

	As per previously reported RMB'000	Reclassification of Taixing Sunke to discontinued operations RMB'000	As re-presented RMB'000
The Group			
31 December 2017			
Continuing operations			
Cost of sales	(2,023,780)	(60,756)	(2,084,536)
Consolidation adjustment 1	n.a	1,084,884	n.a
Consolidation adjustment 2	n.a	(1,145,640)	n.a
Gross profit	222,932	(60,756)	162,176
Other income			
– Interest	3,988	(3,403)	585
– Others	41,732	(28,514)	13,218
Distribution expenses	(42,772)	2,603	(40,169)
Administrative expenses	(122,165)	19,027	(103,138)
Other operating expenses	(39,239)	25,934	(13,305)
Finance costs	(81,635)	8,269	(73,366)
Loss before taxation from continuing operations	(17,159)	(36,840)	(53,999)
Taxation	(5,704)	4,686	(1,018)
Loss after taxation from continuing operations	(22,863)	(32,154)	(55,017)
Discontinued operations			
Profit from discontinued operations, net of tax	–	32,154	32,154
Loss for the year	(22,863)	–	(22,863)
Loss per share			
Losses from Continuing operations			
Net loss attributable to owners of the Company (RMB'000)	(20,322)	(32,154)	(52,476)
Basic loss per share (RMB cents per share)	(3.8)	(6.1)	(9.9)
Diluted loss per share (RMB cents per share)	(3.8)	(6.1)	(9.9)
Statement of cash flows			
31 December 2017			
Cash Flows from Operating Activities			
Loss before taxation from continuing operations	(17,159)	(36,840)	(53,999)
Profit before taxation from discontinued operation	–	36,840	36,840

APPENDIX D – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

147
SUNVIC CHEMICAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

32 Comparative figures (Continued)

Consolidated statement of profit or loss and other comprehensive income (Continued)

Consolidation adjustment 1: reversal of the cost of sales of Taixing Sunke which has been included in the consolidation for the financial year ended 31 December 2017.

Consolidation adjustment 2: reinstatement of the cost of sales of Taixing Jurong which has been eliminated in the consolidation for the financial year ended 31 December 2017.

Segment reporting

	As per previously reported RMB'000	Reclassification of Taixing Sunke RMB'000	As re-presented RMB'000
The Group			
31 December 2017			
AA and AE			
Interest expenses	(63,097)	(6,391)	(56,706)
Depreciation and amortisation	(100,315)	(96,939)	(3,376)
Profit before income tax from continuing operation	47,125	(36,840)	10,285
Others			
Interest income	3,988	(3,403)	585
Interest expenses	(18,537)	1,878	(16,659)
Total			
Interest income	3,988	(3,403)	585
Interest expenses	(81,634)	8,269	(73,365)
Depreciation and amortisation	(137,231)	96,939	(40,292)
Profit before income tax from continuing operation	(17,159)	(36,840)	(53,999)
Profit before income tax from discontinued operation	–	36,840	36,840

The above re-presentation has no impact to the statement of financial position as at 31 December 2017 and 1 January 2017.

33 Subsequent events

(a) Corporate guarantees provided to unrelated parties

On 10 January 2019, the Company announced that the Board has been notified by the management that two of its subsidiaries have received letters of demand for an aggregate of RMB222,500,000 in respect of financial guarantees issued by these subsidiaries. Refer to Note 27(b) for details.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

33 Subsequent events (Continued)

(b) Notice of Compliance from SGX-ST

The Company received a letter of Notice of Compliance from SGX-ST dated 13 February 2019 (the “Notice of Compliance”). The Notice of Compliance highlighted that SGX Regco has serious concern over the questionable circumstances surrounding the unauthorised undisclosed significant Corporate Guarantees extended to purported third parties. Pending the outcome of the Audit Committee’s investigations into the veracity of the YFC and BOC loans and the circumstances surrounding the purported unauthorised Corporate Guarantees, SGX Regco directs the Company to:

- (i) Place the proceeds from the Proposed Disposal in an Escrow Account to be operated jointly by the independent directors of the Company, resident in Singapore;
- (ii) All receipts from the Proposed Disposal must be paid into the Escrow Account; and
- (iii) The amounts in the Escrow Account cannot be withdrawn until the completion of the investigations and agreed by the Exchange, save for the settlement of expenses and intercompany debts as set out in the Payment Terms of the Equity Transfer Agreement.

(c) Chemical plant explosion

On 27 March 2019, the Company announced that on 21 March 2019, a severe explosion (Chemical Explosion) occurred in Yancheng City, Jiangsu Province, the PRC.

The Chemical Explosion took place in the same chemical zone (Xiangshui Chemical Industry Park in Xiangshui County, Yancheng City) in which the Company’s wholly-owned subsidiaries, JJC and JJP, were operating in. The Chemical Explosion occurred at a chemical plant owned by Jiangsu Tianjiayi Chemical Co., Ltd., a company unrelated to the Group.

As mentioned in the Company’s announcement dated 15 May 2018 on the Group’s first quarter results for the financial year of 2018, JJC and JJP’s operations at the Xiangshui Chemical Industry Park remains in shutdown pursuant to the directive from the local government since April 2018. The Chemical Explosion had caused certain damages to the office building as well as the plant and equipment of Jiangsu Jurong. Currently, the local government has restricted public access to the chemical zone in which the Chemical Explosion took place.

Some of the employees of JJC and JJP suffered minor injuries due to the Chemical Explosion. There is no casualty to any of the employees of JJC and JJP due to the Chemical Explosion.

On 5 April 2019, it was reported by several news agencies (including the local state broadcaster, China Central Television) that the local government had decided to completely shut down the chemical zone in which the Chemical Explosion occurred. As mentioned in the Company’s aforesaid announcement dated 27 March 2019, the Company’s wholly-owned subsidiaries, JJC and JJP, were operating in such chemical zone prior to the explosion.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

33 Subsequent events (Continued)

(d) Special auditor

On 2 April 2019, the Company has engaged Ernst & Young Advisory Pte. Ltd. ("EY Advisory") as the external auditor to form part of a special investigative committee to conduct an independent assessment and investigation into the circumstances leading to and surrounding the BOC Corporate Guarantee and the YFC Corporate Guarantee. Under this engagement, apart from the Company's Audit Committee, EY Advisory will also concurrently report directly and provide regular updates to the SGX Exchange Regulation Pte. Ltd. during the course of their assessment and investigation. (Refer to Note 33(j) for the findings by EY Advisory).

(e) YFC supplemental agreement

On 20 June 2019, the Company announced that Yixing Futao Credit, Jiangsu Donglai and YYIE had entered into a supplemental agreement to the YFC Guarantee Agreement on 13 June 2019 ("YFC Supplemental Agreement"), under which the parties agreed, amongst others, that:

- (a) Jiangsu Donglai is the primary debtor and shall liquidate its assets or take such other steps to repay the YFC Loan and all other due payments including the interest payable under the YFC Guarantee Agreement to Yixing Futao Credit by 30 June 2020 (the "Extended Repayment Date"); and
- (b) Yixing Futao Credit shall not commence any legal proceedings against Jiangsu Donglai and YYIE at any time prior to the Extended Repayment Date to seek repayment of the YFC Loan and all other due payments including the interest payable under the YFC Guarantee Agreement.

(f) Statement by the Company's Audit Committee

On 10 July 2019, the Company announced the Statement by the Company's Audit Committee.

In light of the recent findings provided by EY Advisory to the Company's Audit Committee ("AC") and the SGX-ST from their on-going independent assessment and investigation into the circumstances leading to and surrounding, amongst others, the YFC Corporate Guarantee, the AC noted that there are some potential discrepancies between such recent findings and the Company's aforementioned responses provided by the management on queries 1 to 3. Such potential discrepancies include the AC being separately made aware of a notification issued by the People's Court of Yixing City, Jiangsu Province on 10 April 2019, whereby liquidation proceedings had commenced against Jiangsu Donglai on 21 March 2019 and a liquidator had been appointed on 10 April 2019. The date on which the liquidation proceedings had commenced against Jiangsu Donglai raised questions over the authenticity, validity and/or effectiveness of the YFC Supplemental Agreement. The potential discrepancies between EY Advisory's recent findings and the Company's aforementioned responses provided by the management on the SGX-ST's queries further cast doubts over the veracity and completeness of the latter. The AC wishes to emphasise that the independent assessment and investigation by EY Advisory is still on-going. (Refer to Note 33(j) for the findings by EY Advisory).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

33 Subsequent events (Continued)

(g) Update on the proposed disposal of 45% equity interest in Taixing Sunke

On 4 February 2019, the Company announced that Taixing Sunke, Taixing Jurong, Arkema Asie and Arkema (China) Investment Co., Ltd. (“Arkema (China)”) and together with Arkema Asie, the “Purchasers”, have entered into the Equity Transfer Agreement on 30 January 2019 in respect of the Proposed Disposal. Arkema (China) is a foreign investment holding company incorporated in the PRC, and is a wholly-owned subsidiary of Arkema Asie.

Pursuant to the Equity Transfer Agreement, the consideration for the Proposed Disposal shall be RMB700.0 million plus the Amount X (the “Transfer Price”).

On 15 July 2019, the shareholders of the Company had approved of the Proposed Disposal of Taixing Sunke to the Purchasers.

On 27 September 2019, the Company announced that:

- (1) Taixing Sunke, Taixing Jurong, Arkema Asie and Arkema (China) (the “Parties”) had entered into the Simple Form ETA on 19 July 2019 and under which, the Parties had agreed that the Transfer Price shall be the amount of RMB875,409,564.49, comprising of RMB700.00 million plus RMB175,409,564.49 (being the Amount X). Thereafter, accordingly, the Parties had commenced and completed the steps for Completion as set out at Section 2.4.5 of the Circular.
- (2) With regard to the payment of the Transfer Price, the Company had been working with the Parties towards the fulfillment of the directions of the SGX-ST under the Notice of Compliance, the SGX-ST Escrow Requirements and the Escrow Account Conditions as set out at Section 2.4.6 of the Circular.

In accordance with the terms of the Equity Transfer Agreement (as described at Section 2.4.6 of the Circular) and the Escrow Agreement:

- i. The First Instalment of Transfer Price: (i) was deposited into the Escrow Accounts by the Purchasers in full on 17 September 2019; and (ii) was transferred to and received by Taixing Sunke from the Escrow Agent in full on 18 September 2019, and Taixing Sunke had provided the Acknowledgement of the Amount X to Taixing Jurong and the Purchasers on 19 September 2019;
- ii. The Second Instalment of Transfer Price: (i) was deposited into the Escrow Accounts by the Purchasers in full on 23 September 2019; and (ii) was transferred to and received by Taixing Sunke from the Escrow Agent in full on 24 September 2019, and Taixing Sunke had provided the Acknowledgement of the Net Overdue Amount to Taixing Jurong and the Purchasers on 24 September 2019; and
- iii. The Third Instalment of Transfer Price was deposited into the Escrow Accounts by the Purchasers on 26 September 2019.

**NOTES TO THE
FINANCIAL STATEMENTS**
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

33 Subsequent events (Continued)

(g) Update on the proposed disposal of 45% equity interest in Taixing Sunke (Continued)

The Third Instalment of Transfer Price shall remain in the Escrow Accounts for the time being and any withdrawal shall only be made in accordance with the Notice of Compliance, the Escrow Agreement, the Undertaking Letter to SGX-ST and such other directions or conditions as instructed by the SGX-ST from time to time.

(h) Proceeds from proposed disposal of 45% equity interest in Taixing Sunke

On 27 September 2019, the Company announced that pursuant to the LOI, Equity Transfer Agreement, the Escrow Agreement and Escrow Account, its wholly owned subsidiary Taixing Jurong, has received the following monies from the Purchasers of Taixing Sunke and paid monies to Taixing Sunke respectively as follows:

i. First instalment:

- RMB175,409,564.49 received by Taixing Jurong on 17 September 2019 from the Purchasers;
- RMB175,409,564.49 paid by Taixing Jurong on 18 September 2019 to Taixing Sunke and acknowledgement receipt provided on 19 September 2019 by Taixing Sunke to Taixing Jurong.

ii. Second instalment:

- RMB322,921,822.16 received by Taixing Jurong on 23 September 2019 from the Purchasers;
- RMB322,921,822.16 paid by Taixing Jurong on 24 September 2019 to Taixing Sunke and acknowledgement receipt provided on 24 September 2019 by Taixing Sunke to Taixing Jurong.

iii. Third instalment:

- RMB377,078,177.84 received by Taixing Jurong on 26 September 2019 from the Purchasers.

(i) Letter of demand for immediate repayment of loans from banks

On 2 October 2019, the Company announced that it has received letters of demand to pay six (6) overdue bank loans of an aggregate amount of RMB166,098,254 from the China Construction Bank Corporation, the Agricultural Bank of China and the Industrial and Commercial Bank of China in the PRC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

33 Subsequent events (Continued)

(j) Findings by EY Advisory

On 7 November 2019, the Company announced that EY Advisory has, on 6 November 2019 submitted the full report on its findings to the SGX-ST and the Audit Committee, and the key findings were as follows:

- Discrepancies surrounding the veracity of the YFC Agreements consisting of the YFC loan, YFC Corporate Guarantee and the YFC Supplemental Agreement
- Discrepancies in the announcement dated 19 February 2019 issued by the Company
- Lack of adequate controls over approving and monitoring of corporate guarantees extended to third parties
- Absence of disclosure surrounding the corporate guarantees given by Jiangsu Jurong Chemical Co., Ltd. since 2016

(k) Resignation of Executive Director and Chief Executive Officer

On 14 November 2019, the Company announced that Sun Xiao, the Executive Director and Chief Executive Officer of the Company has resigned effective from 8 February 2020.

- (l)** On 5 March 2020, the Company has announced that following the completion of the special audit by EY Advisory and in view of the YFC Veracity Discrepancies (refer to Note 27(b)), the Company has reversed in full the provision of the YFC Contingent Liabilities of RMB180 million from the financial statements of the Group as at 31 December 2018.

- (m)** 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 RMB35.0 million owed by JJC to XCAIH.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

The audited consolidated financial statements of the Group for the financial year ended 31 December 2019 which are set out below were not specifically prepared for inclusion in this Circular.

A copy of the audited consolidated financial statements of the Group for the financial year ended 31 December 2019 is available for inspection at the offices of the Company's share registrar, Tricor Barbinder Share Registration Services at 80 Robinson Road, #11-02, Singapore 068898.

**SunVic Chemical Holdings Limited
and its subsidiaries**

Financial statements
31 December 2019

**APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE
GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

Company information

Company registration number	200406502E
Registered office	112 Robinson Road #11-01 Robinson 112 Singapore 068902
Directors	Sun Lihua (appointed as Executive Director and Chief Executive Officer on 29 February 2020) Koh Poh Beng (Gao Baoming) Lua Poh Huat Yang Guoqiang (resigned on 28 November 2019) Zhu Wuling (resigned on 29 February 2020) Sun Xiao (resigned on 8 February 2020)
Secretary	Lee Wei Hsiung
Independent auditor	Foo Kon Tan LLP Public Accountants and Chartered Accountants 24 Raffles Place, #07-03 Clifford Centre Singapore 048621 Partner-in-charge: Mr Chang Fook Kay (since financial year ended 31 December 2018)

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

Contents

	Page
Directors' statement	1
Independent auditor's report	5
Consolidated statement of profit or loss and other comprehensive income	16
Statements of financial position	17
Consolidated statement of changes in equity	18
Consolidated statement of cash flows	19
Notes to the financial statements	21

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

SunVic Chemical Holdings Limited

1

Directors' statement for the financial year ended 31 December 2019

The directors present their statement to the members together with the audited financial statements of the Group for the financial year ended 31 December 2019 and the statement of financial position of the Company as at 31 December 2019.

In the opinion of the directors,

- (a) the accompanying financial statements of the Group and Company are drawn up so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2019 and of the financial performance, changes in equity and cash flows of the Group for the year ended on that date in accordance with the provisions of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards (International); and
- (b) at the date of this statement, the accompanying financial statements, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

Names of directors

The directors of the Company in office at the date of this report are:

Sun Lihua	(appointed as Executive Director and Chief Executive Officer on 29 February 2020)
Koh Poh Beng (Gao Baoming)	
Lua Poh Huat	
Yang Guoqiang	(resigned on 28 November 2019)
Zhu Wuling	(resigned on 29 February 2020)
Sun Xiao	(resigned on 8 February 2020)

Arrangements to enable directors to acquire shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object was to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' interests in shares or debentures

According to the Register of Directors' Shareholdings kept by the Company under Section 164 of the Companies Act, Cap. 50, none of the directors who held office at the end of the financial year had any interest in the shares or debentures of the Company or its related corporations, except as follows:

Name of directors	Holdings registered in the name of director		Holdings in which director is deemed to have an interest	
	As at 1.1.2019	As at 31.12.2019	As at 1.1.2019	As at 31.12.2019
SunVic Chemical Holdings Limited			Number of ordinary shares	
Yang Guoqiang (resigned on 28 November 2019)	190,000	190,000	-	-
Zhu Wuling (resigned on 29 February 2020)	356,000	356,000	-	-
Lua Poh Huat	2,504,000	2,504,000	-	-

There was no change in any of the above mentioned interests in the Company between the end of the financial year and 21 January 2020.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

SunVic Chemical Holdings Limited and its subsidiaries

2

Directors' statement for the financial year ended 31 December 2019

Share options

No options to take up unissued shares of the Company or any subsidiaries have been granted during the financial year.

No shares were issued during the financial year to which this report relates by virtue of the exercise of options to take up unissued shares of the Company or any subsidiaries.

There were no unissued shares of the Company or any subsidiaries under option at the end of the financial year.

Audit Committee

The audit committee ("AC") at the end of the financial year comprises the following members:

Koh Poh Beng (Gao Baoming) (Chairman)
Lua Poh Huat

Section 201B of the Companies Act states that every listed company shall have an audit committee comprising of more than 3 members. If a member of an audit committee resigns, dies or for any other reason ceases to be a member with the result that the number of members is reduced below 3, the Board of Directors shall, within 3 months of that event, appoint such number of new members as may be required to make up the minimum number of 3 members. The Company is currently looking into the appointment of another audit committee member.

All members of the audit committee were non-executive directors and all members were independent.

The audit committee performs the functions set out in Section 201B (5) of the Companies Act, Cap. 50, the SGX Listing Manual and the Code of Corporate Governance. In performing those functions, the committee reviewed the following:

- (i) overall scope of the external audit and the assistance given by the Company's officers to the auditors. It met with the Company's external auditors to discuss the results of their respective examinations and their evaluation of the Company's system of internal accounting controls;
- (ii) the audit plan of the Company's independent auditor and any recommendations on internal accounting controls arising from the statutory audit;
- (iii) the quarterly financial information and the statement of financial position of the Company and the consolidated financial statements of the Group for the financial year ended 31 December 2019 as well as the auditor's report thereon;
- (iv) effectiveness of the Company's material internal controls, including financial, operational and compliance controls and information technology controls and risk management systems;
- (v) met with the external auditor, other committees, and management in separate executive sessions to discuss any matters that these groups believe should be discussed privately with the audit committee;
- (vi) reviewed legal and regulatory matters that may have a material impact on the financial statements, related compliance policies and programmes and any reports received from regulators;
- (vii) reviewed the cost effectiveness and the independence and objectivity of the external auditor;

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

SunVic Chemical Holdings Limited and its subsidiaries

3

Directors' statement for the financial year ended 31 December 2019

Audit Committee (Cont'd)

- (viii) reviewed the nature and extent of non-audit services provided by the external auditor;
- (ix) recommended to the Board of Directors the external auditor to be nominated, approved the compensation of the external auditor, and reviewed the scope and results of the audit;
- (x) reported actions and minutes of the audit committee to the Board of Directors with such recommendations as the audit committee considered appropriate; and
- (xi) interested person transactions (as defined in Chapter 9 of the Listing Manual of the Singapore Exchange).

The audit committee has full access to management and is given the resources required for it to discharge its functions. It has full authority and the discretion to invite any director or executive officer to attend its meetings. The audit committee also recommends the appointment of the external auditor and reviews the level of audit and non-audit fees.

The audit committee is satisfied with the independence and objectivity of the external auditor and has recommended to the Board of Directors that the auditor, Foo Kon Tan LLP, be nominated for re-appointment as auditors at the forthcoming Annual General Meeting of the Company.

Full details regarding the audit committee are provided in the Corporate Governance Report.

In appointing our auditors for the Company and subsidiaries, we have complied with Rules 712 and 715 of the SGX Listing Manual.

Independent auditor

The independent auditor, Foo Kon Tan LLP, Public Accountants and Chartered Accountants, has expressed its willingness to accept re-appointment.

Other information required by the SGX-ST

Material information

There is no material contract to which the Company or any of its subsidiaries, is a party which involve directors' interests subsisted or have been entered into during the financial year except as disclosed under "Disclosure of Remuneration" in the "Corporate Governance Report" and in Notes 6(c) and 26(c) to the financial statements.

**APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE
GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

SunVic Chemical Holdings Limited

4

and its subsidiaries

Directors' statement for the financial year ended 31 December 2019

Interested person transactions

There was no interested person transaction as defined in Chapter 9 of the Listing Manual of the Singapore Exchange conducted during the financial year except as disclosed under "Interested Person Transactions" in the "Corporate Governance Report" section of the Annual Report and on Note 26(a), (b) and Note 28(a) to the financial statements.

(On behalf of the Directors


SUN LIHUA


KOH POH BENG

Dated:

09 DEC 2020

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

Report on the Audit of the financial statements

Disclaimer of Opinion

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 2019, 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 financial year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying financial statements of the Group. 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

We did not express an audit opinion on the consolidated financial statements of the Group for the financial year ended 31 December 2018. Similarly, for the financial year ended 31 December 2019, our audit report contained the following bases for the disclaimer of opinion:

1. Discrepancies surrounding the veracity of the YFC Agreements

As reported in the auditor's report for financial year ended 31 December 2018 and as detailed in Note 28(b) 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.

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)

The Company also announced in 2019 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 the Group's subsidiaries, Yixing Yinyan Import and Export Co., Ltd. and Jiangsu Jurong Chemical Co., Ltd had signed the financial guarantee contracts at their own initiative without any formal authorisation and approval by the Board of Directors of the Company.

Despite the aforesaid announcement of the receipt of legal claims by the Company, special investigations by EY Advisory who reported their findings to the Singapore Exchange Securities Trading Limited ("SGX-ST") in 2019, however, revealed discrepancies surrounding the veracity of the RMB 180.0 million YFC Agreements. In addition, our legal counsel in the PRC has reported that the RMB 180.0 million YFC Corporate Guarantee contract did not exist, and neither was there any legal demands made in respect of this financial guarantee contract. On this basis, the Company had reversed in full the provision of the YFC Contingent Liabilities of RMB 180.0 million from the financial statements of the Group for the year ended 31 December 2018.

During the financial year ended 31 December 2019, the Company has reversed in full the provision of the BOC Contingent liabilities of RMB 42.5 million to the consolidated profit or loss for the year then ended (refer to Note 5(b)). The reversal was made as the PRC management has advised the Board that the BOC Corporate Guarantee was settled by a third party. We were not provided with any documentary evidence as to the settlement of the RMB 42.5 million BOC Corporate Guarantee. Neither were we able to ascertain the veracity of the BOC Corporate Guarantee contract based on information available to us. We were also unable to carry out alternative procedures we consider necessary in this respect.

Owing to the discrepancies surrounding the veracity of the YFC Corporate Guarantee and BOC Corporate Guarantee that was reported in our auditor's report in fiscal year 2018, and due to a limitation of audit scope for the current financial year ended 31 December 2019 as discussed in the aforesaid paragraph, 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 auditor's report for the financial year ended 31 December 2018 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 26(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 2019 were RMB 1.3 billion (2018: RMB 2.7 billion). Such Transactions entered are a common practice carried out in the People's Republic of China (PRC). 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 397.4 million (2018 - RMB 471.4 million) as at 31 December 2019. As disclosed in Note 26(b), the bank facilities sum as at 31 December 2019 was RMB 646.0 million (2018: RMB 923.0 million) as reported under the facility arrangements in the PRC entered into during the year ended 31 December 2019.

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 1.4 billion and RMB 1.3 billion in FY2018 and FY2019 respectively (refer to Note 28(a)) 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 was 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 - "Discrepancies surrounding the veracity of the YFC Agreements" was known to then Executive Director and Chief Executive Officer, Sun Xiao. In addition, no internal audit was carried out by the Company in fiscal years 2018 and 2019.

Because of the matters arising as explained in the aforesaid paragraphs, we were unable to ascertain the veracity of the financial guarantees of RMB 1.4 billion (2018 - RMB 1.6 billion) as at 31 December 2019 that were entered into amongst the related parties concerned. Owing to the discrepancies surrounding the veracity of the YFC Corporate Guarantee and BOC Corporate Guarantee as stated in our auditor's report in fiscal year 2018 and coupled with the lack of effective internal controls over the supervision and approval of the financial guarantee contracts, and the lack of supporting documentation for the settlement of the BOC Corporate Guarantee during the financial year ended 31 December 2019, and the reversal of the provision of the BOC Corporate Guarantee liabilities of RMB 42.5 million to consolidated profit or loss for the year then ended, 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 and accrued severance compensation

As stated in our auditor's report for the financial year ended 31 December 2018, the operations of the Group's subsidiaries, Jiangsu Jurong Chemical Co., Ltd. ("JJC") and Jurong Petrochemicals Co., Ltd. ("JJP") were affected by the shutdown following the chemical explosion ("Chemical Explosion") at the Xiangshui Chemical Industry Park in Yancheng, Jiangsu Province, PRC ("Xiangshui") in March 2019. In connection with the shutdown of Xiangshui, the Group made a provision for accrued severance compensation of RMB 12.7 million and a provision for restoration cost of RMB 45.6 million as at 31 December 2018.

As the Xiangshui area remained under shutdown with no physical access as at 31 December 2019 and as of the date of this report, the provision for accrued severance compensation of RMB 12.7 million and the provision for restoration cost of RMB 45.6 million made during the year ended 31 December 2018 were carried forward to 31 December 2019.

Provision for accrued severance compensation (Note 22)

Included in Trade and Other Payables as at 31 December 2019, the Group has accrued a severance compensation of RMB 12.7 million (2018 – RMB 12.7 million) related to compensation payable to the staffs due to the outbreak of fire from the Chemical Explosion at Xiangshui 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.

Provision for restoration cost (Note 23)

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 Xiangshui to the government arising from the Chemical Explosion incident, and the legal consequences arising thereof cannot be ascertained.

Due to limitation of audit scope, we were unable to determine the extent of the provision required for the provision for accrued severance compensation and provision for accrued severance compensation. There were no satisfactory alternative procedures that we could perform in this regard.

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

Basis for Disclaimer of Opinion (Cont'd)

4. Impairment of assets of Jiangsu Jurong Chemical Co., Ltd. ("JJC") and Jurong Petrochemicals Co., Ltd. ("JJP")

As stated in our auditor's report for the financial year ended 31 December 2018 and as disclosed in Note 29 to the financial statements, the operations of JJC and JJP were affected by the shutdown of Xiangshui following the Chemical Explosion in 2019.

In so far as impairment of non-financial assets including intangible assets is concerned for JJC and JJP, which are located at Xiangshui 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 Section 3 of the Basis for Disclaimer of opinion – Provision for restoration and accrued severance compensation, and in Note 30 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 Xiangshui. In addition, due to limited access to the assets located at Xiangshui which is sealed off and protected by the government authorities during the financial years ended 31 December 2018 and 2019 and as of the date of this report, it is not possible to perform an inspection of certain assets of JJC and JJP.

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 and 2019, it is also not possible to assess these assets for recoverability owing to the shutdown of the operations in Xiangshui following the Chemical Explosion and that certain suppliers, whose operations are based in the vicinity of Xiangshui, 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 as at 31 December 2019.

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

Basis for Disclaimer of Opinion (Cont'd)

4. Impairment of assets of Jiangsu Jurong Chemical Co., Ltd. ("JJC") and Jurong Petrochemicals Co., Ltd. ("JJP") (Cont'd)

Asset	Note	Carrying amount at 31/12/2019	Impairment loss recognised for the year ended 31/12/2019	Carrying amount at 31/12/2018	Impairment loss recognised for the year ended 31/12/2018
		RMB 'millions	RMB 'millions	RMB 'millions	RMB 'millions
i. Property, plant and equipment ("PPE")	9(a) & 29 (a)(b)	8.9	Nil	76.3	166.6
ii. Right-of-use assets (comprising Leasehold buildings & Land-use right)	29 (b)	58.3	Nil	Nil	Nil
iii. Land use rights	29 (c)	Nil	Nil	10.4	Nil
iv. Intangible assets (comprising technology know how and software)	29 (d)	7.2	Nil	7.9	Nil
v. Value-added tax recoverable	29 (e)	10.2	Nil	9.5	83.9
vi. Advances and prepayments to suppliers for the purchase of raw materials	29 (f)(g)	4.9	Nil	8.5	19.6
vii. Inventories	29 (h)	4.3	1.3	8.5	Nil

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

Property, plant and equipment and right-of-use assets

As at 31 December 2019, the Group's property, plant and equipment and right-of-use assets included those of its PRC subsidiary, TXJC, with a carrying amount of RMB 128.0 million (2018: RMB 260.9 million) and RMB 148.0 million (comprising leasehold buildings and land use rights) (2018: Nil) respectively.

During the financial year ended 31 December 2019, TXJC recorded a decrease in revenue from RMB 1.1 billion in 2018 to RMB 490.0 million in 2019 and incurred a gross loss margin of RMB 2.7 million for the year ended 31 December 2019. Notwithstanding the indicators of impairment, management determined that no impairment is required on the Group's property, plant and equipment and right-of-use assets as it is of the view that the recoverable amounts exceeded the net carrying values as at 31 December 2019.

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 Taixing Jurong Chemical Co., Ltd. ("TXJC") (Cont'd)

Property, plant and equipment and right-of-use assets (Cont'd)

We were not provided with sufficient appropriate audit evidence as to the basis of management's impairment assessment. In addition, no formal valuation has been performed on the property, plant and equipment and the right-of-use assets. On the basis of the matters referred to above, we were unable to obtain sufficient evidence to satisfy ourselves as to the extent of the impairment required for the year ended 31 December 2019 or as to the appropriateness of the carrying amounts of the property, plant and equipment and right-of-use assets as at 31 December 2019.

6. Impairment assessment of freehold land at Link Way Louisiana LLC

As at 31 December 2019, the freehold land of a subsidiary, Link Way Louisiana LLC, (Note 12) that was included in the Group's consolidated statement of financial position was carried at a historical cost of RMB 12.6 million (2018: RMB12.4 million).

As stated in our auditor's report for the year ended 31 December 2018, no impairment assessment on the above freehold land was carried out by management. Similarly, no impairment assessment was carried out by the management for the year ended 31 December 2019 as management is of the view that the carrying amount represents fair value as at that date. In the absence of information from management on the impairment assessment, we were unable to carry out the procedures necessary to satisfy ourselves as to the extent of the impairment required or as to the appropriateness of the carrying amount of the freehold land as of and for the year then ended.

7. 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 2019 were investments in a subsidiary, JJC, with a carrying amount of RMB 340.2 million (2018 - RMB 340.2 million) and trade receivable amounts due from JJC of RMB 42.1 million (2018 - RMB 37.7 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 2019, JJC has reported net assets of RMB 773.2 million (2018 – 809.4 million) and profit of RMB 5.4 million (2018 – 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 2019.

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

Basis for Disclaimer of Opinion (Cont'd)

8. Amount owed by a related party, 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, Mr Sun Lihua (Chief Executive Officer and Executive Director of the Company) and Mr Sun Xiao (the former Chief Executive Officer and Executive Director of the Company) own in aggregate 96.0% of the equity interest in Jiangsu Yinyan. The transactions by the Group with Jiangsu Yinyan consist of the sale of chemical products of RMB 67,000 (2018 – RMB 71.6 million) and the purchase of inventories of RMB 5.2 million (2018 – RMB 18.0 million). As at 31 December 2019, the amount owed by Jiangsu Yinyan was RMB 131.1 million (2018: RMB 131.1 million). No impairment allowance has been made. We are unable to ascertain the recoverability of this debt. Consequently, we were unable to determine whether any adjustments might be necessary to the financial statements.

9. Going concern

As at 31 December 2019, the Group has net current liabilities of RMB 32.0 million (2018 – net current liabilities of RMB 544.9 million, excluding assets and liabilities held for sale) and recorded a cash outflow from operating activities of RMB 271.3 million (2018 – cashflow inflow of RMB 376.4 million).

As at 31 December 2019, the Group has cash and cash equivalents of RMB 7.8 million (2018 – RMB 25.4 million). As announced on 27 September 2019 by the Company, the joint operation company of the Group, Taixing Sunke Chemicals Co Ltd, was disposed of and approved by the Board. However, as fully disclosed in Note 13(c), due to the technicality as to the remittance of the net sale proceeds of RMB 377.4 million (restricted cash including interest income) as at 31 December 2019 following the disposal of Taixing Sunke Chemicals Co Ltd, 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 397.4 million (2018: RMB 471.4 million) as at 31 December 2019.

These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. As at the date of this auditor's report, we are unable to obtain sufficient appropriate audit evidence regarding the likely outcome of the Group's ability to generate sufficient cash flows from its operations to improve the working capital position of the Group and to repay its liabilities when due. We are, therefore, unable to conclude whether the use of the going concern assumption, which has been adopted in the preparation of the accompanying financial statements, is appropriate.

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 26(a) 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 2019, the transactions consist of the sale of chemical products of RMB 259.1 million (2018 - RMB 224.2 million) and purchase of inventories of RMB 4.4 million (2018 - RMB 35.1 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 former Chief Executive Officer of the Company) and their associates own in aggregate 100% of the equity interest in Jiaying Jinyan Chemical Co., Ltd. ("Jiaying Jinyan"), while Taixing Jinyan is a 100% owned subsidiary company of Jiaying Jinyan.

The transactions consist of the sale of chemical products of RMB 145.2 million (2018 – RMB 260.6 million), purchase of inventories of RMB 296.8 million (2018 – RMB 14.4 million) and rental income of RMB 3.6 million (2018 – RMB Nil).

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

Other Matters (Cont'd)

Related party transactions (Cont'd)

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 purchase of inventories of RMB Nil (2018 - RMB 164,000).

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, Mr Sun Libua (Chief Executive Officer and Executive Director of the Company) and Mr Sun Xiao (the former Chief Executive Officer and Executive Director of the Company) own in aggregate 96.0% of the equity interest in Jiangsu Yinyan. The transactions consist of the sale of chemical products of RMB 67,000 (2018 - RMB 71.6 million), purchase of inventories of RMB 5.2 million (2018 - RMB 18.0 million). As at 31 December 2019, the amount owing by Jiangsu Yinyan was RMB 131.1 million (2018: RMB 131.1 million). No impairment allowance has been made. We are unable to ascertain the recoverability of this debt.

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. 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.



Fook Kon Tan LLP
Public Accountants and
Chartered Accountants

Singapore.
9 December 2020

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

16

**Consolidated statement of profit or loss and
other comprehensive income**
for the financial year ended 31 December 2019

	Note	Year ended 31 December 2019 RMB'000	Year ended 31 December 2018 RMB'000
Continuing operations			
Revenue	4	940,381	1,577,098
Cost of sales		(934,547)	(1,543,832)
Gross profit		5,834	33,266
Other income			
- Interest	5(a)	1,903	1,822
- Others	5(b)	387,479	41,935
Distribution expenses		(4,844)	(37,070)
Administrative expenses		(93,286)	(142,700)
Other operating expenses	6(a)	(177,412)	(510,032)
Finance costs	6(b)	(48,753)	(73,062)
Profit/(Loss) before taxation		70,921	(685,841)
Taxation	7	(16)	(600)
Profit/(Loss) after taxation from continuing operations		70,905	(686,441)
Discontinued operations			
Profit from discontinued operations, net of tax	13(c)	20,815	13,045
Profit/(Loss) for the year		91,720	(673,396)
Other comprehensive income after tax: (Item that may be reclassified subsequently to profit or loss)			
Foreign currency translation		203	809
Total comprehensive profit/(loss) for the year		91,923	(672,587)
Profit/(Loss) attributable to:			
Owners of the Company		93,363	(630,678)
Non-controlling interests		(1,643)	(42,718)
Profit/(Loss) for the year		91,720	(673,396)
Profit/(Loss) attributable to owners of the Company:			
Profit/(Loss) from continuing operations		72,548	(643,723)
Profit from discontinued operations		20,815	13,045
		93,363	(630,678)
Total comprehensive profit/(loss) attributable to:			
Owners of the Company		93,566	(629,869)
Non-controlling interests		(1,643)	(42,718)
Total comprehensive profit/(loss) for the year		91,923	(672,587)
		RMB Cents	RMB Cents
Earnings/(Loss) per share for loss from:			
Basic and diluted earnings/loss per share			
- profit/(loss) for the year	8	17.5	(118.5)
- continuing operations	8	13.6	(121.0)
- discontinued operations	8	3.9	2.5

The annexed notes form an integral part of these financial statements.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

17

Statements of financial position as at 31 December 2019

		Group		Company	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
	Note	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	9	131,431	337,767	18	33
Right-of-use assets	10	207,419	-	1,139	-
Intangible assets	11	7,178	7,885	-	-
Freehold land / Land use rights	12	12,577	44,900	-	-
Investment in subsidiaries	13(a)	-	-	342,623	342,623
Deferred tax assets	14	-	-	-	-
Value-added tax recoverable	15	-	-	-	-
Fixed deposits - pledged	16	-	76,739	-	-
		358,605	467,291	343,760	342,656
Current assets					
Inventories	17	24,058	18,544	-	-
Trade and other receivables	18	596,748	751,708	57,949	53,299
Cash and cash equivalents	16	789,169	228,865	296	810
		1,409,975	999,117	58,245	54,109
Assets of disposal group classified as held for sale	13(c)	-	791,883	-	-
		1,409,975	1,791,000	58,245	54,109
Total assets		1,768,580	2,258,291	402,025	396,765
EQUITY AND LIABILITIES					
Capital and Reserves					
Share capital	19	291,516	291,516	291,516	291,516
Treasury shares	19	(1,575)	(1,575)	(1,575)	(1,575)
(Accumulated losses)/Retained earnings		(132,768)	(226,237)	61,971	63,885
Other reserves	20	285,276	289,706	-	-
		442,449	353,410	351,912	353,826
Non-controlling interests		(124,020)	(122,377)	-	-
Total equity		318,429	231,033	351,912	353,826
Non-current liabilities					
Borrowings	21	-	75,631	-	-
Lease liabilities	24	705	-	705	-
Deferred tax liabilities	14	7,500	7,500	-	-
		8,205	83,131	705	-
Current liabilities					
Borrowings	21	397,431	395,740	-	-
Trade and other payables	22	997,120	1,058,446	48,922	42,939
Provision for restoration costs	23	45,573	45,573	-	-
Lease liabilities	24	486	-	486	-
Provision for contingent liability – Corporate guarantees	28(b)	-	42,500	-	-
Income tax payable		1,336	1,750	-	-
		1,441,946	1,544,009	49,408	42,939
Liabilities of disposal group classified as held for sale	13(c)	-	400,118	-	-
		1,441,946	1,944,127	49,408	42,939
Total liabilities		1,450,151	2,027,258	50,113	42,939
Total equity and liabilities		1,768,580	2,258,291	402,025	396,765

The annexed notes form an integral part of these financial statements.

Consolidated statement of changes in equity for the financial year ended 31 December 2019

The Group	Attributable to owners of the Company										
	Share capital (Note 19) RMB'000	Treasury shares (Note 19) RMB'000	Capital reserve RMB'000	Foreign currency translation reserve RMB'000	Merger reserve RMB'000	Special safety reserve RMB'000	Other reserves total (Note 20) RMB'000	Retained earnings RMB'000	Equity attributable to owners of the Company RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2018	291,516	(1,575)	255,286	(16,204)	(499)	50,314	288,897	404,441	983,279	(79,659)	903,620
Loss for the year	-	-	-	-	-	-	-	(630,678)	(630,678)	(42,718)	(673,396)
Other comprehensive income	-	-	-	809	-	-	809	-	809	-	809
Total comprehensive income/(loss) for the year	-	-	-	809	-	-	809	(630,678)	(629,869)	(42,718)	(672,587)
Balance at 31 December 2018	291,516	(1,575)	255,286	(15,395)	(499)	50,314	289,706	(226,237)	353,410	(122,377)	231,033
Income/(loss) for the year	-	-	-	-	-	-	-	93,363	93,363	(1,643)	91,720
Other comprehensive income	-	-	-	203	-	-	203	-	203	-	203
Total comprehensive income/(loss) for the year	-	-	-	203	-	-	203	93,363	93,566	(1,643)	91,923
Disposal of Taixing Sunke (Note 13(c))	-	-	(4,527)	-	-	-	(4,527)	-	(4,527)	-	(4,527)
Transfer to retained earnings	-	-	(106)	-	-	-	(106)	106	-	-	-
Balance at 31 December 2019	291,516	(1,575)	250,653	(15,192)	(499)	50,314	285,278	(132,758)	442,440	(124,020)	318,429

The annexed notes form an integral part of these financial statements.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

19

Consolidated statement of cash flows
for the financial year ended 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
Cash Flows from Operating Activities			
Profit/(Loss) before taxation from continuing operations		70,921	(685,841)
Profit before taxation from discontinued operation	13(c)	23,854	23,052
		94,775	(662,789)
Adjustments for:			
Interest expense	6(b)	48,753	80,159
Interest income	5(a)	(1,903)	(2,593)
Depreciation of property, plant and equipment	9	21,902	109,654
(Reversal of impairment)/Impairment loss of property, plant and equipment	9	(4,620)	199,030
Amortisation of intangible assets	11	707	812
Amortisation of land use rights	12	-	1,334
Amortisation of right-of-use assets	10	15,928	-
Gain on disposal of land use rights	5	-	(9,429)
Loss/(Gain) on disposal of property, plant and equipment	6(a), 5(b)	1,544	(36)
Property, plant and equipment expensed off	9	345	-
Unrealised currency translation difference		203	809
Impairment loss on value added tax recoverable		-	83,951
Impairment loss on prepayment	18	290	19,625
Gain on disposal of Taixing Sunke	13(c)	(321,412)	-
(Reversal of)/Provision for Contingent liabilities – third parties	28(b)	(42,500)	42,500
Provision for restoration costs	23	-	45,573
Provision for severance compensation	22	-	12,700
Allowance for/(reversal) of doubtful debt provision	18	19,209	(80)
Allowance for inventory write-down	17	1,307	-
Operating loss before working capital changes		(165,472)	(78,780)
(Increase)/decrease in inventories		(6,821)	45,446
Decrease/(increase) in trade and other receivables		193,490	(12,327)
(Decrease)/increase in trade and other payables		(289,082)	443,426
Cash (used in)/generated from operations		(267,885)	397,765
Income tax paid		(3,468)	(21,368)
Net cash flows (used in)/generated from operating activities		(271,353)	376,397
Cash Flows from Investing Activities			
Interest received		1,903	2,593
Purchase of property, plant and equipment (Note A)		(9,845)	(36,002)
Proceeds from disposal of property, plant and equipment		12,098	978
Proceeds from disposal of Taixing Sunke	13(c)	875,410	-
Prepayment for right-of-use assets (Note B)	10	(1,209)	-
Net cash flows generated from/(used in) investing activities		878,357	(32,431)
Cash Flows from Financing Activities			
Proceeds from borrowings (Note C)		494,254	631,205
Repayments of borrowings (Note C)		(568,194)	(943,318)
Repayment of principal portion of lease liabilities (Note C)		(444)	-
Repayment of interest portion of lease liabilities (Note C)		(74)	-
Restricted cash from disposal of Taixing Sunke	13(c), 16	(377,078)	-
Interest from Escrow account	16	(298)	-
Interest paid		(48,679)	(80,159)
Increase in pledged fixed deposits		(107,419)	(99,014)
Net cash flows used in financing activities		(607,932)	(491,286)
Net decrease in cash and cash equivalents		(928)	(147,320)
Cash and cash equivalents at beginning		9,010	157,324
Effects of exchange rate changes		(302)	(994)
Cash and cash equivalents at end	16	7,780	9,010

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

SunVic Chemical Holdings Limited
and its subsidiaries

20

Consolidated statement of cash flows (Cont'd) for the financial year ended 31 December 2019

Note:

A. Property, plant and equipment

In the prior year, the Group paid cash of RMB 36.0 million for the additions to property, plant and equipment amounting to RMB 6.8 million. The difference was mainly due to payment made for prior year payables for property, plant and equipment.

The Group	2018 RMB' 000
Amounts payable to suppliers at beginning	45,059
Purchases of property, plant and equipment (Note 9)	6,829
Amounts payable to suppliers at end	(15,886)
Cash paid on addition of property, plant and equipment	36,002

B. Right-of-use assets

In 2019, the Group makes cash payments to acquire right-of-use assets – land use rights of \$1,209,000.

C. Reconciliation of liabilities arising from financing activities

The following is the disclosures of the reconciliation of items for which cash flows have been, or would be, classified as financing activities, excluding equity items:

	1 January 2019 RMB'000	Non-cash flows Adoption of SFRS(I) 16 (Note 2(b)) RMB'000	Interest expense RMB'000	Cash flows Cash outflow RMB'000	Cash inflow RMB'000	31 December 2019 RMB'000
Borrowings (Note 21)	471,371	-		(568,194)	494,254	397,431
Lease liabilities (Note 24)	-	1,635	74	(518)	-	1,191

	1 January 2018 RMB'000	Non-cash flows RMB'000	Cash flows Cash outflow RMB'000	Cash inflow RMB'000	31 December 2018 RMB'000
Borrowings (Note 21)	936,484	(153,000)*	(943,318)	631,205	471,371

* Relates to disposal of 45% equity interest in Taixing Sunke Chemicals Co., Ltd.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

21

Notes to the financial statements for the financial year ended 31 December 2019

1 General information

The financial statements of the Company and of the Group for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the directors on the date of the Directors' statement.

The Company is listed on the Singapore Exchange Securities Trading Limited ("SGX-ST") and is incorporated as a limited liability company and domiciled in Singapore. The holding company is Whitefield Capital Inc. ("Whitefield Capital") which is incorporated in the British Virgin Islands.

The registered office is located at 112 Robinson Road #11-01 Robinson 112, Singapore 068902.

2 Summary of significant accounting policies

(a) Basis of preparation

The financial statements are prepared in accordance with Singapore Financial Reporting Standards (International) ("SFRS(I)") including related Interpretations promulgated by the Accounting Standards Council (ASC). The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The financial statements are presented in Chinese Renminbi which is the Company's functional currency. All the financial information is presented in thousands of Chinese Renminbi (RMB'000), unless otherwise stated.

(b) Adoption of new and revised SFRS(I) effective for the current financial year

On 1 January 2019, the Group and the Company have adopted all the new and revised SFRS(I)s, SFRS(I) interpretations ("SFRS(I) INT") and amendments to SFRS(I), effective for the current financial year that are relevant to them. The adoption of these new and revised SFRS(I) pronouncements did not result in significant changes to the Group's and the Company's accounting policies and has no material effect on the amounts or the disclosures reported for the current or prior reporting periods, except as discussed below:

Reference	Description	Effective date (Annual periods beginning on or after)
SFRS(I) 16	<i>Leases</i>	1 January 2019
Amendments to SFRS(I) 9	<i>Prepayment Features with Negative Compensation</i>	1 January 2019
SFRS(I) INT 23	<i>Uncertainty Over Income Tax Treatments</i>	1 January 2019
SFRS(I) 1 19	<i>Plan Amendment, Curtailment or Settlement</i>	1 January 2019

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

22

Notes to the financial statements for the year ended 31 December 2019

2 Summary of significant accounting policies (Cont'd)

(b) Adoption of new and revised SFRS(I) effective for the current financial year (Cont'd)

SFRS(I) 16 Leases

SFRS(I) 16 *Leases* supersedes SFRS(I) 1-17 *Leases*, SFRS(I) INT 4 *Determining whether an Arrangement contains a Lease*, SFRS(I) INT 1-15 *Operating Leases - Incentives* and SFRS(I) INT 1-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*, and pronounces new or amended requirements with respect to lease accounting. For lessee accounting, SFRS(I) 16 introduces significant changes by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset ("ROU assets") and a lease liability at commencement for all leases, except for short-term leases and leases of low-value assets when such recognition exemptions are adopted. For lessor accounting, the requirements have remained largely unchanged. The impact of the adoption of SFRS(I) 16 on the Group's and the Company's financial statements are discussed below.

The date of initial application of SFRS(I) 16 for the Group is 1 January 2019. The Group has elected to transition to SFRS(I) 16 using the cumulative catch-up (or modified retrospective) approach which requires the Group to recognise the cumulative effect of initially applying SFRS(I) 16 as an adjustment to the opening balance of retained earnings at the date of initial application, without restatement of comparatives under SFRS(I) 1-17.

(a) Definition of a lease

The new definition of a lease under SFRS(I) 16 mainly relates to the concept of 'control' that determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration, which is in contrast to the concept of 'risks and rewards' under SFRS(I) 1-17.

The Group has elected to apply the practical expedient available on transition to SFRS(I) 16 not to reassess whether a contract is, or contains, a lease. Accordingly, the superseded definition of a lease under SFRS(I) 1-17 continues to be applied to those leases entered into, or modified, before 1 January 2019, and the Group applies the new definition of a lease and related guidance set out in SFRS(I) 16 only to those lease contracts entered into, or modified, on or after 1 January 2019. After the transition to SFRS(I) 16, the Group shall reassess whether a contract is, or contains, a lease only if the terms and conditions of the contract are changed.

The new requirements for identifying a lease under SFRS(I) 16 do not change significantly the scope of contracts that will meet the definition of a lease for the Group.

(b) Lessee accounting

(i) Former operating leases

Before the adoption of SFRS(I) 16, the Group's and the Company's non cancellable operating lease payments in future reporting periods for leases of leasehold properties, land use rights and office premises, were not recognised as liabilities in the statement of financial position but were disclosed as commitments in the notes to the financial statements, and these lease payments were reported as rental expenses in profit or loss over the lease term on a straight line basis and presented under operating activities in the statement of cash flows. Under SFRS(I) 16, the Group recognises right-of-use assets and lease liabilities in the statement of financial position for these outstanding lease payments, reports depreciation of right-of-use assets and interest expense on lease liabilities in profit or loss, and presents these lease payments as principal repayment and interest paid separately under financing activities in the statement of cash flows.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

SunVic Chemical Holdings Limited
and its subsidiaries

23

Notes to the financial statements for the year ended 31 December 2019

2 Summary of significant accounting policies (Cont'd)

(b) Adoption of new and revised SFRS(I) effective for the current financial year (Cont'd)

SFRS(I) 16 Leases (Cont'd)

(b) Lessee accounting (Cont'd)

(i) Former operating leases (Cont'd)

Under SFRS(I) 16, lease incentives are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under SFRS(I) 1-17, they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expenses on a straight-line basis.

The Group has elected, as a practical expedient of SFRS(I) 16, not to separate non-lease components from lease components for all classes of underlying assets and instead account for each lease component and any associated non-lease components as a single lease component, except if the non-lease component is an embedded derivative according to SFRS(I) 9.

For short-term leases and leases of low-value assets, the Group has elected for exemption under SFRS(I) 16 from recognising their right-of-use assets and lease liabilities, and to report their lease expenses in profit or loss on a straight-line basis.

On 1 January 2019, the Group has applied the following SFRS(I) 16 transition provisions under the cumulative catch-up approach for each lease, or each portfolio of leases with reasonably similar characteristics, formerly classified as operating lease under SFRS(I) 1-17:

- recognises a lease liability at the present value of the remaining lease payments using the lessee's incremental borrowing rate for the underlying lease asset;
- on a lease-by-lease basis, the Group chooses to measure its ROU at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.
- applies SFRS(I) 1-36 Impairment of Assets to perform an impairment review of the right-of-use asset; and
- adjusts any difference between the carrying amounts of the right-of-use asset and the lease liability to the opening balance of retained earnings.

The Group has adopted the following SFRS(I) 16 practical expedients when applying the cumulative catch-up transition approach to leases formerly classified as operating lease under SFRS(I) 1-17:

- applies a single discount rate to a portfolio of leases with reasonably similar characteristics;
- adjusts the right-of-use asset at the date of initial application by the amount of provision for onerous leases recognised under SFRS(I) 1-37 Provisions, Contingent Liabilities and Contingent Assets in the statement of financial position immediately before the date of initial application, as an alternative to performing an impairment review under SFRS(I) 1-36;
- elects not to recognise the right-of-use asset and lease liability for a lease with lease term ending within twelve months of the date of initial application;
- excludes initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- uses hindsight for determining the lease term when the contract contains options to extend or terminate the lease.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

24

Notes to the financial statements for the year ended 31 December 2019

2 Summary of significant accounting policies (Cont'd)

(b) Adoption of new and revised SFRS(I) effective for the current financial year (Cont'd)

SFRS(I) 16 Leases (Cont'd)

(b) Lessee accounting (Cont'd)

(ii) Leasehold building

In prior years, the Group had made an upfront payment for the right-of-use of its leasehold buildings which were used as factory premises and/or its office premises and recorded in the Group's property, plant and equipment. Upon transition to SFRS(I) 16, the Group has elected to present the right-of-use assets separately from other assets in the statement of financial position and therefore reclassifies these leasehold buildings from "property, plant and equipment" to "right-of-use assets" in the statement of financial position.

(iii) Land use rights

In prior years, the Group had made an upfront payment for the right-of-use of land use rights for own use and recorded in the Group's land use rights. Upon transition to SFRS(I) 16, the Group has elected to present the right-of-use assets separately from other assets in the statement of financial position and therefore reclassifies this land use rights from "land use rights" to "right-of-use assets" in the statement of financial position.

(c) Lessor accounting

SFRS(I) 16 has not changed substantially how the Group as lessor accounts for leases, except when it is the intermediate lessor of sublease. Under SFRS(I) 16, the Group continues to classify leases, where it is the lessor, as either finance lease or operating lease and to account for the two types of leases differently. However, SFRS(I) 16 changes and expands the disclosures required, in particular, regarding how the Group as lessor manages the risks arising from its residual interest in leased assets.

(d) Financial impact of initial application of SFRS(I) 16

A reconciliation of the differences between the Group's operating lease commitments previously disclosed in the financial statements as at 31 December 2018 and the Group's lease liabilities recognised in the statement of financial position on 1 January 2019 is as follows:

The Group and the Company	RMB'000
Operating lease commitments as at 31 December 2018 under SFRS(I) 1-17	755
Add: Lease period not previously included that is under extension option reasonably certain to be exercised	956
Less: Discounting effect using weighted average incremental borrowing rate of 5.25%	(100)
Add: Obligations under finance lease at 31 December 2018 reclassified to lease liabilities	24
Lease liabilities recognised as at 1 January 2019	1,635

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

25

Notes to the financial statements for the year ended 31 December 2019

2 Summary of significant accounting policies (Cont'd)

(b) Adoption of new and revised SFRS(I) effective for the current financial year (Cont'd)

SFRS(I) 16 Leases (Cont'd)

(d) Financial impact of initial application of SFRS(I) 16 (Cont'd)

The effects of adoption of SFRS(I) 16 on the Group's financial statements as at 1 January 2019 are as follows:

The Group	Increase/ (Decrease) RMB'000
Assets	
Property, plant and equipment (Note 9)	(168,891)
Right-of-use assets (Note 10)	203,030
Land use rights (Note 12)	(32,528)
	<u>1,611</u>
Liabilities	
Other payables	(24)
Lease liabilities	1,635
	<u>1,611</u>

(e) Deferred tax impact from adoption of SFRS(I) 16

In the jurisdictions that the Group operates in, tax deductions are received in respect of the right-of-use asset (i.e. depreciation allowance) and the lease liability (i.e. deduction for finance cost) in a manner consistent with the accounting treatment, and there is no difference between the accounting and tax depreciation rates, no temporary differences arise from recognition of the right-of-use asset and lease liability.

(c) New and revised SFRS(I) in issue but not yet effective

Below are the mandatory standards, amendments and interpretations to existing standards that have been published, and are relevant for the Group's accounting periods beginning on or after 1 January 2020 and which the Group has not early adopted:

Reference	Description	Effective date (Annual periods beginning on or after)
Various	<i>Amendments to References to the Conceptual Framework in SFRS(I)</i>	1 January 2020
SFRS(I) 3	<i>Amendments to SFRS(I) 3: Definition of a Business</i>	1 January 2020
SFRS(I) 1-1, SFRS(I) 1-8	<i>Amendments to SFRS(I) 1-1 and SFRS(I) 1-8: Definition of Material</i>	1 January 2020
SFRS(I) 9, SFRS(I) 1-39, SFRS(I) 7	<i>Amendments to SFRS(I) 9, SFRS(I) 1-39 and SFRS(I) 7: Interest Rate Benchmark Reform</i>	1 January 2020
SFRS(I) 16	<i>Amendment to SFRS(I) 16: COVID-19 Related Rent Concessions</i>	1 June 2020
SFRS(I) 3	<i>Amendments to SFRS(I) 3: Reference to the Conceptual Framework</i>	1 January 2022
SFRS(I) 1-16	<i>Amendments to SFRS(I) 1-16: Property, Plant and Equipment – Proceeds before Intended Use</i>	1 January 2022
SFRS(I) 1-37	<i>Amendments to SFRS(I) 1-37: Onerous Contracts – Cost of Fulfilling a Contract</i>	1 January 2022

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

26

Notes to the financial statements for the year ended 31 December 2019

2 Summary of significant accounting policies (Cont'd)

(c) New and revised SFRS(I) in issue but not yet effective (Cont'd)

Reference	Description	Effective date (Annual periods beginning on or after)
Various	<i>Annual Improvements to SFRS(I) Standards 2018–2020</i>	1 January 2022
SFRS(I) 17	<i>SFRS(I) 17: Insurance Contracts</i>	1 January 2023
SFRS(I) 1-1	<i>Amendments to SFRS(I) 1-1: Classification of Liabilities as Current or Non-current</i>	1 January 2023
SFRS(I) 7, SFRS(I) 4	<i>Amendments to SFRS(I) 7 & Amendments to SFRS(I) 4: Extension of the Temporary Exemption from Applying SFRS(I) 9</i>	1 January 2023
SFRS(I) 10, SFRS(I) 1-28	<i>Amendments to SFRS(I) 10 and SFRS(I) 1-28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	To be determined

The directors do not anticipate that the adoption of the above SFRS(I)s in the future periods will have a material impact on the financial statements of the Group in the period of their initial adoption.

(d) Significant accounting policies

Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances. Information on its subsidiaries is given in Note 13(a).

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

Losses and other comprehensive income are attributable to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- de-recognises the assets (including goodwill) and liabilities of the subsidiary at their carrying amounts as at that date when control is lost;
- de-recognises the carrying amount of any non-controlling interest;
- de-recognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss;
- re-classifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

A subsidiary is an investee that is controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

27

Notes to the financial statements for the year ended 31 December 2019

2 Summary of significant accounting policies (Cont'd)

(d) Significant accounting policies (Cont'd)

Consolidation (Cont'd)

Thus, the Group controls an investee if and only if the Group has all of the following:

- power over the investee;
- exposure, or rights or variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

A change in the ownership interest

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Group.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable SFRS (I)s).

The fair value of any investment retained in the former subsidiary at the date when the control is lost is regarded as the fair value on the initial recognition for subsequent accounting under SFRS (I) 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

28

Notes to the financial statements for the year ended 31 December 2019

2 Summary of significant accounting policies (Cont'd)

(d) Significant accounting policies (Cont'd)

Consolidation (Cont'd)

Acquisition of businesses

The acquisition method of accounting is used to account for business combinations entered into by the Group.

The consideration transferred for the acquisition of a subsidiary or business combination comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes any contingent arrangement and any pre-existing equity interest in the subsidiary measured at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree at the date of acquisition either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of (a) the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the (b) fair value of the identifiable net assets acquired is recorded as goodwill.

Disposals

When a change in the Group's ownership interest in a subsidiary results in a loss of control over the subsidiary, the assets and liabilities of the subsidiary including any goodwill are derecognised. Amounts previously recognised in other comprehensive income in respect of that entity are also reclassified to profit or loss or transferred directly to retained earnings if required by a specific standard.

Any retained equity interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained interest at the date when control is lost and its fair value is recognised in profit or loss.

Transactions with non-controlling interest

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company, and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to owners of the Company.

Changes in the Company owners' ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

29

Notes to the financial statements for the year ended 31 December 2019

2 Summary of significant accounting policies (Cont'd)

(d) Significant accounting policies (Cont'd)

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. No depreciation is provided on construction-in-progress. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their depreciable amount over their estimated useful lives as follows:

Leasehold buildings	•	20 years	•
Plant and machinery	-	3 to 10 years	
Furniture and fixture	•	3 to 10 years	
Motor vehicles	•	5 years	

Construction-in-progress is not depreciated until such time when the relevant assets are completed and put into operational use.

The cost of property, plant and equipment includes expenditure that is directly attributable to the acquisition of the items. Dismantlement, removal or restoration costs are included as part of the cost of property, plant and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent expenditure relating to property, plant and equipment that have been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the standard of performance of the asset before the expenditure was made, will flow to the Group and the cost can be reliably measured. Other subsequent expenditure is recognised as an expense during the financial year in which it is incurred.

For acquisitions and disposals during the financial year, depreciation is provided from the month of acquisition and to the month before disposal respectively. Fully depreciated property, plant and equipment are retained in the books of accounts until they are no longer in use.

Depreciation methods, useful lives and residual values are reviewed, and adjusted as appropriate, at the end of each reporting period as a change in estimates.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

SunVic Chemical Holdings Limited and its subsidiaries

30

Notes to the financial statements for the year ended 31 December 2019

2 Summary of significant accounting policies (Cont'd)

(d) Significant accounting policies (Cont'd)

Intangible assets

Intangible assets acquired separately are measured initially at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial acquisition, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite useful lives are amortised over the estimated useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite useful lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives or not yet available for use are tested for impairment annually, or more frequently if the events and circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the useful life assessment continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

The estimated useful lives for the current and comparative years are as follows:

Technology know-how	10 years
Computer software	5 years

Intangible assets are written off where, in the opinion of the directors, no future economic benefits are expected to arise.

Land use rights

Land use rights are initially measured at cost. Following initial recognition, land use rights are measured at cost less accumulated amortisation. The land use rights are amortised on a straight line basis over the lease term of 50 years, except for freehold land use right which is not amortised. Land use rights form part of right-of-use assets since 1 January 2019.

Investment in subsidiaries

In the Company's separate financial statements, investments in subsidiaries are stated at cost less allowance for any impairment losses on an individual subsidiary basis.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

31

Notes to the financial statements for the year ended 31 December 2019

2 Summary of significant accounting policies (Cont'd)

(d) Significant accounting policies (Cont'd)

Investment in joint venture

Joint arrangements

A joint arrangement is a contractual arrangement whereby two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

A joint arrangement is classified either as joint operation or joint venture, based on the rights and obligations of the parties to the arrangement.

To the extent the joint arrangement provides the Group with rights to the assets and obligations for the liabilities relating to the arrangement, the arrangement is a joint operation. To the extent the joint arrangement provides the Group with rights to the net assets of the arrangement, the arrangement is a joint venture.

The Group reassesses whether the type of joint arrangement in which it is involved has changed when facts and circumstances change.

Joint operations

The Group recognises in relation to its interest in a joint operation,

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the accounting policies applicable to the particular assets, liabilities, revenues and expenses.

When the Group enters into transaction involving a sale or contribution of assets with a joint operation in which it is a joint operator, the Group recognises gains and losses resulting from such a transaction only to the extent of the interests held by the other parties to the joint operation.

When the Group enters into a transaction involving purchase of assets with a joint operation in which it is a joint operator, the Group does not recognise its share of the gains and losses until it resells those assets to a third party. When such transactions provide evidence of a reduction in the net realisable value of the assets to be purchased or of an impairment loss of those assets, the Group recognises its share of those losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and demand deposits that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value other than cash pledged for credit facilities and Escrow Account (Note 13(c)).

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis and includes all costs in bringing the inventories to their present location and condition. In the case of manufactured products, cost includes all direct expenditure and production overheads based on the normal level of activity.

Provision is made for obsolete, slow-moving and defective inventories in arriving at the net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

32

Notes to the financial statements for the year ended 31 December 2019

2 Summary of significant accounting policies (Cont'd)

(d) Significant accounting policies (Cont'd)

Non-current assets (or disposal group) held-for-sale and discontinued operations

Non-current assets (or disposal group) are classified as assets held-for sale and carried at lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use. The assets, or disposal group, are not depreciated or amortised while they are classified as held-for-sale. Any impairment loss on initial classification and subsequent measurement is recognised as an expense. Any subsequent increase in fair value less cost to sell (not exceeding the accumulated impairment loss that has been previously recognised) is recognised in profit or loss.

If the criteria to classify as held-for-sale are no longer met, the assets, or disposal group, are remeasured at the lower of the carrying amount before the classification as held-for-sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the assets or disposal group not been classified as held-for-sale, and the recoverable amount at the date of the subsequent decision not to sell.

A discontinued operation is a component of an entity that either has been disposed of, or that is classified as held-for-sale and:

- (a) represents a separate major line of business or geographical area of operations; or
- (b) is part of single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- (c) is a subsidiary acquired exclusively with a view to resale.

Financial liabilities

The Group's financial liabilities include borrowings and trade and other payables.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest-related charges are recognised as an expense in "finance cost" in the profit or loss.

Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Borrowings are recognised initially at fair value of proceeds received less attributable transaction costs, if any. Borrowings are subsequently stated at amortised cost which is the initial fair value less any principal repayments. Any difference between the proceeds (net of transaction costs) and the redemption value is taken to the profit or loss over the period of the borrowings using the effective interest method. The interest expense is chargeable on the amortised cost over the period of the borrowings using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

Borrowings which are due to be settled within 12 months after the end of reporting period are included in current borrowings in the statement of financial position even though the original terms were for a period longer than twelve months and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the end of reporting period. Borrowings to be settled within the Group's operating cycle are classified as current. Other borrowings due to be settled more than twelve months after the end of reporting period are included in non-current borrowings in the statement of financial position.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

SunVic Chemical Holdings Limited and its subsidiaries

33

Notes to the financial statements for the year ended 31 December 2019

2 Summary of significant accounting policies (Cont'd)

(d) Significant accounting policies (Cont'd)

Provision

Provisions for contingent liabilities for financial guarantees issued to third parties are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Other provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised in the statement of comprehensive income as finance expense.

Changes in the estimated timing or amount of the expenditure or discount rate are recognised in profit or loss when the changes arise.

Borrowing costs

Borrowing costs are recognised in the profit or loss in the period they are incurred.

Trade and other payables

Trade and other payables are initially measured at fair value, and subsequently measured at amortised cost, using the effective interest method.

Financial guarantee

The Group has issued corporate guarantees to banks for bank borrowings of its related parties and third parties. These guarantees are financial guarantee contracts as they require the Group to reimburse the banks if the related parties and third parties fail to make principal or interest payments when due in accordance with the terms of its borrowings.

Financial guarantee contracts are initially measured at fair value plus transaction costs and subsequently measured at the higher of:

- (a) premium received on initial recognition less cumulative amount of income recognised in accordance with the principles of SFRS(I) 15; and
- (b) the amount of expected loss computed using the impairment methodology under SFRS(I) 9.

Contingencies

A contingent liability is:

- (i) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or
- (ii) a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent liabilities and assets are not recognised in the financial statements, except for contingent liability assumed in a business combination that is a present obligation and for which fair value can be reliably determined.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

34

Notes to the financial statements for the year ended 31 December 2019

2 Summary of significant accounting policies (Cont'd)

(d) Significant accounting policies (Cont'd)

Value-added tax

The Group's sales of goods in the PRC are subjected to Value added tax ("VAT") at the applicable tax rate of 17% for PRC domestic sales. Input VAT on purchases can be deducted from output VAT subject to agreement by the tax authority. The Group's export sales are not subject to VAT.

Revenue, expenses and assets are recognised net of the amount of VAT except:

- Where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of "other receivables" or "other payables" in the consolidated statement of financial position.

Employee benefits

Pension obligations

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations.

The subsidiaries in the People's Republic of China (the "PRC") are required to provide certain staff pension benefits to their employees under existing PRC regulations. Pension contributions are provided at rates stipulated by PRC regulations and are contributed to a pension fund managed by government agencies, which are responsible for administering these amounts for the subsidiaries employees.

Pension contributions are recognised as an expense in the period in which the related service is performed.

Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. Accrual is made for the unconsumed leave as a result of services rendered by employees up to the end of reporting period.

Key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Group. Directors and certain managerial personnel are considered key management personnel.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

SunVic Chemical Holdings Limited
and its subsidiaries

35

Notes to the financial statements for the year ended 31 December 2019

2 Summary of significant accounting policies (Cont'd)

(d) Significant accounting policies (Cont'd)

Leases

The accounting policy for leases before 1 January 2019 is as follows:

Where the Group is the lessee

Operating leases

Rentals on operating leases are charged to profit or loss on a straight-line basis over the lease term. Lease incentives, if any, are recognised as an integral part of the net consideration agreed for the use of the leased asset. Penalty payments on early termination, if any, are recognised in the profit or loss when incurred.

Contingent rents are mainly determined as a percentage of revenue in excess of a specified amount during the month. They are charged to the profit or loss when incurred.

Where the Group is the lessor

Operating leases

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Rental income is recognised on a straight-line basis over the lease term. Contingent rents are recognised as revenue in the period in which they are earned.

The accounting policy for leases from 1 January 2019 is as follows:

Where the Group is the lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of twelve months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

• Lease liabilities

The initial measurement of lease liability is measured at the present value of the lease payments discounted using the implicit rate in the lease, if the rate can be readily determined. If that rate cannot be readily determined, the Group shall use its incremental borrowing rate. Lease payments include the following:

- Fixed payment (including in-substance fixed payments), less any lease incentives receivables;
- Variable lease payment that are based on an index or rate, initially measured using the index or rate as at the commencement date;
- Amount expected to be payable under residual value guarantees;
- The exercise price of a purchase option if it is reasonably certain to exercise the option; and
- Payment of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

SunVic Chemical Holdings Limited
and its subsidiaries

36

Notes to the financial statements for the year ended 31 December 2019

2 Summary of significant accounting policies (Cont'd)

(d) Significant accounting policies (Cont'd)

Leases (Cont'd)

The accounting policy for leases from 1 January 2019 is as follows (Cont'd):

(i) When the Group is the lessee (Cont'd):

- Lease liabilities (Cont'd)

For contract that contain both lease and non-lease components, the Group allocates the consideration to each lease component on the basis of the relative stand-alone price of the lease and non-lease component. The Group has elected to not separate lease and non-lease component for property leases and account these as one single lease component.

The lease liability is subsequently measured at amortised cost, by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (with a corresponding adjustment to the related right-of-use asset or to profit or loss if the carrying amount of the right-of-use asset has already been reduced to nil) whenever:

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); or
- a lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

- Right-of-use assets

The Group recognises a right-of-use asset and lease liability at the date which the underlying asset is available for use. Right-of-use assets are measured at cost which comprises the initial measurement of lease liabilities adjusted for any lease payments made at or before the commencement date and lease incentive received. Any initial direct costs that would not have been incurred if the lease had not been obtained are added to the carrying amount of the right-of-use assets.

These right-of-use assets is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. Depreciation on right-of-use assets is calculated using the straight-line method to allocate their depreciable amounts over the shorter period of lease term and useful life of the underlying asset, as follows:

Leasehold property	20 years
Land use rights	50 years
Office premise	4 years

The Company applies FRS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

SunVic Chemical Holdings Limited
and its subsidiaries

37

Notes to the financial statements for the year ended 31 December 2019

2 Summary of significant accounting policies (Cont'd)

(d) Significant accounting policies (Cont'd)

Leases (Cont'd)

The accounting policy for leases from 1 January 2019 is as follows (Cont'd):

(i) When the Group is the lessee (Cont'd):

- Short term and low value leases

The Group has elected to not recognise right-of-use assets and lease liabilities for short-term leases that have lease terms of 12 months or less and leases of low value leases, except for sublease arrangements. Lease payments relating to these leases are expensed to profit or loss on a straight-line basis over the lease term.

- Variable lease payments

Variable lease payments that are not based on an index or a rate are not included as part of the measurement and initial recognition of the lease liability. The Group shall recognise those lease payments in profit or loss in the periods that triggered those lease payments.

(ii) When the Group is the lessor:

Generally, the accounting policies applicable to the Group as a lessor in the comparative period were not different from SFRS(I) 16, except for the classification of the sublease entered into that resulted in a finance lease classification.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand alone prices. If an arrangement contains lease and non-lease components, then the Group applies SFRS(I) 15 to allocate the consideration in the contract.

The Group applies the derecognition and impairment requirements in SFRS(I) 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Group recognises lease payments received from equipment under operating leases as income on a straight-line basis over the lease term within "other income" in profit or loss.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

38

Notes to the financial statements for the year ended 31 December 2019

2 Summary of significant accounting policies (Cont'd)

(d) Significant accounting policies (Cont'd)

Income taxes

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of reporting period.

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting or taxable profit or loss at the time of the transaction.

A deferred income tax liability is recognised on temporary differences arising on investments in subsidiaries and joint operation, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

Deferred income tax is measured:

- (i) at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the date of the financial position; and
- (ii) based on the tax consequence that will follow from the manner in which the Group expects, at the date of the financial position, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income taxes are recognised as income or expense in the profit or loss, except to the extent that the tax arises from a business combination or a transaction which is recognised either in other comprehensive income or directly in equity. Deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Revenue recognition

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Revenue is recognised when the Group satisfied a performance obligation ("PO") by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A PO may be satisfied at a point in time or over time. The amount of revenue recognised is the amount allocated to the satisfied PO.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

39

Notes to the financial statements for the year ended 31 December 2019

2 Summary of significant accounting policies (Cont'd)

(d) Significant accounting policies (Cont'd)

Revenue recognition (Cont'd)

(i) Sales of chemical products

The Group manufactures and sells of Acrylic Acid ("AA") and Acrylate Esters ("AE"), PMIDA and glyphosate and refined MTBE and petroleum products (collectively "chemical products") in the marketplace. Sales are recognised at a point when control of the products has transferred to its customer, being when the products are delivered to the customer or the customer has taken physical delivery according to the agreed sales term and all criteria for acceptance have been satisfied.

Transaction price is the amount of consideration in the contract to which the Group expects to be entitled in exchange for transferring the promised goods. The goods are usually sold without the right of return, volume discounts or warranty. No element of financing is deemed present as the sales made are usually completed within 3 months. A receivable (financial asset) is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before payment is due.

(ii) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

(iii) Rental income

Rental and related income are recognised on a straight line basis over the lease term. Lease incentives, if any, are recognised as an integral part of total lease income. Penalty payments on early termination, if any, are recognised when incurred.

(iv) Dividend income

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Operating segments

For management purposes, operating segments are organised based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the management of the Company who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 25, including the factors used to identify the reportable segments and the measurement basis of segment information.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against share capital account.

Where the Company purchases the Company's ordinary shares ("treasury shares"), the carrying amount which includes the consideration paid and any directly attributable transaction cost is presented as a component within equity attributable to the Company's equity holders, until they are cancelled, sold or reissued.

When treasury shares are subsequently cancelled, the cost of treasury shares are deducted against the share capital account if the shares are purchased out of capital of the Company, or against the retained profits of the Company if the shares are purchased out of earnings of the Company.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

40

Notes to the financial statements for the year ended 31 December 2019

2 Summary of significant accounting policies (Cont'd)

(d) Significant accounting policies (Cont'd)

Related parties

A related party is defined as follows:

- (a) A person or a close member of that person's family is related to the Group and the Company if that person:
 - (i) has control or joint control over the Company;
 - (ii) has significant influence over the Company; or
 - (iii) is a member of the key management personnel of the Group or Company or of a parent of the Company.
- (b) An entity is related to the Group and the Company if any of the following conditions applies:
 - (i) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
 - (iii) both entities are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or
 - (viii) the entity, nor any member of a group which is past, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Functional currencies

Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The financial statements of the Group and the Company are presented in Chinese Renminbi, which is also the functional currency of the Company.

Conversion of foreign currencies

Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates at the dates of the transactions. Currency translation differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the end of the reporting period are recognised in profit or loss. However, in the consolidated financial statements, currency translation differences arising from borrowings in foreign currencies and other currency instruments designated and qualifying as net investment hedges and net investment in foreign operations, are recognised in other comprehensive income and accumulated in the currency translation reserve.

When a foreign operation is disposed of or any borrowings forming part of the net investment of the foreign operation are repaid, a proportionate share of the accumulated translation differences is reclassified to profit or loss, as part of the gain or loss on disposal.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

41

Notes to the financial statements for the year ended 31 December 2019

2 Summary of significant accounting policies (Cont'd)

(d) Significant accounting policies (Cont'd)

Conversion of foreign currencies (Cont'd)

Transactions and balances (Cont'd)

Foreign exchange gains and losses that relate to borrowings are presented in the income statement within "finance cost". Foreign currency gains and losses are reported on a net basis as either other income or other operating expense depending on whether foreign currency movements are in a net gain or net loss position.

Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined.

Group entities

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) Assets and liabilities are translated at the closing exchange rates at the end of the reporting period of that statement of financial position;
- (ii) Income and expenses for each statement presenting profit or loss and other comprehensive income (i.e. including comparatives) shall be translated at exchange rates at the dates of the transactions; and
- (iii) All resulting currency translation differences are recognised in other comprehensive income and accumulated in the currency fluctuation reserve.

Financial assets

Classification and measurement

The Group classifies all its financial assets at amortised cost. The classification depends on the Group's business model for managing the financial assets as well as the contractual terms of the cash flows of the financial asset. The Group reclassifies financial assets at amortised cost when and only when its business model for managing those assets changes.

At initial recognition

At initial recognition, the Group measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

At subsequent measurement

Debt instruments include cash and cash equivalents, trade and other receivables and amount due from subsidiaries. The subsequent measurement category is depending on the Group's business model for managing the asset and cash flow characteristics of the asset.

Amortised cost

Debt instruments that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt instrument that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

42

Notes to the financial statements for the year ended 31 December 2019

2 Summary of significant accounting policies (Cont'd)

(d) Significant accounting policies (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss and financial guarantee contracts. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is recognised for credit losses expected over the remaining life of the exposure, irrespective of timing of the default (a lifetime ECL).

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at the end of each reporting period. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For debt instruments at FVOCI, the Group applies the low credit risk simplification. At the end of each reporting period, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument. In addition, the Group considers that there has been a significant increase in credit risk when the contractual payments are more than 90 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade date – the date on which the Group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

On disposal of a debt instrument, the difference between the carrying amount and the sale proceeds is recognised in profit or loss. Any amount previously recognised in other comprehensive income relating to that asset is reclassified to profit or loss.

Trade receivables that are factored out to banks and other financial institutions with recourse to the Group are not derecognised until the recourse period has expired and the risks and rewards of the receivables have been fully transferred. The corresponding cash received from the financial institutions is recorded as borrowings.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

43

Notes to the financial statements for the year ended 31 December 2019

3 Significant accounting estimates and judgements

The preparation of the financial statements in conformity with SFRS (I) requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on the management's best knowledge of current events and actions, actual results may differ from those estimates.

The critical accounting estimates and assumptions used and area involving a significant judgement are described below:

3.1 Significant judgements in applying accounting policies

Determination of the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects the assessment, and that is within the control of the lessee. For leases of leasehold properties, land use rights and office premises, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate).
- Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Estimation of the incremental borrowing rate ("IBR")

For the purpose of calculating the right-of-use asset and lease liability, an entity applies the interest rate implicit in the lease ("IRIL") and, if the IRIL is not readily determinable, the entity shall use its IBR applicable to the lease asset. The IBR is the rate of interest that the entity would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right of use asset in a similar economic environment. For most of the leases whereby the Group is the lessee, the IRIL is not readily determinable. Therefore, the Group estimates the IBR relevant to each lease asset by using observable inputs (such as market interest rate and asset yield) when available, and then making certain lessee specific adjustments. The carrying amount of the Group's right-of-use assets and lease liabilities are disclosed in Note 10 and 24 respectively. An increase/decrease of 50 basis points in the estimated IBR will decrease/increase the Group's right-of-use assets and lease liabilities by approximately RMB10,000 respectively.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

44

Notes to the financial statements for the year ended 31 December 2019

3 Significant accounting estimates and judgements (Cont'd)

3.1 Significant judgements in applying accounting policies (Cont'd)

Income taxes (Note 7) and Deferred taxes (Note 14)

The Group has exposure to income taxes in numerous jurisdictions. Significant judgement is involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Determination of functional currencies

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currencies of the entities in the Group, judgement is required to determine the currency that mainly influences sales prices of goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services. The functional currencies of the entities in the Group are determined based on the management's assessment of the economic environment in which the entities operate and the entities' process of determining sales prices.

Accrued severance compensation (Note 22)

As disclosed in Note 22, the Group has accrued a severance compensation of RMB 12.7 million (2018 - RMB 12.7 million) related to compensation payable to the staffs resulted from the explosion and fire hazard in one of the subsidiary premises in the Xiangshui Chemical Industry Park as at 31 December 2019. The management is of the view that the accrual is based on the management's best estimations and the current accrued severance compensation is adequate.

Provision for restoration costs (Note 23)

The Group has accrued RMB 45,573,000 (2018 - RMB 45,573,000) in the current financial year being environmental remediation and restoration of the land relating to its operations in the Xiangshui Chemical Industry Park which was shut down by the local government in March 2019. Under existing legislation, the PRC government may move further towards more rigorous enforcement of applicable laws, and towards the adoption of more stringent environmental standards due to the hazard area and for public interest of the urban re-planning. The outcome of environmental liabilities under future environmental legislation cannot be ascertained with accuracy although the management believes the current provision for the restoration cost is adequate.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

SunVic Chemical Holdings Limited and its subsidiaries

45

Notes to the financial statements for the year ended 31 December 2019

3 Significant accounting estimates and judgements (Cont'd)

3.1 Significant judgements in applying accounting policies (Cont'd)

Joint arrangement classified as disposal group held for sale and discontinued operations (Note 13 (c))

Disposal group classified as held for sale

As disclosed in Note 13(c), despite the arbitration proceedings and related claims made against Taixing Jurong Chemical Co., Ltd. (“Taixing Jurong”) who holds a 45% interest in Taixing Sunke Chemicals Co., Ltd. (“Taixing Sunke”) during the financial year ended 31 December 2018, the management has classified Taixing Sunke as a disposal group classified as held for sale as at that date. This is because a binding the Letter of Intent (“LOI”) has been entered into with Arkema Asia SAS (the “Purchaser”) to dispose of the entire 45% interest held by Taixing Jurong to the Purchaser. Pursuant to the LOI, the arbitration proceedings and related claims against Taixing Jurong will be withdrawn upon the completion of the Proposed Disposal. The shareholders of the Company have also approved of the Proposed Disposal on 15 July 2019. The management considers the classification of the joint arrangement as a disposal group classified as held for sale to be appropriate.

Discontinued operations

Taixing Sunke had been previously accounted for as a joint arrangement and classified as a joint operation whereby the Group has proportionally consolidated the financial performance and its share of the assets and liabilities held jointly arising from the joint operation in prior years by the Group. As disclosed in Note 13(b), Taixing Sunke contributed significant cost of sales and expenses and total assets and total liabilities to the Group in 2017 under the proportionate consolidation method of accounting in 2017 and in prior years and is considered to be a significant joint operation of the Group. Consequent to the reclassification of Taixing Sunke from a joint arrangement to a disposal group classified as held for sale in 2018, Taixing Sunke has also been classified as a discontinued operation on the same basis. Comparative figures have been reclassified to reflect the discontinued operation in accordance with SFRS(I) 5.

Investment in subsidiaries (Note 13(a))

As disclosed in Note 13(a), notwithstanding that Company has only a 42.4% equity interest in SVAP, it considers that it has control over SVAP because Whitefield Capital Inc. owns the remaining 57.6% equity interest in SVAP and is a related party to the Company whereby the majority of the key management personnel in SVAP are the same of those of the Company. Consequently, SVAP is accounted for as a subsidiary in the Group.

Going concern

As at 31 December 2019, the Group has net current liabilities of RMB 32.0 million (2018 - RMB 544.9 million, excluding assets and liabilities held for sale) and generated a cash outflow from operating activities of RMB 271.3 million (2018 – cash inflow of RMB 376.4 million).

As at 31 December 2019, the Group has cash and cash equivalents of RMB 7.8 million (2018 – RMB 25.4 million). As announced on 27 September 2019 by the Company, the joint operation company of the Group, Taixing Sunke Chemicals Co Ltd, was disposed of and approved by the Board. However, due to the technicality as to the remittance of the sale proceeds following the disposal (Note 13(c)), 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 397.4 million as at 31 December 2019 is presently uncertain.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

46

Notes to the financial statements for the year ended 31 December 2019

3 Significant accounting estimates and judgements (Cont'd)

3.1 Significant judgements in applying accounting policies (Cont'd)

Going concern (Cont'd)

The Group has prepared the financial statements based on the assumption that the Group can be operated as a going concern and is of the view that the Group will have sufficient working capital including the ability to secure additional borrowings to finance its operations in the next twelve months from the end of the reporting period. On this basis, the financial statements of the Group have been prepared on going concern basis, which assume that the Group will continue in operation at least for a period of 12 months from the balance sheet date.

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.

Related parties' transactions (Note 26 and Note 28)

Certain transactions were entered into with related parties to maintain the Group's existing credit facilities with the banks, which is a common practice carried out in the PRC. The Group presents the results of such transactions, when this presentation reflects the substance of the transaction by netting with related expenses arising on the same transaction. These transactions have been recognised on a net basis for financial reporting purposes.

Impairment of Value-added tax ("VAT") recoverable (Note 15)

An impairment provision of RMB 83,951,000 was made as in prior year as the chemical zone of which Jiangsu Jurong Petrochemicals Co., Ltd. ("JJPC") operates was being ordered to shut down by the local government subsequent to the financial year ended 31 December 2019. The management is of the view that these amounts cannot be recovered from the tax authorities owing to the shut down of operation by the local government and the period of the shut down cannot be presently ascertained.

3.2 Critical accounting estimates and key sources of estimation uncertainty

Impairment of trade and other receivables (Note 18)

The Group and the Company assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group and the Company considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying amount of the receivables as well as impairment or write-back of impairment in the period in which such estimate has been changed. The carrying amount of the Group's and the Company's trade and other receivables at the end of the reporting period is disclosed in Note 18.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

SunVic Chemical Holdings Limited and its subsidiaries

47

Notes to the financial statements for the year ended 31 December 2019

3 Significant accounting estimates and judgements (Cont'd)

3.2 Critical accounting estimates and key sources of estimation uncertainty (Cont'd)

Impairment of non-financial assets (Note 9)

An impairment exists when the carrying amount of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value-in-use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing the asset. The value-in-use calculation is based on a discounted cash flow model.

In prior year, the Group performed an impairment assessment on its property, plant and equipment.

(i) Jiangsu Jurong Chemical Co., Ltd. ("JJC")

As a result of the assessment, an impairment loss of RMB 30,554,000 was recognised in profit or loss for the year ended 31 December 2018. The impairment amount was provided to write down the residual values of certain property, plant and equipment to its recoverable amount of nil for the financial year ended 31 December 2018 following the Chemical Explosion at the Xiangshui Chemical Industry Park where JJC was operating.

(ii) Jiangsu Jurong Petrochemical Co., Ltd. ("JJP")

As a result of the assessment, an impairment loss of RMB 136,000,000 was recognised in profit or loss for the year ended 31 December 2018. The impairment amount was provided to write down the residual values of certain property, plant and equipment to its recoverable amount of Nil for the financial year ended 31 December 2018 following the Chemical Explosion at the Xiangshui Chemical Industry Park where JJP was operating.

(iii) Taixing Jurong Chemical Co., Ltd. ("Taixing Jurong")

As a result of the assessment and owing to the loss for the year of Taixing Jurong, an impairment loss of RMB 32,476,000 was recognised in profit or loss for the year ended 31 December 2018. The impairment amount was provided with reference to the valuation conducted by an independent valuer on its certain plant and machinery at 12 February 2019, adjusted for various factors, to its fair value less cost to sales.

Contingent liabilities (Note 28(b))

As disclosed in our 2018 Annual Report and in Note 28(b), the Group has announced that it had received legal demands totalling RMB 222.5 million in respect of financial guarantees issued to third parties in 2018. Subsequent to the findings by EY Advisory, on 5 March 2020, the Company has announced that following the completion of the special audit by EY Advisory and in view of the YFC Veracity Discrepancies (refer to Note 29(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. For the year ended 31 December 2019, management has advised the Board that the RMB 42.5 million provision for BOC Corporate Guarantee has been settled by a third party on the Group's behalf. Accordingly, the Group has reversed the provision for contingent liabilities of BOC Corporate Guarantee of RMB 42.5 million to profit or loss for the year then ended.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

SunVic Chemical Holdings Limited and its subsidiaries

48

Notes to the financial statements for the year ended 31 December 2019

3 Significant accounting estimates and judgements (Cont'd)

3.2 Critical accounting estimates and key sources of estimation uncertainty (Cont'd)

Depreciation of property, plant and equipment (Note 9) and right-of-use assets (Note 10)

Property, plant and equipment and right-of-use assets ("ROU assets") are depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of property, plant and equipment and ROU assets to be within 3 to 20 years. The carrying amount of the Group's property, plant and equipment and ROU assets as at 31 December 2019 is RMB 131.4 million (2018 - RMB 337.8 million) and RMB 207.4 million (2018 - RMB Nil million) respectively. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised. If depreciation on property, plant and equipment and ROU assets increases/decreases by 10% from the management's estimates, the Group's loss for the year will increase/decrease by approximately RMB 3.2 million (2018 - RMB 33.8 million) and RMB 1,400 (2018 - RMB Nil million) respectively.

Allowance for inventory obsolescence (Note 17)

The Group reviews the ageing analysis of inventories at the end of each reporting period and makes provision for obsolete and slow-moving inventory items identified that are no longer suitable for sale. The net realisable value for such inventories are estimated based primarily on the latest invoice prices and current market conditions. Possible changes in these estimates could result in revisions to the valuation of inventories.

If the net realisable value of the inventory increase/decrease by 10% from the management's estimates, the Group's loss will decrease/increase by RMB 2.4 million (2018 - RMB 1.9 million). The carrying amount of the inventory is disclosed in Note 17.

Impairment on investment in subsidiaries (Note 13)

The Group reviews the investment in subsidiaries at the end of the reporting period to determine whether there is any indication of impairment. An impairment exists when the carrying amount of an asset or cash generating units exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value-in-use.

The carrying amounts of investment in subsidiaries at the end of the reporting period are disclosed in Note 13.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

49

Notes to the financial statements for the year ended 31 December 2019

4 Principal activities and revenue

The principal activities of the Group are those relating to investment holding. The principal activities of the subsidiaries are as stated in Note 13(a).

Revenue of the Group consists of revenue from trading of chemical products.

	Continuing operations	
	2019 RMB'000	2018 RMB'000
The Group		
Trading of chemical products – at a point in time	940,381	1,577,098

Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines and geographical regions. Revenue is attributed to countries by location of customers.

	Continuing operations	
	2019 RMB'000	2018 RMB'000
The Group		
Geographical region		
- PRC	907,865	1,466,283
- Other countries in Asia	21,620	60,053
- Others	10,896	50,762
	940,381	1,577,098
Product lines		
- AA and AE	499,848	1,273,713
- Others	440,533	303,385
	940,381	1,577,098

Revenue recognised during the financial year from contract liabilities at the beginning of the financial year amounted to RMB 23,288,000 (2018 - RMB 17,322,000).

The Group applies the practical expedient in SFRS(I)15 and does not disclose information about its remaining performance obligation as the performance obligation is part of contracts that have original expected duration of one year or less.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

SunVic Chemical Holdings Limited
and its subsidiaries

50

Notes to the financial statements for the year ended 31 December 2019

5 Other income

The Group	Continuing operations		Discontinued operations		Total	
	2019	2018	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
5(a) Interest income						
Interest income from deposits with banks	1,903	1,822	232	771	2,135	2,593
5(b) Others						
Rental income	8,905	549	-	-	8,905	549
Reversal of contingent liabilities*	42,500	-	-	-	42,500	-
Reversal of prepayment written-down	5,692	-	-	-	5,692	-
Reversal of impairment loss of property, plant and equipment (Note 9)	4,620	-	-	-	4,620	-
Sale of raw material, other spare parts, steam and provision of waste water treatment services	1,380	29,242	13,587	30,583	14,967	59,825
Exchange gain	219	1,076	-	-	219	1,076
Gain on disposal of property, plant and equipment	-	36	-	-	-	36
Gain on disposal of land use rights	-	9,429	-	-	-	9,429
Gain on disposal of Taixing Sunke (Note 13(c))	321,412	-	-	-	321,412	-
Share of expenses [#]	-	-	-	40,276 ¹	-	-
Other miscellaneous income	2,751	1,603	1,001	991	3,752	2,586
	387,479	41,935	14,588	71,850	402,067	73,501

* During the financial year ended 31 December 2019, the Company has reversed in full the provision of the BOC Contingent liabilities of RMB 42.5 million (2018: Provision for contingent liabilities of RMB 42.5 million) to the consolidated profit or loss for the year. The reversal was made as the PRC management has advised the Board that the BOC Corporate Guarantee was settled by a third party (refer to Note 28(b) for details).

[#] Share of fixed cost under the "stop of supply" order between Taixing Jurong and Taixing Sunke.

¹ The amount has been restated as it was erroneously omitted in FY2018 disclosure.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

51

Notes to the financial statements for the year ended 31 December 2019

6(a) Other operating expenses

The Group	Note	Continuing operations		Discontinued operations		Total	
		2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Property, plant and equipment written off		-	-	-	2,863	-	2,863
Cost of raw material and steam sold and provision of waste water treatment services		2,591	25,628	11,122	16,805	13,713	42,433
Loss on disposal of property, plant and equipment		1,544	-	-	-	1,544	-
Penalty		304	1	-	2,614	304	2,615
Impairment loss of property, plant and equipment	9	-	199,030	-	-	-	199,030
Contingent liabilities for financial guarantees issued to third parties	28(b)	-	42,500	-	-	-	42,500
Impairment loss on value-added tax recoverable	15	-	83,951	-	-	-	83,951
Impairment loss on prepayment	18	5,982	19,625	-	-	5,982	19,625
Restoration and dismantle charges	23	-	45,573	-	-	-	45,573
Impairment loss on trade receivables	18	19,209	-	-	-	19,209	-
Share of operating expenses of disposal group classified as held for sale *		143,627	89,502	-	-	143,627	89,502
Exchange loss		504	-	-	-	504	-
Other miscellaneous expenses		3,651	4,222	904	1,326	4,555	5,548
		177,412	510,032	12,026	23,608	189,438	533,640

* This related to share of the fixed costs, depreciation and amortisation incurred by disposal group classified as held for sale, Taixing Sunke, as a result of "stop of supply" order implemented against Taixing Juxing which was stipulated in the products supply agreement between Taixing Sunke and Taixing Juxing (Note 13(c)).

6(b) Finance costs

The Group	Continuing operations		Discontinued operations		Total	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Interest paid and payable to banks	48,753	73,062	125	7,097	48,878	80,159

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

SunVic Chemical Holdings Limited and its subsidiaries

52

Notes to the financial statements for the year ended 31 December 2019

6(c) Profit/(Loss) before taxation

Profit/(Loss) before taxation has been arrived at after charging/(crediting):

The Group	Note	Continuing operations		Discontinued operations		Total	
		2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Audit fees paid to:							
- auditor of the Company		1,716	1,934	-	-	1,716	1,934
- others		3,904	269	90	180	3,994	449
Cost of inventories included in cost of sales	17	933,566	1,467,373	-	-	933,566	1,467,373
Net foreign exchange loss		271	1,753	2,745	4,054	3,016	5,807
Staff costs		16,245	33,936	11,549	16,729	27,794	50,665
Contributions to defined contribution plans, included in staff costs		2,125	3,710	2,463	750	4,588	4,460
Depreciation of property, plant and equipment	9	21,902	109,654	62,369	77,644	84,271	187,298
Impairment loss of trade receivables	18	19,209	-	-	-	19,209	-
Amortisation of right-of-use assets	10	15,928	-	302	-	16,230	-
Amortisation of intangible assets	11	707	812	74	82	781	894
Amortisation of land use rights	12	-	1,334	-	518	-	1,852
Severance compensation	22	-	12,700	-	-	-	12,700
Operating lease expense		-	887	26	397	26	1,284
Inventory write down	17	1,307	-	-	-	1,307	-
Directors' fees		1,012	250	-	-	1,012	250

7 Taxation

The Group	2019 RMB'000	2018 RMB'000
From Continuing operations:		
Current taxation	-	37
Under provision in respect of previous years		
- Current taxation	16	563
	16	600
From Discontinued operations (Note 13(c)):		
Current taxation	3,039	2,677
Under provision in respect of previous years		
- Current taxation	-	7,330
	3,039	10,007
	3,055	10,607

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

SunVic Chemical Holdings Limited and its subsidiaries

53

Notes to the financial statements for the year ended 31 December 2019

7 Taxation (Cont'd)

The tax on the Group's results before tax differs from the theoretical amount that would arise using the applicable rate of income tax in each national jurisdiction as follows:

The Group	2019 RMB'000	2018 RMB'000
Profit before tax from:		
- Continuing operations	70,921	(685,841)
- Discontinued operations (Note 13(c))	23,854	23,052
	94,775	(662,789)
Income tax using applicable tax rates	23,942	(165,654)
Adjustments:		
Non-taxable income ⁽¹⁾	(93,902)	(3,086)
Non-deductible expenses ⁽²⁾	1,369	93,888
Under provision in respect of previous years	16	7,893
Deferred tax assets not recognised ⁽³⁾	71,630	77,684
Utilisation of deferred tax assets on temporary difference not recognised in previous years	-	(56)
Tax incentives	-	(62)
	3,055	10,607

⁽¹⁾ This mainly relates to the gain of disposal of RMB 321.4 million on disposal of Taixing Sunke and write back of provision of contingent liability of RMB 42.5 million.

⁽²⁾ This is mainly related to impairment loss of property, plant and equipment of RMB 199.0 million (Note 9), impairment loss of VAT recoverable of RMB 83.9 million (Note 15), impairment loss on prepayment of RMB 19.6 million (Note 18), provision for restoration of RMB 45.6 million (Note 23) and the provision for contingent liabilities of RMB 42.5 million in respect of the financial guarantee (Note 28(b)) made in the prior financial year.

⁽³⁾ Deferred tax asset has not been recognised as it is not probable that future taxable profits will be available against which the relevant subsidiaries can utilise the benefits (Note 15).

The above reconciliation is prepared by aggregating separate reconciliation for each national jurisdiction.

JJC, JJP, Taixing Jurong, Yixing Yinyan Import and Export Co., Ltd. ("YYIE") and Taixing Sunke are subject to the PRC income taxes rate at 25% (2018 - 25%) on their taxable profit.

Sunvic Chemical Holdings Limited, Dynix Pte. Ltd. and SunVic Asia Pacific Investments Holdings Pte. Ltd. are subject to Singapore income tax rate at 17% (2018 - 17%) on its taxable profit.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

SunVic Chemical Holdings Limited and its subsidiaries

54

Notes to the financial statements for the year ended 31 December 2019

8 Profit/(loss) per share

Basic profit/(loss) per share is calculated by dividing the net loss attributable to owners of the Company by the weighted average number of ordinary shares in issue of 532,001,000 (2018 - 532,001,000) shares during the financial year.

	Continuing operations		Discontinued operations		Total	
	2019	2018	2019	2018	2019	2018
The Group						
Net profit/(loss) attributable to owners of the Company (RMB'000)	72,548	(643,723)	20,815	13,045	93,363	(630,678)
Weighted average number of ordinary shares outstanding for basic earnings per share ('000)	532,001	532,001	532,001	532,001	532,001	532,001
Basic earnings/(loss) per share (RMB cents per share)	13.6	(121.0)	3.9	2.5	17.5	(118.5)
Diluted earnings/(loss) per share (RMB cents per share)	13.6	(121.0)	3.9	2.5	17.5	(118.5)

For the purpose of calculating diluted earnings/loss per share, loss attributable to owners of the parent of the Company and the weighted average number of ordinary shares outstanding are adjusted for the effects of all dilutive potential shares. As there are no dilutive potential ordinary shares that were outstanding during the year, the basic earnings per share is the same as the diluted earnings per share.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

55

**SunVic Chemical Holdings Limited
and its subsidiaries**

Notes to the financial statements for the financial year ended 31 December 2019

9 Property, plant and equipment

The Group	Leasehold buildings RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction work-in- progress RMB'000	Total RMB'000
<u>Cost</u>						
At 1 January 2018	727,929	2,324,164	19,031	25,229	240,000	3,336,353
Additions	4	280	216	-	6,329	6,829
Disposals	(1,523)	(28,671)	(39)	(2,996)	-	(33,229)
Transfer to disposal group classified as held for sale (Note 13(c))	(112,586)	(692,199)	(6,693)	(1,116)	(12,316)	(824,910)
Reclassifications	26,337	111,889	-	-	(143,656)	(5,450)
At 31 December 2018	640,161	1,715,443	12,515	21,117	90,357	2,479,593
Adoption of SFPS(I) 16 (Note 2(b)):						
- Reclassification to ROU assets (Note 10)	(640,161)	-	-	-	-	(640,161)
Additions	-	-	78	249	9,518	9,845
Disposals	-	(7,526)	(200)	(1,147)	(5,847)	(14,720)
Reclassification to ROU assets (Note 10)	-	-	-	-	(19,108)	(19,108)
Reclassifications	-	16	-	-	(16)	-
Expensed off	-	-	-	-	(345)	(345)
At 31 December 2019	-	1,707,933	12,393	20,219	74,559	1,815,104

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

56

**SunVic Chemical Holdings Limited
and its subsidiaries
Notes to the financial statements for the financial year ended 31 December 2019**

9 Property, plant and equipment (Cont'd)

The Group	Leasehold buildings RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction work-in- progress RMB'000	Total RMB'000
<u>Accumulated depreciation and impairment losses</u>						
At 1 January 2018	400,483	1,765,286	10,538	23,883	810	2,201,000
Depreciation	33,769	73,921	1,305	659	-	109,654
Impairment loss recognised	-	199,030	-	-	-	199,030
Disposals	(803)	(28,459)	(37)	(2,987)	-	(32,286)
Transfer to disposal group classified as held for sale (Note 13(c))	(62,710)	(267,947)	(4,077)	(838)	-	(335,572)
Reclassification	24,531	(27,531)	3,000	-	-	-
At 31 December 2018	395,270	1,714,300	10,729	20,717	810	2,141,826
Reclassification of impairment*	76,000	(76,000)	-	-	-	-
Adoption of SFRS(I) 16 (Note 2(b)):						
- Reclassification to ROU assets (Note 10)	(471,270)	-	-	-	-	(471,270)
Depreciation	-	21,426	189	287	-	21,902
Reversal of impairment [†]	-	(4,620)	-	-	-	(4,620)
Disposals	-	(2,806)	(190)	(1,069)	-	(4,165)
At 31 December 2019	-	1,652,200	10,728	19,935	810	1,683,673
<u>Net carrying amount</u>						
At 31 December 2019	-	55,733	1,665	284	73,749	131,431
At 31 December 2018	244,891	1,143	1,786	400	89,547	337,767

Upon transition to SFRS(I) 16, the Group has elected to present the right-of-use assets separately from other assets in the statement of financial position and therefore reclassifies this leasehold building from "property, plant and equipment" to "right-of-use assets" in the statement of financial position amounting to RMB 168,891,000 as at 1 January 2019 (Note 2 (b)).

* Reversal of impairment due to sales of property, plant and equipment previously impaired (Note 5(b)).

† This is an impairment loss for leasehold buildings which was incorrectly allocated to plant and machinery in prior year, and has been corrected during the current financial year ended 31 December 2019. As the correction of error is within property, plant and equipment class of assets, there is no impact to the carrying amount of property, plant and equipment as at 31 December 2018, and hence, the third balance sheet has not been presented.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

SunVic Chemical Holdings Limited and its subsidiaries

57

Notes to the financial statements for the financial year ended 31 December 2019

9 Property, plant and equipment (Cont'd)

The Company	Furniture and fixture RMB'000
<u>Cost</u>	
At 1 January 2018	-
Additions	45
At 31 December 2018	45
Additions	-
At 31 December 2019	45
<u>Accumulated depreciation and impairment losses</u>	
At 1 January 2018	-
Depreciation	12
At 31 December 2018	12
Depreciation	15
At 31 December 2019	27
<u>Net carrying amount</u>	
At 31 December 2019	18
At 31 December 2018	33

The Group as lessor

The Group leases out a number of equipment under operating leases. The leases run for a period of 3 years. None of the lease includes variable lease payments. The disaggregation of these equipment under operating leases included within plant and equipment and the reconciliation of the carrying amount at the beginning and end of the year are set out as below:

The Group	Plant and Machinery under <u>operating leases</u> RMB'000
<u>Cost</u>	
At 1 January 2019 and 31 December 2019	111,868
<u>Accumulated depreciation and impairment</u>	
At 31 December 2018	58,168
Depreciation	3,644
At 31 December 2019	61,812
<u>Net book value</u>	
At 31 December 2019	50,056
At 31 December 2018	53,700

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

58

Notes to the financial statements for the financial year ended 31 December 2019

9 Property, plant and equipment (Cont'd)

(a) Impairment assessments during the year ended 31 December 2018

The details of the property, plant and equipment held by the companies within the Group are as follows:

	JJC RMB'000	JJP RMB'000	TXJC RMB'000	YYIE RMB'000	The Company RMB'000	Total RMB'000
Carrying amount	91,425	151,465	293,365	509	33	536,797
Less: impairment loss recognised in 2018	(30,554)	(136,000)	(32,476)	-	-	(199,030)
Net book value	60,871	15,465	260,889	509	33	337,767
Note	(i)	(ii)	(iii)			

i.m: immaterial

(i) JJC

As announced in the previous announcement dated 27 March 2019 and 8 April 2019, it was reported that the local Xiangshui government had decided to completely shut down the chemical zone at the Xiangshui Chemical Industry Park in Yancheng city, Jiangsu Province, PRC, in which a severe explosion occurred where JJC was operating.

In view of the shut down, there is material uncertainty in JJC's ability to generate future economic cash inflow from its property, plant and equipment. During the financial year ended 31 December 2018, the management made an impairment loss of RMB 30.6 million on the plant and machinery of JJC on the prudent assumption that these plants will be permanently shut down. At the end of the reporting period, the accumulated impairment losses on the JJC's plant and machinery amounted to RMB 1,045,434,000 (2018 - RMB 1,045,434,000).

(ii) JJP

The Group has an 82.1% owned subsidiary in the PRC, JJP which owned a cracking plant and a methyl tertiary-butyl ether (MTBE) Plant.

As announced in the previous announcement dated 27 March 2019 and 8 April 2019, it was reported that the local Xiangshui government had decided to completely shut down the chemical zone at the Xiangshui Chemical Industry Park in Yancheng city, Jiangsu Province, PRC, in which a severe explosion occurred where JJP was operating.

In prior financial year, the management made an impairment loss of RMB 136.0 million on the plant and machinery of JJP on the prudent assumption that these plants will be permanently shut down. At the end of the reporting period, the accumulated impairment losses on the JJP's plant and machinery amounted to RMB 228,662,000 (2018 - RMB 228,662,000).

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

59

Notes to the financial statements for the financial year ended 31 December 2019

9 Property, plant and equipment (Cont'd)

(a) Impairment assessments during the year ended 31 December 2018 (Cont'd)

(iii) Taixing Jurong

An impairment loss of RMB 32.4 million was recognised in profit or loss for the year ended 31 December 2018 in respect of the property, plant and equipment of Taixing Jurong. The impairment loss was undertaken in view of the net loss suffered by Taixing Jurong following a valuation performed by an independent professional valuer. At the end of the reporting period, the accumulated impairment losses on the Taixing Jurong's plant and machinery amounted to RMB 55,840,000 (2018 - RMB 60,461,000).

Certain land use rights of Taixing Jurong are subject to the Taixing Sunke arbitration proceeding (Note 13 (c)).

(b) Security

As at 31 December 2019, property, plant and equipment of the Group with a carrying amount of RMB Nil (2018 - RMB 289,730,000) were pledged as security to secure bank loans (Note 21).

(c) Construction work-in-progress as at 31 December 2019 mainly relates to the construction of an electricity substation, office building and preliminary preparation work in the Economic Development Zone of Taixing City, the PRC, for future construction of chemical production facility. As at 31 December 2019, the capitalised costs amounted to RMB 19,100,000 (2018 - RMB 138,200,000).

(d) As at 31 December 2019, the accumulated impairment loss and accumulated depreciation on property, plant and equipment for the Group is RMB 1,253,937,000 (2018 - RMB 1,334,557,000) and RMB 398,263,000 (2018 - RMB 379,743,000)

10 Right-of-use assets

The Group	Note	Leasehold buildings RMB'000	Land use rights RMB'000	Office premise RMB'000	Total RMB'000
<u>At Cost</u>					
Adoption of SFRS(I) 16:					
- Initial recognition	2(b)	-	-	1,611	1,611
- Reclassification from property, plant and equipment	2(b), 9	640,161	-	-	640,161
- Reclassification from land use right	2(b), 12	-	38,542	-	38,542
Balance at 1 January 2019		640,161	38,542	1,611	680,314
Additions		-	1,209	-	1,209
Reclassification from CIP	9	19,108	-	-	19,108
Balance at end of year		659,269	39,751	1,611	700,631
<u>Accumulated depreciation and impairment</u>					
Adoption of SFRS(I) 16:					
- Reclassification from land use right	2(b), 12	-	6,014	-	6,014
- Reclassification from property, plant and equipment	9	471,270	-	-	471,270
Balance at 1 January 2019		471,270	6,014	-	477,284
Depreciation/amortisation during the year		14,658	798	472	15,928
Balance at end of year		485,928	6,812	472	493,212
Carrying amount:					
At 31 December 2019		173,341	32,939	1,139	207,419
At 1 January 2019		168,891	32,528	1,611	203,030

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

60

Notes to the financial statements for the financial year ended 31 December 2019

10 Right-of-use assets (Cont'd)

The Company	Note	Office premise RMB'000	Total RMB'000
<u>At Cost</u>			
Adoption of SFRS(I) 16:			
- Initial recognition	2(b)	1,611	1,611
Balance at 1 January 2019		-	-
Additions		-	-
Balance at end of year		1,611	1,611
<u>Accumulated depreciation and impairment</u>			
Balance at 1 January 2019		-	-
Depreciation/amortisation during the year		472	472
Balance at end of year		472	472
Carrying amount:			
At 31 December 2019		1,139	1,139
At 1 January 2019		1,611	1,611

- (a) The Group has land use rights over 8 plots of state-owned land in the PRC where the Group's PRC manufacturing and storage facilities reside. The land use rights have a remaining average tenure of 34 years (2018 - 35 years).
- (b) The Group disposed land use rights of leasehold land in Taixing Jurong to a third party for consideration of RMB 12,920,000 for the financial year ended 31 December 2018. The Group recognised a gain on sales of land use rights of RMB 9,429,000 for the financial year ended 31 December 2018 (Note 5).
- (c) As at 31 December 2019, land use rights of the Group with a carrying amount of RMB 22,880,000 (2018 - RMB 27,864,000) are pledged as security to secure bank loans (Note 21).
- (d) As at 31 December 2019, leasehold properties of the Group with a carrying amount of RMB 28,351,000 (2018 - RMB Nil) were pledged as security to secure bank loans (Note 21).
- (e) Certain land use rights of Taixing Jurong are subject to the Taixing Sunke arbitration proceeding (Note 13(c)).

Details of the land use rights in the Group's right-of-use assets as at 31 December 2019 are as follows:

<u>Location</u>	<u>Acquired from</u>	<u>Land area (sq.m)</u>	<u>Tenure</u>	<u>Net book value RMB'000</u>
<u>Land use rights</u>				
JJC				
Jingang Village, Chenjiagang Town, Xiangshui County, Jiangsu province, The PRC	Land and Resources Bureau of Xiangshui County	1,344	34 years	843
Shadang Village, Chenjiagang Town, Xiangshui County, Jiangsu province, The PRC	Land and Resources Bureau of Xiangshui County	62,854	48 years	742
Shadang Village, Chenjiagang Town, , Xiangshui County, Jiangsu province, The PRC	Land and Resources Bureau of Xiangshui County	71,874	49 years	972

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

61

Notes to the financial statements for the financial year ended 31 December 2019

10 Right-of-use assets (Cont'd)

- (e) Details of the land use rights in the Group's right-of-use assets as at 31 December 2019 are as follows (Cont'd):

<u>Location</u>	<u>Acquired from</u>	<u>Land area {sq.m}</u>	<u>Tenure</u>	<u>Net book value</u>
<u>Land use rights</u>				<u>RMB'000</u>
<u>JJC (Cont'd)</u>				
Shadang Village, Chenjiagang Town, Xiangshui County, Jiangsu province, The PRC	Land and Resources Bureau of Xiangshui County	174,144	50 years	2,090
Chenjiagang Chemical Industry Park, Xiangshui County, Jiangsu province, The PRC	Land and Resources Bureau of Xiangshui County	14,581	42 years	1,033
Chenjiagang Chemical Industry Park, Chenjiagang Town, , Xiangshui County, Jiangsu province, The PRC	Land and Resources Bureau of Xiangshui County	9,391	50 years	336
Chenjiagang Chemical Industry Park, Chenjiagang Town, Xiangshui County, Jiangsu province, The PRC	Land and Resources Bureau of Xiangshui County	26,667	50 years	960
<u>JJP</u>				
Chenjiagang Chemical Industry Park, Chenjiagang Town, Xiangshui County, Jiangsu province, The PRC	Land and Resources Bureau of Xiangshui County	12,211	45 years	3,083
<u>TXJC</u>				
Cao Yuan Formation and Xu Qing Formation in Jiangzha Village, Binjiang Town, Taixing City, Jiangsu province, The PRC	Land and Resources Bureau of Taixing Municipal	206,546	46 years	22,880
Total land use rights				32,939

11 Intangible assets

<u>The Group</u>	<u>Technology know-how RMB'000</u>	<u>Computer software RMB'000</u>	<u>Total RMB'000</u>
<u>Cost</u>			
At 1 January 2018	12,557	3,201	15,758
Disposal of joint operation	-	(1,127)	(1,127)
Transfer from construction-in-progress	-	291	291
At 31 December 2018	12,557	2,365	14,922
Transfer from construction-in-progress	-	-	-
At 31 December 2019	12,557	2,365	14,922

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

SunVic Chemical Holdings Limited and its subsidiaries

62

Notes to the financial statements for the financial year ended 31 December 2019

11 Intangible assets (Cont'd)

The Group	Technology know-how RMB'000	Computer software RMB'000	Total RMB'000
<u>Accumulated amortisation</u>			
At 1 January 2018	4,910	1,589	6,499
Amortisation charge	478	334	812
Disposal of joint operation	-	(274)	(274)
At 31 December 2018	5,388	1,649	7,037
Amortisation charge	479	228	707
At 31 December 2019	5,867	1,877	7,744
<u>Net carrying amount</u>			
At 31 December 2019	6,690	488	7,178
At 31 December 2018	7,169	716	7,885

Technology know-how relates to production technology and is assessed to have finite useful life of 10 years in view of the changing technology in the chemical industry.

These intangible assets were held in the books of JJC and JJP.

12 Freehold land / Land use rights

The Group	31 December 2019 RMB'000	31 December 2018 RMB'000
<u>Cost</u>		
Balance at beginning of year	50,914	66,319
Adoption of SFRS(I) 16 (Note 2(b), Note 10)	(38,542)	-
At 1 January	12,372	66,319
Additions	-	(3,147)
Transfer to disposal group classified as held for sale (Note 13(c))	-	(12,258)
Foreign translation differences	205	-
At 31 December	12,577	50,914
<u>Accumulated amortisation</u>		
Balance at beginning of year	6,014	7,146
Adoption of SFRS(I) 16 (Note 2(b), Note 10)	(6,014)	-
At 1 January	-	7,146
Transfer to disposal group classified as held for sale (Note 13(c))	-	(2,243)
Disposals	-	(223)
Amortisation charge	-	1,334
At 31 December	-	6,014
<u>Net carrying amount</u>		
At 31 December	12,577	44,900
Amount to be amortised:		
- Not later than one year	-	1,334
- Later than one year but not later than five years	-	5,337
- Later than five years	-	25,857
	-	32,528

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

63

Notes to the financial statements for the financial year ended 31 December 2019

12 Freehold land / Land use rights (Cont'd)

Upon transition to SFRS(I) 16, the Group has elected to present the right-of-use assets (or leasehold land) separately from other assets in the statement of financial position and therefore reclassifies this land use rights from “land use rights” to “right-of-use assets” in the statement of financial position. As at 31 December 2018, the carrying amounts of the land use rights and freehold land were RMB 32,528,000 and RMB 12,372,000 respectively totalling RMB 44,900,000. On adoption of SFRS(I) 16, land use rights of RMB 32,528,000 were reclassified to right-of-use assets on 1 January 2019 (Note 2(b)).

As at 31 December 2019, land use rights relate solely to the freehold land of the Group.

- (a) The Group has land use rights (or leasehold land) over 8 plots of state-owned land in the PRC where the Group's PRC manufacturing and storage facilities reside. The land use rights have a remaining average tenure of 34 years (2018 - 35 years).
- (b) Freehold land
Included in land use rights were freehold land in Sections 1,2, 3 and 4 Township 13 South, Range 12 East, Southeastern District of Louisiana East of the Mississippi River, Plaquemines Parish, Louisiana of RMB 12,577,000 (2018 - RMB 12,372,000 (classified as non-current assets held for sale).
- (c) In prior year, the Group disposed of its land use rights of leasehold land in Taixing Jurong to a third party for consideration of RMB 12,920,000 for the financial year ended 31 December 2018. The Group recognised a gain on sales of land use rights of RMB 9,429,000 for the financial year ended 31 December 2018 (Note 5).
- (d) In prior year, certain land use rights of Taixing Jurong are subject to the Taixing Sunke arbitration proceeding (Note 13 (c)).

13(a) Investment in subsidiaries

The Company	31 December 2019 RMB'000	31 December 2018 RMB'000
Unquoted equity investments, at cost	399,884	399,884
Less: Accumulated impairment losses		
Balance at beginning	(57,261)	(57,261)
Impairment charge	-	-
Balance at end	(57,261)	(57,261)
	342,623	342,623

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

SunVic Chemical Holdings Limited and its subsidiaries

64

Notes to the financial statements for the financial year ended 31 December 2019

13(a) Investment in subsidiaries (Cont'd)

Details of subsidiaries are as follows:

<u>Name of subsidiary</u>	<u>Country of incorporation/ and operation</u>	<u>Principal activities</u>	<u>Proportion of ownership interest and voting rights held by the Group</u>	
			31.12.2019 %	31.12.2018 %
Held by the Company:				
Dynix Pte. Ltd. ⁽¹⁾	Singapore	Import and export of chemical products	100	100
Jiangsu Jurong Chemical Co., Ltd. ⁽²⁾	PRC	Manufacture and sale of chemical products	100	100
SunVic Asia Pacific Investments Holdings Pte. Ltd. ("SVAP") ⁽¹⁾	Singapore	Investment holding	42.4	42.4
Held through Dynix:				
Jurong Chemical LLC ⁽⁴⁾	United States of America ("USA")	Trading business and provision of after-sales services	100	100
Link Way Trading Limited ("LWT") ⁽⁴⁾	British Virgin Islands ("BVI")	Import and export of chemical products	100	100
Held through LWT:				
Link Way Louisiana LLC ⁽⁴⁾	USA	Trading business and provision of after-sales services	100	100
Held through JJC:				
Yinyan Products Quimicos Ltd. ⁽⁵⁾	Brazil	Import and export of chemical products	-	-
Yiding Yinyan Import and Export Co., Ltd. ("YYIE") ⁽²⁾	PRC	Import and export of chemical products	100	100
Yinyan Argentina SA ⁽³⁾	Argentina	Import and export of chemical products	100	100
Taixing Jurong Chemical Co., Ltd. ("TXJC") ⁽²⁾	PRC	Manufacture and sale of chemical products	100	100
Jiangsu Jurong Petrochemicals Co., Ltd. ("JJP") ⁽²⁾	PRC	Manufacture and sale of chemical products	82.1	82.1
Held through TJC:				
Taixing Sunke Chemicals Co., Ltd. ("Taixing Sunke") ⁽²⁾	PRC	Manufacture and sale of chemical products	#	#

⁽¹⁾ Audited by Pao Kon Tan LLP, Singapore, Chartered Accountants

⁽²⁾ Audited by HLB Jaarong Zhongheng CPAs Co., Ltd., PRC, a member firm of HLB International, for the purpose of consolidation

⁽³⁾ Unaudited, dormant

⁽⁴⁾ Not required to be audited in the country of incorporation

⁽⁵⁾ Strike off on 30 October 2017.

* The Group has 45% equity interest in Taixing Sunke which is accounted for as joint operation (Note 13(b)) and classified as disposal group classified as held for sale and discontinued operations in 2018. The disposal was completed upon the transfer of equity on 7th Aug 2019.

Investment in SVAP

- (i) Notwithstanding that Company has only a 42.4% equity interest in SVAP, it considers that it has control over SVAP because Whitefield Capital Inc. owns the remaining 57.6% equity interest in SVAP and is a related party to the Company whereby the majority of the key management personnel in SVAP are the same of those of the Company. Consequently, SVAP is accounted for as a subsidiary in the Group.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

65

Notes to the financial statements for the financial year ended 31 December 2019

13(a) Investment in subsidiaries (Cont'd)

Investment in SVAP (Cont'd)

(ii) Summarised financial information of subsidiaries with material non-controlling interests

Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group. These are presented before inter-company eliminations. There were no transactions with non-controlling interests for the financial years ended 31 December 2018 and 2019.

<u>Name of subsidiary</u>	<u>Country of incorporation</u>	<u>Principal activities</u>	<u>Proportion of ownership interest and voting rights held by non-controlling interests</u>	
			<u>31.12.2019</u> %	<u>31.12.2018</u> %
Jiangsu Jurong Petrochemicals Co., Ltd.	PRC	Manufacture and sale of chemical products	17.9	17.9
<u>Summarised statement of financial position</u>			<u>2019</u> RMB'000	<u>2018</u> RMB'000
Current				
Assets			8,696	10,601
Liabilities			(783,414)	(782,624)
Total net current liabilities			(774,718)	(772,023)
Non-current				
Assets			19,430	25,809
Net liabilities			(755,288)	(746,214)
<u>Summarised income statement</u>			<u>2019</u> RMB'000	<u>2018</u> RMB'000
Revenue			-	8,904
Expenses			(9,074)	(247,447)
Loss before income tax			(9,074)	(238,543)
Income tax expense			-	-
Loss after tax			(9,074)	(238,543)
Other comprehensive income			-	-
Total comprehensive loss			(9,074)	(238,543)
Total comprehensive loss allocated to non-controlling interests			(1,624)	(42,699)
Dividends paid to non-controlling interests			-	-
<u>Summarised cash flows</u>			<u>2019</u> RMB'000	<u>2018</u> RMB'000
Cash flows used in operating activities			(19)	(746)
Cash flows generated from investing activities			-	58
Net decrease in cash and cash equivalents			(19)	(688)

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

SunVic Chemical Holdings Limited
and its subsidiaries

66

Notes to the financial statements for the financial year ended 31 December 2019

13(b) Investment in joint operation

The Group holds a 45% equity interest in the joint operation, Taixing Sunke, through its wholly owned subsidiary Taixing Jurong. The joint operation has been classified as disposal group classified as held for sale and discontinued operations in 2018 and disposed on 7 August 2019. (Note 13 (c)).

13(c) Disposal group classified as held for sale and discontinued operation

On 2 November 2018, the management has informed the Board of Directors of the Company that an arbitration proceeding was commenced on 27 August 2018 against Taixing Jurong, a wholly-owned subsidiary of the Company, in China International Economic and Trade Arbitration Commission (“CIETAC”) by Taixing Sunke, which is a 45%-55% joint venture between Taixing Jurong and Arkema Asie SAS respectively. The arbitration proceeding was commenced by Taixing Sunke against Taixing Jurong for monies amounting to approximately RMB 404 million which are due and owing by Taixing Jurong to Taixing Sunke in respect of Acrylic Acid and Acrylate Esters provided by Taixing Sunke to Taixing Jurong. Taixing Sunke had applied injunctions against Taixing Jurong to freeze effectively all of the assets of Taixing Jurong up to the amount claimed under the arbitration proceeding (the “Injunctions”) and was granted the Injunctions by Taizhou City Intermediate People’s Courts of the People’s Republic of China on 31 August 2018.

Taixing Jurong has entered into a binding letter of intent (“LOI”) with Arkema Asie SAS (the “Purchaser”) on 5 November 2018. Pursuant to the LOI, Taixing Jurong has committed to, amongst others, dispose of its 45% equity interest in the share capital (the “Sale Shares”) of Taixing Sunke, to the Purchaser (or any of its affiliates) (the “Proposed Disposal”).

Pursuant to the LOI, Taixing Jurong and the Purchaser have agreed that the consideration for the Proposed Disposal shall be RMB700 million plus Amount X (as defined below) (the “Transfer Price”). Under the Amended and Restated Product Supply Agreement signed between Taixing Jurong and Taixing Sunke on 18 June 2016, Taixing Jurong is liable to pay (i) the fixed costs and a markup fee of 10% accrued from the later of the date on which the Transaction Documents are entered into or 31 December 2018 until the Closing Date, and (ii) depreciation and amortisation and a mark-up fee of 10% accrued from 1 October 2018 until the Closing Date (items (i) and (ii) being collectively referred to the “Amount X”). Amount X is estimated to be RMB108.7 million if Closing Date falls on 30 April 2019 and will vary if the Closing Date is earlier than 30 April 2019.

Taixing Jurong and the Purchaser further agreed that within two (2) business days from the date of the LOI, the Purchaser will procure Taixing Sunke to apply to the CIETAC to suspend the arbitration proceedings commenced against Taixing Jurong and within five (5) business days upon receipt by Taixing Jurong of the Acknowledgement of the Amount X, the Purchaser will procure Taixing Sunke to apply to CIETAC to withdraw the injunctions granted and the arbitration commenced against Taixing Jurong. The estimated net proceeds from the Proposed Disposal is RMB 300 million.

Taixing Sunke, Taixing Jurong, Arkema Asie and Arkema (China) Investment Co., Ltd. (“Arkema (China)”) and together with Arkema Asie, the “Purchasers”, have entered into the Equity Transfer Agreement on 30 January 2019 in respect of the Proposed Disposal. Arkema (China) is a foreign investment holding company incorporated in the PRC, and is a wholly-owned subsidiary of Arkema Asie SAS.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

67

Notes to the financial statements for the financial year ended 31 December 2019

13(c) Disposal group classified as held for sale and discontinued operation (Cont'd)

Pursuant to the Notice of Compliance by the Singapore Exchange Regulation (“SGX Regco”), as announced by the Company on 13 February 2019, pending the outcome of the Audit Committee’s investigations into the veracity of the YFC and BOC Loans and the circumstances surrounding the purported unauthorised Corporate Guarantees, SGX Regco directs the Company to:

- (i) Place the proceeds from the Proposed Disposal in an Escrow Account (“Escrow Account”) to be operated jointly by the independent directors of the Company, resident in Singapore;
- (ii) All receipts from the Proposed Disposal must be paid into the Escrow Account;
- (iii) The amounts in the Escrow Account cannot be withdrawn until the completion of the investigations and agreed by the Exchange, save for the settlement of expenses and intercompany debts as set out in the Payment Terms of the Equity Transfer Agreement; and
- (iv) All withdrawals from any of the Escrow Accounts must be reviewed by the Company’s internal auditor and external auditor (the “Auditors”), for its basis and veracity, and that the Auditors must confirm that they are satisfied that the withdrawals will be disbursed to the right party for proper and legitimate usage of the Company or any of its subsidiaries.

The Notice of Compliance by SGX Regco has been incorporated in the Circular to Shareholders for the Proposed Disposal of Taxing Sunke dated 29 June 2019.

As a safeguard to ensure the compliance with the Notice of Compliance and such other directions of the SGX-ST with regard to the Escrow Account, by way of a letter from Taixing Jurong to the Purchasers dated 17 June 2019 (hereinafter referred to as the Taixing Jurong Letter) and with a copy provided to the SGX-ST, Taixing Jurong had requested, agreed and acknowledged that, notwithstanding any provisions in the Equity Transfer Agreement, the Purchasers shall not be obliged to remit the Transfer Price to Taixing Jurong unless and until the following conditions are satisfied:

- (i) the SGX-ST has given its approval or its no objection in writing to the Purchasers with respect to the selection of the Escrow Agent and terms and conditions of the Escrow Agreement;
- (ii) the Escrow Agreement has been duly signed by the parties thereto; and
- (iii) the Escrow Account has been opened in compliance with applicable laws and regulations in the PRC and the Escrow Agreement and to the satisfaction of all the SGX-ST Escrow Requirements, (collectively, hereinafter referred to as the Escrow Account Conditions). Such request, agreement and acknowledgement by Taixing Jurong to the Purchasers are irrevocable save with the prior approval of the SGX-ST in writing.

By way of a letter from the Purchasers to the SGX-ST dated 17 June 2019 (hereinafter referred to as the Purchasers Letter) and with a copy provided to Taixing Jurong, the Purchasers had provided their undertaking to the SGX-ST that they shall not remit the Transfer Price to Taixing Jurong unless and until the Escrow Account Conditions are satisfied.

On 15 July 2019, the shareholders of the Company had approved of the Proposed Disposal of Taixing Sunke to the Purchasers.

The Proposed Disposal has been completed on 7 August 2019. The arbitration and injunction to freeze the assets of Taixing Jurong have been withdrawn as of the date of the previous year’s financial statements.

In compliance with SFRS(I) 5 - *Non current assets held for sale and discontinued operations*, the Proposed Disposal of Taixing Sunke has been presented under discontinued operations in the consolidated statement of profit or loss and other comprehensive income as the Proposed Disposal represented a significant joint operation of the Group that was proportionately consolidated in prior years. Comparative figures have been re-presented in the previous financial year’s financial statements.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

68

Notes to the financial statements for the financial year ended 31 December 2019

13(c) Disposal group classified as held for sale and discontinued operation (Cont'd)

An analysis of the results of discontinued operations, and the results recognised on the remeasurement of the disposal group were as follows:

	Period from 1 January 2019 to 7 August 2019 (date of disposal) RMB'000	Year ended 31 December 2018 RMB'000
<u>Summarised statement of comprehensive income</u>		
Revenue *	777,877	1,308,078
Cost of sales *	(744,159)	(1,304,341)
Gross profit	33,718	3,737
Other operating income	14,820	72,621
Selling and distribution expense	(1,443)	(2,680)
Administrative expense	(11,090)	(19,921)
Other operating expenses	(12,026)	(23,608)
Finance costs	(125)	(7,097)
Profit before taxation	23,854	23,052
Taxation	(3,039)	(10,007)
Profit after taxation from discontinued operations	20,815	13,045

- * Share of revenue and cost of sales of Taixing Sunke has being fully eliminated in the consolidated statement of profit and loss and other comprehensive income to the extent of Taixing Jurong's share of the revenue and cost of sales of Taixing Sunke.

The impact of the discontinued operations on the cash flows of the Group was as follows:

	Period from 1 January 2019 to 7 August 2019 (date of disposal) RMB' 000	Year ended 31 December 2018 RMB' 000
<u>Summarised cash flows</u>		
Cash flows generated from operating activities	62,463	35,545
Cash flows used in investing activities	(48,642)	(51,221)
Cash flows used in financing activities	(28,714)	(41,409)
Net decrease in cash and cash equivalents	(14,893)	(57,085)

Assets directly associated with disposal group classified as held for sale:

	Year ended 31 December 2018 RMB'000
Property, plant and equipment	489,338
Land use right (net) Note (12)	10,015
Intangible asset	853
Inventories	45,143
Trade and other receivables	198,651
Cash and cash equivalents	47,883
	791,883

Liabilities directly associated with disposal group classified as held for sale:

	Year ended 31 December 2018 RMB'000
Trade and other payables	285,368
Long-term borrowings	114,750
	400,118

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

SunVic Chemical Holdings Limited and its subsidiaries

69

Notes to the financial statements for the financial year ended 31 December 2019

13(c) Disposal group classified as held for sale and discontinued operation (Cont'd)

The Group disposed of Taixing Sunke during the year. Details of the disposal are as follows:

	Year ended 31 December 2019 RMB'000
<i>Carrying amounts of net assets disposed of</i>	
Property and equipment (net)	768,198
Land use right	21,555
Intangible asset	977
Inventories	64,368
Trade and other receivables	470,033
Cash and cash equivalents	32,990
Trade and other payables	(394,160)
Long-term borrowings	(139,771)
Other reserves	(4,527)
Net assets derecognised	819,663
 <i>Cash consideration</i>	 875,410
Total cash consideration	875,410
 <i>Gain on disposal</i>	
Total cash consideration	875,410
Less: Net assets derecognised	(819,663)
Add: Consolidation adjustments	265,665
Gain on disposal	321,412

The consolidation adjustments mainly relate to sales of property, plant and equipment from Taixing Jurong to Taixing Sunke and other consolidation adjustments that have been realised on disposal of Taixing Sunke. The gain on disposal of Taixing Sunke of RMB 321,412,000 (2018: Nil) during the financial year ended 31 December 2019 is recorded within "other income" in profit or loss.

The net proceeds from disposal of Taixing Sunke are as follows:

	Year ended 31 December 2019 RMB'000
<i>As recorded in the Escrow Accounts</i>	
The First instalment: Proceeds from purchaser	175,410
The Second instalment: Proceeds from purchaser	322,922
The Third Instalment: Proceeds from purchaser	377,078
Total cash consideration	875,410
Settlement of net debt due to Taixing Sunke	(322,922)
Settlement of Amount X (Share of overheads)	(175,410)
Net balance subjected to SGX Compliance requirements (Restricted cash – Note 16)	377,078

The aggregate net proceeds from the disposal of Taixing Sunke in the Escrow Accounts as at 31 December 2019 are RMB 377,376,000 which included interest income of RMB 298,000 as at that date.

14 Deferred taxation

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority. The amounts, determined after appropriate offsetting, are shown on the statement of financial position as follows:

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

70

Notes to the financial statements for the financial year ended 31 December 2019

14 Deferred taxation (Cont'd)

The Group	31 December 2019 RMB'000	31 December 2018 RMB'000
Deferred tax assets		
- To be recovered after one year	-	-
Deferred tax liabilities		
- To be settled after one year	(7,500)	(7,500)

The balance comprises tax on the following temporary differences:

The Group	Excess of net book value over tax written down value of qualifying property, Plant and equipment RMB'000	Unappropriated profits RMB'000	Total RMB'000
At 31 December 2019	-	(7,500)	(7,500)
At 31 December 2018	-	(7,500)	(7,500)

Unrecognised deferred tax liabilities

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on the dividends to foreign investors from foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is tax treaty between the PRC and the jurisdiction of the foreign investor. The Group made provision for deferred tax liabilities on withholding tax at 5% of the retained earnings of all its PRC subsidiaries.

As at 31 December 2019, the aggregate amount of temporary differences relating to undistributed profits of subsidiaries for which deferred tax liabilities have not been recognised is RMB 720,102,000 (2018 - RMB 545,831,000). Unutilised tax liability totalling approximately RMB 35,885,000 (2018 - RMB 27,220,000) has not been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following temporary differences:

The Group	2019 RMB'000	2018 RMB'000
Tax losses	1,307,244	832,483
Deductible temporary difference	834,923	2,008,142
	2,142,167	2,840,625

The Group has unabsorbed tax losses amounting to approximately RMB 1,307,244,000 (2018 - RMB 832,483,000) that will expire between 2020 to 2022 and which are subject to agreement with the relevant tax authorities. These unabsorbed tax losses can be carried forward for offsetting against future taxable income provided that the provisions of the relevant tax legislations are complied with. There is no expiration date on deductible temporary difference amounting to RMB 834,923,000 (2018 - RMB 1,839,666,000).

Unutilised tax benefits totalling approximately RMB 106,844,000 (2018 - RMB 628,091,000) arising from deductible temporary difference and tax losses had not been recognised as there was no reasonable certainty of their realisation in the future.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

SunVic Chemical Holdings Limited and its subsidiaries

71

Notes to the financial statements for the financial year ended 31 December 2019

15 Value-added tax recoverable

The Group	2019 RMB'000	2018 RMB'000
Value-added tax recoverable	83,951,000	83,951,000
Impairment loss*	(83,951,000)	(83,951,000)
Net value-added tax recoverable	-	-

Value-added tax recoverable pertains to the tax recoverable on the purchase of property, plant and equipment by JJP since financial year 2014.

* In prior year, an impairment provision of RMB 83,951,000 was made as the chemical zone of which JJP operates was being ordered to shut down by the local government.

16 Cash and cash equivalents

	The Group		The Company	
	31 December 2019 RMB'000	31 December 2018 RMB'000	31 December 2019 RMB'000	31 December 2018 RMB'000
Non-current				
Fixed deposits – pledged ¹	-	76,739	-	-
		76,739		-
Current				
Cash and bank balances	7,780	25,434	296	810
Fixed deposits – pledged	404,013	203,431	-	-
Restricted bank balances ²	377,376	-	-	-
	789,169	228,865	296	810
Total	789,169	305,604	296	810

¹ Fixed deposits pledged relating to non-current bank loans.

² Restricted bank balances comprise of net proceeds from disposal of Taixing Sunke of RMB 377,078,000 and interest income of RMB 298,000 as at that date (Note 13 (c))

For the purpose of presenting the consolidated cash flow statement, the year-end cash and cash equivalents comprise the following:

The Group	31 December 2019 RMB'000	31 December 2018 RMB'000
Cash and cash equivalents	789,169	305,604
Less: bank balances – frozen	-	(16,424) ¹
Less: fixed deposits - pledged	(404,013)	(280,170)
Less: restricted bank balances	(377,376)	-
	7,780	9,010

Pledged fixed deposits represent deposits pledged to banks to secure bank borrowings (Note 21) and notes payables (Note 22). The pledged deposits will be released upon the settlement of relevant bank borrowings and the expiry of relevant bank guarantees. At the end of the reporting period, the bank balances of RMB Nil (2018 - RMB 16,424,000) were frozen and subject to the Taixing Sunke arbitration proceeding (Note 13(c)). The arbitration and injunction to freeze the assets of Taixing Jurong have been withdrawn as of the date of the previous year's financial statements.

¹ The amount has been restated as it was erroneously omitted in FY2018 disclosure.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

72

Notes to the financial statements for the financial year ended 31 December 2019

16 Cash and cash equivalents (Cont'd)

Restricted bank balances refers to two bank Escrow Accounts designated to receive proceeds from the disposal of Taixing Sunke. All withdrawals from the bank accounts are subjected to certain conditions and approval by SGX-ST (Note 13(c)). All withdrawals from any of the Escrow Accounts must be reviewed by the Company's internal auditor and external auditor (the "Auditors"), for its basis and veracity, and that the Auditors must confirm that they are satisfied that the withdrawals will be disbursed to the right party for proper and legitimate usage of the Company or any of its subsidiaries.

17 Inventories

The Group	2019 RMB'000	2018 RMB'000
At cost		
Raw materials	990	5,306
Packaging materials	3,002	3,051
	3,992	8,357
At net realisable value		
Finished goods	19,710	9,937
Work-in-progress	356	250
	20,066	10,187
	24,058	18,544

The Group	2019 RMB'000	2018 RMB'000
<u>Statement of profit or loss and other comprehensive income:</u>		
Continuing operation		
Inventories recognised as an expense in cost of sales (Note 6(c))	933,566	1,467,373
Inventories recognised as an expense in other operating expenses	2,591	25,628
Inventory write-down	1,307	-

Inventory write-down relates to inventory written off due to obsolete raw materials.

Inventories amounting to RMB 4,237,000 (2018: RMB 8,543,000) relate to inventories that are located in the Xiangshui Chemical Industry Park that have been shut down by the local government (Note 29(h)).

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

73

Notes to the financial statements for the financial year ended 31 December 2019

18 Trade and other receivables

	The Group		The Company	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables				
Trade receivables				
- third parties	30,598	40,335	324	315
- joint operation	-	76,731	-	-
- related parties	532,843	542,863	-	-
- subsidiaries	-	-	42,108	37,718
Notes receivable	300	1,168	-	-
	563,741	661,097	42,432	38,033
Loss allowances				
Balance at beginning of the year	(1,012)	(1,092)	-	-
Allowances*	(19,209)	-	-	-
Reversal of loss allowance	-	80	-	-
Balance at end of the year	(20,221)	(1,012)	-	-
Net trade receivables, current	543,520	660,085	42,432	38,033
Other receivables				
Non-trade amounts due from subsidiaries	-	-	14,876	14,793
Other receivables	13,146	44,480	292	122
Other prepayments	18,118	18,471	349	351
Advances to suppliers	31,650	38,758	-	-
Loss allowances				
Balance at beginning of the year	(19,625)	-	-	-
Allowances	(290)	(19,625)	-	-
Balance at end of the year	(19,915)	(19,625)	-	-
Advance to suppliers, net	11,735	19,133	-	-
Value-added tax recoverable	10,229	9,539	-	-
Total other receivables, current	53,228	91,623	15,517	15,266
Total trade and other receivables	596,748	751,708	57,949	53,299

*An expected credit loss ("ECL") allowance of RMB 19.2 million (2018: Nil) was recognised in profit or loss for the year ended 31 December 2019 in accordance with the ECL accounting policies of the Group

Trade and other receivables

Trade receivables are generally on 30 to 90 days' terms (2018 - 30 to 90 days' terms). Trade receivables are non-interest bearing and are recognised at their original invoice amounts which represent their fair value on initial recognition.

As at 1 January 2018, the Group's gross trade receivables from contracts with customers due amounted to RMB 727,198,000.

At the end of the reporting period, note receivables amounting to RMB 300,000 (2018 - RMB 1,168,000) are arranged to be settled via letters of credit issued by reputable banks in countries where the customers are based.

As at 31 December 2019, trade receivables and notes receivable amounted to RMB Nil (2018 - RMB Nil) were pledged as securities to obtain credit facilities (Note 21).

Further details of the foreign currencies denomination of trade receivables and the Group's financial risk management of foreign currency risk exposure are set out in Note 31(d).

Non-trade amounts due from subsidiaries

Non-trade amounts due from subsidiaries represent expenses paid by the Company on behalf of the subsidiaries. The amounts were unsecured, non-interest bearing and repayable on demand.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

74

Notes to the financial statements for the financial year ended 31 December 2019

18 Trade and other receivables (Cont'd)

Advance to suppliers

This related to prepayments made to suppliers for purchase of materials. In the prior financial year, the Group has recognised an impairment loss of RMB 19,625,000 as the chemical zone of which JJC operates was being ordered to shut down by the local government.

Credit risks exposure

The Group uses a provision matrix to measure the lifetime expected credit loss allowance for trade receivables. The Group determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions.

The Group's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising expected credit losses (ECL)
Performing	The counterparty has a low risk of default and does not have any past-due amounts.	12-month ECL
Doubtful	Amount is >30 days past due or there has been a significant increase in credit risk since initial recognition.	Lifetime ECL – not credit-impaired
In default	Amount is >90 days past due or there is evidence indicating the asset is credit-impaired.	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the group has no realistic prospect of recovery.	Amount is written off

The Group's credit risk exposure in relation to trade receivables under SFRS(I) 9 as at 31 December 2019 and 2018 is set out in the provision matrix as follows:

31 December 2019		Past due				Total RMB'000
The Group	Current RMB'000	Within 30 days RMB'000	31 to 60 days RMB'000	61 to 90 days RMB'000	More than 90 days RMB'000	
Expected loss rate	-	-	-	-	12.0%	
Trade receivables - Gross	147,577	66,227	33,092	149,022	167,823	563,741
Loss allowance	-	-	-	-	(20,221)	(20,221)

31 December 2018		Past due				Total RMB'000
The Group	Current RMB'000	Within 30 days RMB'000	31 to 60 days RMB'000	61 to 90 days RMB'000	More than 90 days RMB'000	
Expected loss rate	-	-	-	-	0.7%	
Trade receivables - Gross	48,582	198,836	118,213	159,649	135,817	661,097
Loss allowance	-	-	-	-	(1,012)	(1,012)

Concentrations of credit risk

Concentrations of credit risk exist when changes in economic, industry or geographical factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Group's total exposure. The Group determines concentrations of credit risk by monitoring the country and industry sector profile of its trade receivables on an ongoing basis.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

75

Notes to the financial statements for the financial year ended 31 December 2019

18 Trade and other receivables (Cont'd)

The credit risk concentration profile of the Group's trade receivables at the end of the reporting period is as follows:

	The Group		The Company	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
	RMB'000	RMB'000	RMB'000	RMB'000
PRC	539,374	657,707	42,108	37,718
Asia - others	3,389	1,721	324	315
Others	757	657	-	-
	543,520	660,085	42,432	38,033

There are no significant concentrations of credit risk, whether through exposure to individual customers, business segment and/or geographical regions.

The credit risk for trade and other receivables based on the information provided to key management is as follows:

- (i) Trade and other receivables (excluding prepayments, advances to suppliers and value-added tax recoverable) that are neither past due nor impaired

	The Group		The Company	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
	RMB'000	RMB'000	RMB'000	RMB'000
Current				
- Trade receivables	147,577	48,582	1,201	1,193
- Other receivables	13,146	44,480	15,168	14,915
Total	160,723	93,062	16,369	16,108

Trade and other receivables that are neither past due nor impaired are credit worthy debtors with a good payment record with the Group and the Company.

- (ii) Trade and other receivables (excluding prepayments, advances to suppliers and value-added tax recoverable) that are past due but not impaired

The ageing analysis of trade and other receivables (excluding prepayment, advance to suppliers and value-added tax recoverable) past due but not impaired is as follows:

	The Group		The Company	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
	RMB'000	RMB'000	RMB'000	RMB'000
Less than 30 days	66,227	198,836	-	-
30 to 90 days	182,114	277,862	1,176	1,162
More than 90 days	147,602	134,805	40,055	35,678
Total	395,943	611,503	41,231	36,840

Based on historical credit loss rates have been appropriately adjusted to reflect current condition and forecasts of future economic conditions, the Group believes that no impairment allowance is necessary in respect of trade and other receivables not past due or past due but not impaired. These receivables are mainly arising by customers that have a good credit record with the Group.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

76

Notes to the financial statements for the financial year ended 31 December 2019

18 Trade and other receivables (Cont'd)

Trade and other receivables that are individually determined to be impaired at the end of the reporting period relate to debtors that are in significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

The Group	2019 RMB'000	2018 RMB'000
As at 31 December (calculated under FRS 39)	1,012	1,092
Amounts restated through opening retained earnings	-	-
Opening loss allowance as at 1 January 2018 (calculated under SFRS(I)9)	1,012	-
Provision for loss allowance during the year	19,209	1,092
Reversal of loss allowance during the year	-	(80)
As at 31 December	20,221	1,012

The ageing analysis of trade and other receivables (excluding prepayment, advance to suppliers and Value-added tax recoverable) determined to be impaired is as follows:

	The Group		The Company	
	31 December 2019 RMB'000	31 December 2018 RMB'000	31 December 2019 RMB'000	31 December 2018 RMB'000
More than 120 days	20,221	1,012	-	-

The carrying amount of trade and other receivables (excluding prepayments, advances to suppliers and value-added tax recoverable) individually determined to be impaired is as follows:

	The Group		The Company	
	31 December 2019 RMB'000	31 December 2018 RMB'000	31 December 2019 RMB'000	31 December 2018 RMB'000
Gross amount	20,221	1,012	-	-
Less: loss allowance	(20,221)	(1,012)	-	-

The Group and the Company assessed the latest performance and financial position of the counterparties, adjusted for future outlook of industry in which the counterparties operate in, and concluded that there has been no significant increase in the credit risk since the initial recognition of the financial assets. Accordingly, the Group measured the impairment loss allowance using 12-months ECL and determined that the ECL is insignificant. Other than the above, there is no credit loss allowance for other financial assets at amortised costs as at 31 December 2019 and 2018.

Financial assets that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are creditworthy companies or individuals with a good payment record with the Group and the Company. Bank deposits that are neither past due nor impaired are mainly deposits with banks with high credit ratings and no history of default.

Financial assets that are past due but not impaired

There is no other class of financial assets that is past due but not impaired except for trade and other receivables. Included in trade and other receivables of the Company as at 31 December 2019 is an amount of RMB 131.0 million that is due by a related party, Jiangsu Yinyan, that is past due but not impaired. By way of financial support level obtained from other related companies, management is of the view that this debt is recoverable.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

77

Notes to the financial statements for the financial year ended 31 December 2019

19 Share capital

Group and Company	No. of ordinary shares		Amount	
	Issued share capital	Treasury shares	Issued share capital	Treasury shares
31 December 2019 and 31 December 2018	'000	'000	RMB'000	RMB'000
Beginning and end of financial year	533,651	(1,650)	291,516	(1,575)

All issued ordinary shares are fully paid. There is no par value for these ordinary shares. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

20 Other reserves

The Group	Note	31 December 2019 RMB'000	31 December 2018 RMB'000
Merger reserve	(i)	(499)	(499)
Capital reserve	(ii)	250,653	255,286
Foreign currency translation reserve	(iii)	(15,192)	(15,395)
Special safety reserve	(iv)	50,314	50,314
		285,276	289,706
Represented by:			
Distributable		(15,192)	(15,395)
Non-distributable		300,468	305,101
		285,276	289,706

The movements in other reserves are as follows:

- (i) Merger reserve represents the difference between the consideration paid and the share capital of a subsidiary restructured under common control.
- (ii) Capital reserve comprises accumulated profits transferred by the PRC subsidiaries as required under the local PRC legislation.

The PRC subsidiaries are required to appropriate 10% of its profits after taxation, as determined under the PRC Generally Accepted Accounting Principles (the "PRC GAAP"), to the statutory surplus reserve until the revenue balance reaches 50% of its registered capital. The appropriation to this reserve must be made before the distribution of dividends to investors. Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into paid-in capital in proportion to the existing interests of the investors, provided that the balance after such conversion is not less than 25% of the registered capital.

Under the PRC laws, the creation of a discretionary reserve is optional. In accordance with its Articles of Association, YYIE is required to appropriate a percentage of its PRC GAAP profits after taxation as determined by the directors to a discretionary reserve. YYIE has appropriated 5% of such profits after taxation from 2003 onwards.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

SunVic Chemical Holdings Limited and its subsidiaries

78

Notes to the financial statements for the financial year ended 31 December 2019

20 Other reserves (Cont'd)

- (iii) The foreign currency translation reserve comprises foreign exchange differences arising from the translation of the financial statements of subsidiaries whose functional currencies are different from the Group's presentation currency.

The Group	31 December 2019 RMB'000	31 December 2018 RMB'000
Foreign currency translation reserve		
Balance at beginning	(15,395)	(16,204)
Net currency translation differences of financial statements of foreign subsidiaries	203	809
Balance at end	(15,192)	(15,395)

- (iv) Pursuant to certain regulations issued by the State Administration of Work Safety of the PRC and other relevant regulatory bodies, the plants are required to set aside funds at prescribed rates. These funds can be used for maintenance and/or improvements of safe production and is not available for distribution to shareholders.

21 Borrowings

The Group	31 December 2019 RMB'000	31 December 2018 RMB'000
Non-current		
Secured bank loans	-	75,631
	-	75,631
Current		
Secured bank loans	397,431	395,740
	397,431	395,740
Total borrowings	397,431	471,371

The amount repayable within one year is included under current liabilities whilst the amount repayable after one year is included under non current liabilities.

The borrowings of the Group are subjected to fixed interest rate.

The borrowings are secured by:

- (a) Property, plant and equipment of the subsidiaries (Note 9(b));
- (b) Right-of-use assets (land use rights) (Note 10);
- (c) Trade and other receivables (Note 18);
- (d) Pledge fixed deposits (Note 16); and
- (e) Guarantee provided by the related parties, a director and a shareholder.

(a) Effective interest rates

The weighted average effective interest rates (per annum) of total borrowings at the end of reporting period are as follows:

The Group	Currency	31 December 2019 %	31 December 2018 %
Secured bank loans	RMB	3.50 - 4.35	4.57 - 7.50
Secured bank loans	USD	1.44 - 2.16	1.44 - 2.61

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

SunVic Chemical Holdings Limited and its subsidiaries

79

Notes to the financial statements for the financial year ended 31 December 2019

21 Borrowings (Cont'd)

(b) Carrying amounts and fair values

Fair values of borrowings

The carrying amounts of current borrowings approximate their fair value. The carrying amounts and fair values of non-current borrowings are as follows:

The Group	31 December 2019 RMB'000	31 December 2018 RMB'000
Secured bank loan		
Carrying amounts	-	75,631
Fair values	-	78,382

The fair values above are determined from the discounted cash flow analysis, discounted at market borrowing rates (per annum) of an equivalent instrument at the end of reporting period which the directors expect to be available to the Group as follows:

The Group	31 December 2019 %	31 December 2018 %
Secured bank loans	3.17	3.20

(c) Undrawn bank facilities

The amount of stand-by credit facilities available to the Group at the end of the reporting period is RMB 84,917,000 (2018: RMB 191,055,000).

22 Trade and other payables

	The Group		The Company	
	31 December 2019 RMB'000	31 December 2018 RMB'000	31 December 2019 RMB'000	31 December 2018 RMB'000
Trade payables				
- third parties	214,491	438,565	-	-
- related parties	19,322	328,505	-	-
Notes payables	508,833	174,410	-	-
	742,646	941,480	-	-
Accrued operating expenses	11,441	12,934	6,253	8,116
Accrued severance compensation	12,700	12,700	-	-
	24,141	25,634	6,253	8,116
Contract liabilities	160,360	23,288	-	-
Amounts due to subsidiaries (non-trade)	-	-	36,467	33,267
Amounts due to related party (non-trade)	-	-	2,997	-
Other payables	69,973	68,044	3,205	1,556
	997,120	1,058,446	48,922	42,939

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

80

Notes to the financial statements for the financial year ended 31 December 2019

22 Trade and other payables (Cont'd)

Trade and other payables are unsecured and non-interest bearing. Trade payables are normally settled on 60-day (2018 - 60 days) terms.

Notes payables

The notes payables are secured on the fixed deposits of RMB 165,500,000 (2018 - RMB 91,708,000) of the Group.

Accrued severance compensation

Accrued severance compensation relates to compensation payable to the staffs who have been retrenched following the Chemical Explosion and fire hazard in one of the subsidiary premises in the Xiangshui Chemical Industry Park.

Contract liabilities

Contract liabilities relate to advance consideration received from customers and billings in excess of revenue recognised to-date. Contract liabilities are recognised as revenue as and when the Group satisfies the performance obligations under its contracts. Increase in Contract liabilities mainly due to advances received from Taixing Jinyan during the year.

Amounts due to subsidiaries

Amounts due to subsidiaries represent the advance received from subsidiaries are unsecured, interest-free, repayable on demand and are to be settled in cash.

Further details of liquidity risks on trade and other payables are disclosed in Note 31(b).

Other payables

Included in other payables is a down payment of RMB 50,000,000 received from a third party in prior year for the proposed disposal of the entire interest in JJP to the third party. Refer to Note 33 (c) on the termination of the proposed disposal of JJP.

23 Provision for restoration costs

JJC and JJP are located and operates at the Xiangshui Chemical Industry Park in Yancheng City, Jiangsu Province. The operations in the Xiangshui Chemical Industry Park are exposed to potential damages and substantial liabilities such as the occurrence of uncontrollable flow of chemicals, gas, personal injury, fire and explosions hazards that could have an adverse effect on its business and operations, financial condition and cash flows.

On 21 March 2019, it was reported in the PRC news that a major explosion had occurred at a chemical plant in Xiangshui Chemical Industry Park and in April 2019, it was reported that the government of Jiangsu Yancheng will completely shut down the Xiangshui Chemical Industry Park following the Chemical Explosion. Since the explosion and the news on the closure of the Xiangshui Chemical Industry Park, JJC and JJP have stopped operations. The potential financial implications from the explosion at the Xiangshui Chemical Industry Park cannot be presently estimated as to any environmental penalties or legal liabilities and/or compensation that may be imposed on JJC and JJP by the local government.

The provision for restoration costs of RMB 45.6 million (2018: RMB 45.6 million) relates to the estimated cost of restoring the land located at the Xiangshui Chemical Industry Park which have been shut down by the local government following the Chemical Explosion in March 2019. The Group's subsidiaries, JJC and JJP, operate in location of Xiangshui Chemical Industry Park. The restoration will only occur when the Group return the land use rights to the local government on expiry. However, based on the management's intention, the land may not be returned to the local government for the following reasons:

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

81

Notes to the financial statements for the financial year ended 31 December 2019

23 Provision for restoration costs (Cont'd)

- (a) The location of the Xiangshui Chemical Industry Park has currently been sealed and protected under the government control;
- (b) The question raised as to whether the return of land and compensation from the government is an ever ongoing for an indefinite period. We have discussed with the management and there is no indication of compensation, if any, from the local government nor any demands being received from the local government to make any compensation payments for the restoration of the land as of the date of this report. The land use right at JJC and JJP has a lease period of between 34 to 50 years. Approximately 9 - 15 years have been used up with a remaining useful life of 19 and 41 years of lease before its expiry in JJC and JJP respectively. On the basis that the extended land use right may not be taking place in the near future, the provision for restoration may not be required for the next 19 - 41 years. There is 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 following the explosion incident. On this basis, we are not able to assess whether the provision is adequate or necessary.
- (c) Whether the land use rights can be returned with legal consequences cannot be ascertained. Under such a situation, JJC and JJP have no legal basis to ask the government to take back the land use right before it expires and pay the compensation to the Group. Only the government has right to take back the land use right before it expires. However, whether or not to exercise this right will depend on the government. According to the relevant PRC laws, the government can take back the land use right for the public interest or for the urban re-planning before it expires and the Group will receive the compensation from the government under this circumstance. At present, the Group can only wait for further action by the government; and
- (d) The land at Xiangshui Chemical Industry Park is under the control and protection of the authorities. Under the relevant PRC laws, the government will take control of the hazard area which cause life threatening for which death and injuries have been reported at the Chemical Explosion incident. The legal consequences are uncertain, and based on the PRC legal counsel's advice, it all depends on the government's decision. JJC and JJP can actively contact the government and wait for the further action by the government under such circumstances.

24 Lease liabilities

	The Group and the Company 2019 RMB'000
(i) The Group as a lessee	
Undiscounted lease payments due:	
- Year 1	535
- Year 2	519
- Year 3	215
Total	1,269
Less: Unearned interest cost	(78)
Lease liabilities	1,191
Presented as:	
- Non-current	705
- Current	486
Lease liabilities	1,191

The lease liabilities relate to the lease of office premises and photocopier which expire on 31 May 2022 and 29 March 2021 respectively and are renewable at market rates.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

SunVic Chemical Holdings Limited and its subsidiaries

82

Notes to the financial statements for the financial year ended 31 December 2019

24 Lease liabilities (Cont'd)

Interest expense on lease liabilities of RMB 74,000 is recognised within finance costs in profit or loss.

Total cash outflows for all leases in the year amount to RMB 518,000.

(ii) The Group as an intermediate lessor

Subleases – classified as operating leases

The Group acts as an intermediate lessor under arrangement in which it subleases out certain office space to a third party for monthly lease payments. The sublease periods do not form a major part of the remaining lease terms under the head leases and accordingly, the sub-leases are classified as an operating lease.

Income from subleasing certain office space recognised during the financial year 2019 was RMB 1,225,000 (2018 – RMB 549,000).

Undiscounted lease payments from the operating leases to be received after the reporting date are as follows:

	31 December 2019 RMB'000	31 December 2018 RMB'000
The Group		
Within one year	3,997	70

25 Segment reporting

The Group has three reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. The Group's Chief Executive Officer ("CEO") reviews internal management reports for each of the strategic business units on at least a quarterly basis. The three reportable segments are:

- Manufacture and sale of Acrylic Acid and Acrylate Esters;
- Manufacture and sale of PMDA and glyphosate; and
- Manufacture and sale of refined MTBE and petroleum products.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports reviewed by the Group's CEO. Segment profit is used to measure performance as the management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Other operations include the manufacture and sale of other chemical products. None of these segments meets any of the quantitative thresholds for determining reportable segments in 2019 or 2018.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

83

Notes to the financial statements for the financial year ended 31 December 2019

25 Segment reporting (Cont'd)

Information about reportable segments is as follows:

	AA and AE		PMIDA and glyphosate		MTBE and Petroleum-related products		Others		Total	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
External revenue	499,848	1,273,713	-	-	-	-	440,533	303,385	940,381	1,577,098
Interest income	-	-	-	-	-	-	-	-	-	-
Interest expense	(25,914)	(59,007)	-	-	-	-	1,903	1,822	1,903	1,822
Depreciation and amortisation	(31,587)	(95,013)	-	-	(6,375)	(14,055)	(22,839)	(14,055)	(48,753)	(73,062)
Impairment loss on property, plant and equipment	-	-	-	-	-	(312)	(574)	(312)	(38,536)	(111,800)
Reversal/(Provision) on contingent liability	-	(63,030)	-	-	-	-	-	-	-	(199,030)
Provision for severance	-	-	-	-	-	-	-	-	-	-
Compensation	-	(12,700)	-	-	-	-	42,500	(42,500)	42,500	(42,500)
Impairment loss on value-added tax recoverable	-	-	-	-	-	-	-	-	-	(12,700)
Restoration and dismantle charges	-	(45,573)	-	-	-	(83,951)	-	-	-	(83,951)
Impairment loss on prepayment	(290)	(19,625)	-	-	-	-	-	-	(290)	(45,573)
Reportable segment Profit/(loss) before tax	135,544	(346,017)	-	-	-	(239,861)	(64,623)	(99,963)	70,921	(685,841)
- continuing operation	23,854	23,052	-	-	-	-	-	-	23,854	23,052
Income tax expenses from	(16)	(600)	-	-	-	-	-	-	(16)	(600)
- continuing operation	(3,039)	(10,007)	-	-	-	-	-	-	(3,039)	(10,007)
Profit/(loss) for the year from continuing operation	135,528	(346,617)	-	-	-	(239,861)	(64,623)	(99,963)	70,905	(686,441)
- continuing operation	20,815	13,045	-	-	-	-	-	-	20,815	13,045
Reportable segment assets	1,705,760	1,356,412	-	-	28,057	35,691	34,763	74,305	1,768,580	1,466,408
- continuing operation	-	791,883	-	-	-	-	-	-	-	791,883
Reportable segment liabilities	1,288,091	1,416,972	-	-	14,846	21,189	147,214	188,979	1,450,151	1,627,140
- continuing operation	-	400,118	-	-	-	-	-	-	-	400,118
- discontinued operation	9,595	6,734	-	-	-	-	250	95	9,845	6,829
Capital expenditure	-	-	-	-	-	-	-	-	-	-

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

84

Notes to the financial statements for the financial year ended 31 December 2019

25 Segment reporting (Cont'd)

Segmental information is presented in respect of the Group's geographical segments. In presenting information on the basis of geographical segments, segment revenue are based on the geographical location of customers. Segment capital expenditure and other assets are based on the geographical location of the assets.

	Asia RMB'000	Europe RMB'000	South America RMB'000	North America RMB'000	Others RMB'000	Consolidated RMB'000
2019						
Revenue from external customers	929,485	3,717	40	6,143	996	940,381
Non-current assets	346,028	-	-	12,577	-	358,605
2018						
Revenue from external customers	1,526,336	14,274	5,652	26,161	4,675	1,577,098
Non-current assets	378,180	-	-	12,372	-	390,552

Information about major customers

Revenue of approximately RMB 432,485,000 (2018 - RMB 352,560,000) was derived from 3 (2018 - 3) external customers. These revenues are attributable to the AA & AE segments in the PRC.

26 Related party transactions

(a) Sale and purchase of goods and services

In addition to the related party information disclosed elsewhere in the financial statements, the following significant transactions between the Group and related parties took place at terms agreed between the parties during the financial years ended 31 December 2018 and 2019.

	2019 RMB'000	2018 RMB'000
The Group		
Sale of chemical products	398,623	332,730
Purchase of inventories	306,380	67,737
Sale of raw material and other spare parts	5,733	224,334
Rental of premises	3,600	-
	714,336	624,801

(b) Sales and purchases transactions

	2019 RMB'000	2018 RMB'000
The Group		
Sales – related parties	980,792	1,351,493
Purchases – related parties	289,338	1,350,892
	1,270,130	2,702,385

During the year, the Group entered into sales and purchases transactions with terms and conditions agreed (collectively known as "Transactions") with related parties. Such Transactions have been entered to maintain the Group's, related parties' existing credit facilities with the banks, which is a common practice carried out in the PRC. The management has presented these transactions on a net basis for financial reporting purpose in the consolidated financial statements. The bank credit facilities sum as at 31 December 2019 was RMB 646.0 million (2018 - RMB 923.0 million) as reported under the facility arrangements in the PRC entered into during the year ended 31 December 2019.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

85

Notes to the financial statements for the financial year ended 31 December 2019

26 Related party transactions (Cont'd)

(c) Compensation of directors and key management personnel

The Group	2019 RMB'000	2018 RMB'000
Short-term employee benefits	3,537	3,765
CPF contributions	196	136
	<u>3,733</u>	<u>3,901</u>
Comprise amounts paid to:		
Directors of the Company	2,658	2,184
Other key management personnel	1,075	1,717
	<u>3,733</u>	<u>3,901</u>

27 Commitments

(a) Operating lease commitments - as lessee

In prior year, the Group and the company have entered into a commercial lease on an office premise in Singapore. The lease has a tenure of 2 – 3 years with an option to renew at the end of the lease term.

Minimum lease payments are recognised as an expense in profit or loss for the financial year ended 31 December 2018 amounted to RMB 561,000.

Future minimum rental payable under non-cancellable operating leases at the end of the reporting period are as follows:

The Group and The Company	2018 RMB'000
Not later than one year	522
Later than one year but not later than five years	233
	<u>755</u>

Upon adoption of SFRS(I) 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. The accounting policy beginning on and after 1 January 2019 is disclosed in Note 3 “Leases”. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

(b) Operating lease commitments - as lessor

The Group and the Company lease out machinery and premises to external parties.

Future minimum rental receivable under non-cancellable operating leases at the end of the reporting period are as follows:

	The Group 2019 RMB'000	2018 RMB'000	The Company 2019 RMB'000	2018 RMB'000
Not later than one year	3,997	70	144	140

The leases on the Group and the Company's machinery and premises on which rentals are receivable expires between 31 May 2020 to 31 Dec 2021 (2018 – 31 May 2020) with renewals at the then prevailing rates.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

86

Notes to the financial statements for the financial year ended 31 December 2019

28 Provision for Contingent liabilities – Corporate guarantees

(a) Corporate guarantees to related parties

The Group acted as a corporate guarantor to provide guarantees to its related parties amounted to RMB 1.4 billion (2018 – RMB 1.6 billion) to secure banking facilities. As at 31 December 2019, the related parties had drawn down an amount of RMB 1.3 billion (2018 – RMB 1.4 billion) from these facilities. The loan facilities will expire in 2020 (2018 – expire in 2019).

The Group	2019 RMB'000	2018 RMB'000
Guarantee given:		
Yixing Danson	375,000	509,000
Jiaxing Jinyan	20,000	50,000
Taixing Jinyan	743,000	794,000
Jinyan Cangchu	260,000	260,000
	1,398,000	1,613,000

Amount drawn down:		
Yixing Danson	365,000	393,000
Jiaxing Jinyan	20,000	10,000
Taixing Jinyan	703,290	725,310
Jinyan Cangchu	185,000	244,500
	1,273,290	1,372,810

The Group	2019 RMB'000	2018 RMB'000
Guarantee received:		
Yixing Danson	105,000	252,500
Taixing Jinyan	550,000	550,000
Jiangsu Yinyan	84,900	84,900
	739,900	887,400

Amount drawn down:		
Yixing Danson	80,000	117,430
Taixing Jinyan	430,000	444,510
Jiangsu Yinyan	-	82,900
	510,000	644,840

At the end of the reporting period, there are no defaults being triggered for the repayment of the principal or interest payments thereon in respect of the guarantee obligations. The management has determined that the expected credit losses arising from the financial guarantee issued to related parties are not material on the basis that there is no significant increase in credit risk and the related expected credit losses are not significant to the Group.

(b) Provision for Contingent Liabilities – Corporate guarantees – third parties

On 10 January 2019, the Company announced that it had received legal claims in the PRC for the principal amounts of RMB 222,500,000 (consisting of two financial guarantees contracts of RMB 180,000,000 and RMB 42,500,000) plus interest for financial guarantees issued by its PRC subsidiaries on behalf of two unrelated parties. The legal claims were received in November and December 2018 but only announced by the Company on 10 January 2019. Details of the two financial guarantees are as follows:

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

SunVic Chemical Holdings Limited
and its subsidiaries

87

Notes to the financial statements for the financial year ended 31 December 2019

28 Provision for Contingent liabilities – Corporate guarantees (Cont'd)

(c) Corporate guarantees – third parties (contingent liabilities) (Cont'd)

Financial guarantee of RMB 180 million

The Company's wholly-owned subsidiary, YYIE, received a letter of demand dated 14 November 2018 (the "YFC Letter of Demand") from the lawyers (江苏科腾律师事务所) ("Jiangsu Keteng") acting on behalf of Yixing City Futao Rural Micro Credit Co., Ltd. (宜兴市富陶农村小额贷款有限公司) ("Yixing Futao Credit") in respect of a loan agreement entered into between Yixing Futao Credit and Jiangsu Donglai Real Estate Development Co., Ltd. (江苏东来房地产开发有限公司) ("Jiangsu Donglai") dated 8 October 2018 for the loan amount of RMB 180,000,000 (the "YFC Loan").

In the YFC Letter of Demand, Yixing Futao Credit is seeking repayment of RMB 183,700,000 (the "YFC Claim Amount"), comprising of RMB 180,000,000 as principal repayment and RMB 3,700,000 as accrued interest payable in respect of the YFC Loan, as Jiangsu Donglai has failed to make repayment of the YFC Claim Amount on the repayment date of 15 October 2018. Yixing Futao Credit is seeking repayment of the YFC Claim Amount from YYIE pursuant to a third party guarantee agreement entered into by Yixing Futao Credit, Jiangsu Donglai and YYIE dated 8 October 2018, under which YYIE provided a corporate guarantee to Jiangsu Donglai, a party unrelated to the Company, in favour of Yixing Futao Credit in respect of the YFC Loan (the "YFC Corporate Guarantee").

The intention of YYIE to provide guarantee to Jiangsu Donglai was to give a government officer who cannot be named a favor to enable a short-term 7-day bridging loan to the borrower, Jiangsu Donglai, to borrow from Yixing Futao Credit in order to repay its own loans to the China Construction Bank who in turn was expected to refinance Jiangsu Donglai for the same amount, which can then be used to repay Yixing Futao Credit. The China Construction Bank was supposed to renew the loans to Jiangsu Donglai following the repayment, but it never did. The legal representative of YYIE, Liu Wen, represented that he had conducted a basic assessment before entering into the YFC Corporate Guarantee agreement. On the same basis, no collateral was obtained from the borrower. Liu Wen had approved the financial guarantee contract after discussing it with Sun Xiao.

By way of a supplementary agreement entered into on 13 June 2019 (the "YFC Supplementary Agreement") between Yixing Futao Credit, Jiangsu Donglai and YYIE, the parties agreed, amongst others, whereby Jiangsu Donglai shall liquidate its assets to repay the YFC Loan including the interest payable to Yixing Futao Credit by 30 June 2020 (the "Extended Repayment Date"), and Yixing Futao Credit shall not commence any legal proceedings against Jiangsu Donglai and YYIE at any time prior to the Extended Repayment Date to seek repayment of the YFC Loan and all other due payments including the interest payable under the YFC Guarantee Agreement. The YFC Loan, YFC Corporate Guarantee and the YFC Supplementary Agreement are collectively known as the "YFC Agreements".

The Company's Audit Committee had 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.

As announced by the Company on 10 July 2019, the management had attempted to negotiate with Yixing Futao Credit to remove YYIE as the guarantor, however this was rejected by Yixing Futao Credit. The YFC Supplemental Agreement represents a compromise reached with Yixing Futao Credit. Yixing Futao Credit has also expressed its willingness to resolve the situation amicably.

The Group has obtained a confirmation from Yixing Futao Credit dated 5 September 2019 as follows:

- (a) Yixing Futao Credit did not sign the YFC Corporate Guarantee contract with YYIE and Jiangsu Donglai;
- (b) Yixing Futao Credit did not authorize Jiangsu Keteng as its legal representative to send lawyer letter to YYIE;
- (c) Yixing Futao Credit did not sign the mortgage contract dated 21 February 2019 with Jiangsu Donglai;
- (d) Yixing Futao Credit did not sign the YFC Supplementary Agreement dated 13 June 2019 with YYIE and Jiangsu Donglai.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

SunVic Chemical Holdings Limited
and its subsidiaries

88

Notes to the financial statements for the financial year ended 31 December 2019

28 Provision for Contingent liabilities - Corporate guarantees (Cont'd)

(c) Corporate guarantees – third parties (contingent liabilities) (Cont'd)

Financial guarantee of RMB 180 million (Cont'd)

The Group has obtained a confirmation from the liquidator of Jiangsu Donglai (无锡衡鑫清算事务有限公司) (“Wuxi Hengxin”) dated 4 September 2019 as follows:

- (a) Jiangsu Donglai did not borrow from Yixing Futao Credit as stated in the YFC Corporate Guarantee and YFC loan;
- (b) Jiangsu Donglai did not sign any contracts as stated in the YFC Corporate Guarantee and YFC loan;
- (c) The auditor appointed by the liquidator was not aware of any borrowings or amounts owed by Jiangsu Donglai;
- (d) Since the commencement of the liquidation proceedings by the liquidator on 17 April 2019, the liquidator has confirmed that he did not stamp on the YFC Supplementary Agreement dated 13 June 2019.

Financial guarantee of RMB 42.5 million

JJC received a letter of demand dated 15 December 2018 (the “BOC Letter of Demand”) from the lawyers acting on behalf of Bank of China Co., Ltd., Xiangshui County Sub-branch (“Bank of China”) in respect of a loan agreement entered into between Bank of China and Jiangsu Dahe Lyjian Chemical Co., Ltd. (江苏大和绿碱化工有限公司) (“Jiangsu Dahe”) dated 10 January 2018 for the loan amount of RMB 42,500,000 (the “BOC Loan”). In the BOC Letter of Demand, Bank of China is seeking repayment of RMB 42,971,061.50 (the “BOC Claim Amount”), comprising of RMB 42,500,000 as principal repayment and RMB 471,061.50 as accrued interest payable in respect of the BOC Loan, as Jiangsu Dahe has failed to make repayment of the BOC Claim Amount on the repayment date of 9 December 2018. Bank of China is seeking repayment of the BOC Claim Amount from JJC pursuant to a corporate guarantee entered into by JJC and Bank of China dated 5 January 2018, under which JJC provided a corporate guarantee to Jiangsu Dahe, a party unrelated to the Company, in favour of Bank of China in respect of the BOC Loan (the “BOC Corporate Guarantee” or “Corporate Guarantees”).

The management has confirmed to the Board that save for the YFC Corporate Guarantee and the BOC Corporate Guarantee, there is currently no other guarantee provided by the Group to secure the indebtedness of any unrelated party.

The Board has been informed by the management that JJC started to provide corporate guarantee as part of an arrangement with Jiangsu Dahe since 2011, under which JJC and Jiangsu Dahe had respectively provided corporate guarantees up to the loan amount of RMB 200,000,000 to facilitate the securing of the other party's bank loans. According to the management, the amounts guaranteed under such an arrangement by JJC has been progressively reduced over the years and the BOC Corporate Guarantee as described above represents the only outstanding corporate guarantee provided by JJC for Jiangsu Dahe.

Apart from the BOC Corporate Guarantee by Jiangsu Jurong, the BOC Loan was also secured by eight other corporate and personal guarantees in favour of Bank of China entered into by parties unrelated to the Company (the “Other BOC Guarantors”). The Board has been informed by the management that the Other BOC Guarantors who are related to Jiangsu Dahe have expressed their willingness to repay the BOC Claim Amount.

Pending the outcome of further investigations, given the involvement by Mr Yang Guoqiang and Mr Liu Wen in relation to the BOC Corporate Guarantee and the YFC Corporate Guarantee respectively, the Board has announced on 19 February 2019 that it had decided to temporarily suspend their rights as legal representatives to enter into any agreement for and on behalf of JJC and YYIE respectively without the prior approval of Mr Sun Xiao, and to temporarily suspend Mr Yang Guoqiang from his office as a director of the Company.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

89

Notes to the financial statements for the financial year ended 31 December 2019

28 Provision for Contingent liabilities - Corporate guarantees (Cont'd)

(c) Corporate guarantees – third parties (contingent liabilities) (Cont'd)

Financial guarantee of RMB 42.5 million (Cont'd)

As at the end of the reporting period, Jiangsu Donglai and Jiangsu Dahe have not settled their outstanding debts with the lenders. The management made full provision of RMB 222,500,000 as contingent liabilities on the above two corporate guarantees as at 31 December 2018.

As stated in the Company's announcement dated 18 January 2019, the management did not obtain the Board's approval prior to signing of the YFC Corporate Guarantee and BOC Corporate Guarantee. Company's Board of directors' approval for the issuance of the financial guarantees. The management also did not comply with the Group's internal control policy, whereby the approval by the Jurong Group Chairman of the Board of Directors in the PRC is required for the provision of financial guarantees schemes.

The legal representatives of YYIF and JJC had signed the financial guarantees contract at their own initiative without any formal authorisation and approval by the Board of Directors of the Company.

During the financial year ended 31 December 2019, the Company has reversed in full the provision of the BOC Contingent liabilities of RMB 42.5 million (2018: Provision for contingent liabilities of RMB 42.5 million) to the consolidated profit or loss for the year then ended (refer to Note 5(b)). The reversal was made as the PRC management has advised the Board that the BOC Corporate Guarantee was settled by a third party.

EY Investigation

On 2 April 2019, the Company has engaged Ernst & Young Advisory Pte. Ltd. ("EY Advisory") as the external auditor to form part of a special investigative committee to conduct an independent assessment and investigation into the circumstances leading to and surrounding the BOC Corporate Guarantee and the YFC Corporate Guarantee. As announced by the Company on 7 November 2019, EY Advisory has, on 6 November 2019 submitted the full report on its findings to the SGX-ST and the Audit Committee, and the key findings were as follows:

- Discrepancies surrounding the veracity of the YFC Agreements consisting of the YFC loan, YFC Corporate Guarantee and the YFC Supplemental Agreement.
- Discrepancies in the announcement dated 19 February 2019 issued by the Company
- Lack of adequate controls over approving and monitoring of corporate guarantees extended to third parties
- Absence of disclosure surrounding the corporate guarantees given by Jiangsu Jurong Chemical Co., Ltd. since 2016

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, the Company has reversed in full the provision of the YFC Contingent Liabilities of RMB 180,000,000 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. Refer to Note 33(b).

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

90

Notes to the financial statements for the financial year ended 31 December 2019

29 Impairment of assets

Jiangsu Jurong Chemical Co., Ltd. ("JJC") and Jurong Petrochemicals Co., Ltd. ("JJP")

- (a) An impairment loss of RMB 166.6 million on the property, plant and equipment located at the Xiangshui Chemical Industry Park (consisting impairment loss of RMB 136.0 million in respect of JJP and RMB 30.6 million in respect of JJC) was recognised in profit and loss during the year ended 31 December 2018 based on management assessment. No valuation was performed by an independent professional valuer for the year ended 31 December 2018.
- (b) No impairment assessment was performed on the carrying amount of the property, plant and equipment with an aggregate carrying amount of RMB 8.9 million (as recorded in the books of JJP as at 31 December 2019) (2018: RMB 76.3 million located at Xiangshui Chemical Industry Park, consisting of JJC of RMB 60.8 million and JJP of RMB 15.5 million), and right-of-use assets of RMB 58.3 million as at 31 December 2019 (comprising of RMB 54.4 million as recorded in the books of JJC and RMB 3.9 million as recorded in the books of JJP) (2018: Nil) due to the shutdown of the operations of JJC and JJP and access to the Xiangshui Chemical Industry Park was restricted.
- (c) Recorded in the books of JJC and JJP were land-use rights with the carrying amount of RMB Nil (2018: RMB 7.2 million and RMB 3.2 million) respectively as at 31 December 2019. No impairment assessment has been performed by the management owing to the shutdown of the operations at the Xiangshui Chemical Industry Park and restricted access for the year ended 31 December 2018.
- (d) In the books of JJC and JJP, were intangible assets comprising technology know-how and software with an aggregate carrying amount of RMB 7.2 million (2018: RMB 7.9 million) as at 31 December 2019. No impairment allowance has been provided on these intangible assets owing to the shutdown of the operations at the Xiangshui Chemical Industry Park and restricted access.
- (e) Included in the impairment loss in profit or loss for the year ended 31 December 2019, was an impairment of value-added tax ("VAT") recoverable of RMB Nil (2018: RMB 83.9 million) made in respect of JJP arising from the shut-down to the area in the Xiangshui Chemical Industry Park. No impairment loss was made in respect of the VAT recoverable of RMB 10.2 million (2018: RMB 9.5 million) that was recorded in the books of JJC as at 31 December 2019.
- (f) The management has recorded an impairment expense of RMB 19.6 million in profit or loss in respect of the prepayments to various suppliers for purchases of raw material by JJC for the year ended 31 December 2018 owing to the shutdown of operations at the Xiangshui Chemical Industry Park.
- (g) No impairment loss was made in respect of the advances paid to the suppliers for the purchases of the raw material of RMB 4.9 million (2018: RMB 8.5 million) that was recorded in the books of JJP as of 31 December 2019.
- (h) As of 31 December 2019, JJC and JJP had inventory balances of RMB 4.3 million (2018: RMB 7.1 million and RMB 1.4 million) respectively. No impairment assessment has been made in respect of the inventories as at 31 December 2018. An impairment loss of RMB1,307,000 on inventories was recognised in profit or loss for the year ended 31 December 2019.

Taixing Jurong Chemical Co., Ltd. ("Taixing Jurong")

- (i) An impairment loss of RMB 32.4 million was recognised in profit or loss for the year ended 31 December 2018 in respect of the plant and equipment with a carrying amount of RMB 108.3 million (before impairment loss) of Taixing Jurong, a wholly-owned subsidiary of the Group. The impairment loss was undertaken following a valuation performed by an independent professional valuer.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

91

Notes to the financial statements for the financial year ended 31 December 2019

29 Impairment of assets (Cont'd)

Taixing Jurong Chemical Co., Ltd. ("Taixing Jurong") (Cont'd)

- (j) No impairment assessment was performed on the carrying amount of the property, plant and equipment with an aggregate carrying amount of RMB 260.9 million of Taixing Jurong as at 31 December 2018 as the management is of the view that the carrying amount reflects its recoverable amount notwithstanding there are indicators of impairment for the period then ended.
- (k) For the year ended 31 December 2019, no impairment assessment was performed on the carrying amount of Taixing Jurong's property, plant and equipment and right-of-use assets of RMB 128.0 million and RMB 148.0 million respectively as at that date as the management is of the view that the carrying amount reflects its recoverable amount notwithstanding there are indicators of impairment for the period then ended. No valuation was performed on the aforesaid assets as at 31 December 2019.

Link Way Louisiana LLC

- (l) Included in land use rights of the Group is a freehold land that is held by a wholly-owned subsidiary, Link Way Louisiana LLC. The freehold land was carried at a historical cost of RMB 12,576,000 (2018 - RMB 12,372,000). The subsidiary has incurred a loss of RMB 69,000 (2018 - Loss of RMB 65,000) for the year ended 31 December 2019. Notwithstanding the indicators of impairment, no impairment assessment has been carried out by the management as it is of the view that the carrying amount represents fair value as at that date.

30 Fair value measurement

Definition of fair value

SFRS (I) defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

30.1 Fair value measurement of financial instruments

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three Levels of a fair value hierarchy. The three Levels are defined based on the observability of significant inputs to the measurement, as follows:

Level 1	quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3	unobservable inputs for the asset or liability

There were no financial assets and financial liabilities measured at fair value as at 31 December 2019 and 31 December 2018.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

92

Notes to the financial statements for the financial year ended 31 December 2019

30 Fair value measurement (Cont'd)

30.2 Accounting classifications of financial assets and financial liabilities

The carrying amounts of financial assets and financial liabilities in each category are as follows:

The Group	Note	2019 RMB'000	2018 RMB'000
Trade and other receivables (excluding advances to supplier and VAT recoverables)	18	556,666	704,565
Pledged deposits and cash and bank balances (including non-current fixed deposits pledged)	16	789,169	305,804
Total loans and receivables		1,345,835	1,010,169
Total financial assets at amortised cost		1,345,835	1,010,169
Financial liabilities:			
Borrowings	21	397,431	471,371
Trade and other payables	22	836,760	1,035,158
Provision for restoration costs	23	45,573	45,573
Lease liabilities	24	1,191	-
Contingent liabilities	28(b)	-	42,500
Total		1,280,955	1,594,602
The Company			
Loans and receivables:			
Trade and other receivables	18	57,600	52,948
Cash and bank balances	16	296	810
Total loans and receivables		57,896	53,758
Total financial assets at amortised cost		-	-
Financial liabilities:			
Trade and other payables	22	48,922	42,939
Lease liabilities	24	1,191	-
Total		50,113	42,939

31 Financial risk management objectives and policies

The Group and the Company financial risk management policies set out the Group's and the Company's overall business strategies and its risk management philosophy.

The Group and the Company are exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, interest rate risk and foreign currency risk. The Board of Directors reviews and agrees policies and procedures for the management of these risks, which are executed by the management. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's and the Company's activities.

There has been no change to the Group's and the Company's exposure to these financial risks or the manner in which it manages and measures the risk. The following sections provide details regarding the Group's and the Company's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

93

Notes to the financial statements for the financial year ended 31 December 2019

31 Financial risk management objectives and policies (Cont'd)

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the Group or the Company to incur a financial loss. The Group's and the Company's exposure to credit risk arises primarily from trade and other receivables and bank deposits. For trade receivables, the Company and the Group adopt the policy of dealing only with customers of appropriate credit history, and obtaining sufficient security where appropriate to mitigate credit risk. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. For other financial assets (including cash and bank balances and pledged deposits), the Group and the Company minimises credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure.

Exposure to credit risk

As the Group and the Company do not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the statement of financial position, except for financial guarantees provided by the Group to related parties.

The Group's and the Company's major classes of financial assets are trade and other receivables, deposits and bank deposits. Cash is held with reputable financial institutions. Further details of credit risks on trade and other receivables are disclosed in Note 18.

Financial guarantee

The maximum exposure of the Group in respect of the financial guarantee (see Note 28) at the end of the reporting period is if the facility is drawn down by the related parties to the maximum amount of RMB 1,398,000,000 (2018 - RMB 1,613,000,000) and to third parties – contingent liabilities of RMB Nil (2018 - RMB 42,500,000). At the end of the reporting period, the group does not consider it probable that a claim will be made against the group under intra-group financial guarantees and the expected credit loss are insignificant.

(b) Liquidity risk

Liquidity risk is the risk that the Group and the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments that are settled by delivering cash or another financial asset. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

The Group's and the Company's liquidity risk management policy is that to maintain sufficient liquid financial assets and stand-by credit facilities with different banks and business alliances. The amount of stand-by credit facilities available to the Group at the end of the reporting period is RMB 84,917,000 (2018 - RMB 191,044,000).

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

94

Notes to the financial statements for the financial year ended 31 December 2019

31 Financial risk management objectives and policies (Cont'd)

(b) Liquidity risk (Cont'd)

If the guarantees provided to related parties were to be crystallised on the assumption of default arising from the unfulfilment of loan obligations, the extent of the exposure to loss from guarantee contracts at the end of the reporting period would be RMB 1,273,290,000 (2018 - RMB 1,372,810,000) (Note 28).

The table below summarises the maturity profile of the Group's and the Company's financial liabilities at the end of the reporting period based on contractual undiscounted cash flows:

The Group	31 December 2019			Total RMB'000
	One year or less RMB'000	One to five years RMB'000	Over five years RMB'000	
Trade and other payables	836,760	-	-	836,760
Borrowings	403,914	-	-	403,914
Financial guarantee contracts	1,531,290	-	-	1,531,290
Provision for restoration costs	45,573	-	-	45,573
Lease liabilities	535	734	-	1,269
	2,818,072	734	-	2,818,806

The Group	31 December 2018			Total RMB'000
	One year or less RMB'000	One to five years RMB'000	Over five years RMB'000	
Trade and other payables	1,035,158	-	-	1,035,158
Borrowings	401,258	78,382	-	479,640
Financial guarantee contracts	1,613,000	-	-	1,613,000
Provision for restoration costs	45,573	-	-	45,573
Contingent liabilities	42,500	-	-	42,500
	3,137,489	78,382	-	3,215,871

The Company	31 December 2019			Total RMB'000
	One year or less RMB'000	One to five years RMB'000	Over five years RMB'000	
Trade and other payables	48,922	-	-	48,922
Lease liabilities	535	734	-	1,269
	49,457	734	-	50,191

The Company	31 December 2018			Total RMB'000
	One year or less RMB'000	One to five years RMB'000	Over five years RMB'000	
Trade and other payables	42,939	-	-	42,939
	42,939	-	-	42,939

The Group and the Company ensure that there are adequate funds to meet all its obligations in a timely and cost-effective manner.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

95

Notes to the financial statements for the financial year ended 31 December 2019

31 Financial risk management objectives and policies (Cont'd)

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk arises primarily from their borrowings. However, the Group's loans given to related parties are unsecured, interest bearing, repayable on demand and are to be settled in cash.

The Group's policy is to manage interest costs using a mix of fixed and floating rate debts taking into consideration the funding requirements of the Group.

Sensitivity analysis for interest rate risk

The Company and the Group are not exposed to any cash flows risk as it does not have any monetary financial instruments with variable interest rates.

(d) Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises when transactions are denominated in foreign currencies.

The Group has transactional currency exposures mainly arising from borrowings that are denominated in a currency other than the functional currency of Renminbi. The foreign currencies in which these transactions are denominated are mainly United States Dollar (USD) and Singapore Dollar (SGD).

Currently, the PRC government imposes control over foreign currencies. RMB, the official currency in the PRC, is not freely convertible. Enterprises operating in the PRC can enter into exchange transactions through the People's Bank of China or other authorised financial institutions.

Exchanges of RMB for foreign currency must be arranged through the People's Bank of China or other authorised financial institutions. Approval for exchanges at the People's Bank of China or other authorised financial institutions is granted to enterprises in the PRC for valid reasons such as purchase of imported materials and remittance of earnings. While conversion of RMB into foreign currencies can generally be effected at the People's Bank of China or other authorised financial institutions, there is no guarantee that it can be effected at all times.

The Group's and the Company's exposures to various currencies are as follows:

	SGD RMB'000	USD RMB'000
The Group		
31 December 2019		
Trade and other receivables	324	2,709
Cash and cash equivalents	377	5,372
Borrowings	-	(75,631)
Trade and other payables	(12,797)	(11,629)
	(12,096)	(79,179)
31 December 2018		
Trade and other receivables	12,215	102,717
Cash and cash equivalents	1,258	2,281
Borrowings	-	(75,631)
Trade and other payables	(3,279)	(26,823)
	10,194	2,544

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

96

Notes to the financial statements for the financial year ended 31 December 2019

31 Financial risk management objectives and policies (Cont'd)

(d) Foreign currency risk (cont'd)

The Company	SGD RMB'000	USD RMB'000
31 December 2019		
Trade and other receivables	1,517	56,284
Cash and cash equivalents	296	-
Trade and other payables	(24,135)	(19,787)
	(22,322)	36,497
31 December 2018		
Trade and other receivables	1,700	51,599
Cash and cash equivalents	762	47
Trade and other payables	(19,577)	(18,362)
	(17,115)	33,284

The following table demonstrates the sensitivity of the Group and the Company's foreign currency balances denominated in USD held by the Group and the Company whose functional currency is RMB, to a reasonably possible change in the USD exchange rates against the RMB, with all other variables held constant.

	Group Profit net of tax Increase/(Decrease)		Company Profit net of tax Increase/(Decrease)	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
USD/RMB				
strengthened 3% (2018 - 3%)	(1,777)	(285)	909	1,286
weakened 3% (2018 - 3%)	1,777	285	(909)	(1,286)
SGD/RMB				
strengthened 3% (2018 - 3%)	(301)	(254)	(556)	16
weakened 3% (2018 - 3%)	301	254	556	(16)

* amount less than RMB 1,000.

(e) Market price risk

Price risk is the risk that the value of a financial instrument will fluctuate due to changes in market prices. As at the end of the reporting period, the Group is not subject to significant market price risk.

32 Capital management

The Company's and the Group's objectives when managing capital are:

- (a) To safeguard the Company's and the Group's abilities to continue as a credit f;
- (b) To support the Company's and the Group's stabilities and growth;
- (c) To provide capital for the purpose of strengthening the Company's and the Group's risk management capabilities; and
- (d) To provide an adequate return to shareholders.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

97

Notes to the financial statements for the financial year ended 31 December 2019

32 Capital management (Cont'd)

The Company and the Group actively and regularly review and manage its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Company and the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Company and the Group currently do not adopt any formal dividend policy.

The Company and the Group monitor capital using capital net debt ratio, which is net debt divided by total capital plus net debt. The Company's and the Group's policy is to keep the gearing ratio at acceptable level. The Company and the Group include within net debt, loans and borrowings, less cash and short-term deposits. Capital includes equity attributable to the owners of the Company.

The immediate focus is to continue to optimise its operations with prudent cash management so as to maximise shareholders' value. The Group will continue to be guided by prudent financial policies.

The Group monitors capital using a gearing ratio, which is total net debt divided by total capital:

	The Group		The Company	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
	RMB'000	RMB'000	RMB'000	RMB'000
Borrowings	397,431	471,371	-	-
Less: Cash and cash equivalents	(789,169)	(305,604)	(296)	(810)
Total net debt	(391,738)	165,767	(296)	(810)
Total equity	318,429	231,033	351,912	353,826
Total capital	(73,309)	396,800	351,616	353,016
Gearing ratio	n.a.	42%	n.a.	n.a.

n.a: ratio not meaningful

Total capital is calculated as equity plus total net debt.

There was no change to the Group's approach to capital management during the financial years ended 31 December 2019 and 2018.

The Group is not subject to externally imposed capital requirement.

33 Subsequent events

- a) Resignation and appointment of Executive Directors and Chief Executive Officer
- On 14 November 2019, the Company announced that Sun Xiao, the Executive Director and Chief Executive Officer of the Company has resigned effective from 8 February 2020.
 - On 28 February 2020, the Company announced that Zhu Wuling, the Executive Director of the Company has resigned effective from 29 February 2020.
 - On 28 February 2020, the Company announced that Sun Lihua has been appointed Executive Director and Chief Executive Officer of the Company effective from 29 February 2020.

APPENDIX E – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

**SunVic Chemical Holdings Limited
and its subsidiaries**

98

Notes to the financial statements for the financial year ended 31 December 2019

33 Subsequent events (Cont'd)

- b) On 5 March 2020, the Company has announced that following the completion of the special audit by EY Advisory and in view of the YFC Veracity Discrepancies (refer to Note 28(b)), the Company has reversed in full the provision of the YFC Contingent Liabilities of RMB 180 million out of the aggregate of RMB 222.5 million of provision for contingent liabilities from the financial statements of the Group as at 31 December 2018. The provision for contingent liabilities of the Group as at 31 December 2018 after the above-mentioned reversal of RMB180.0 million contingent liability was RMB 42.5 million, which relates to the BOC Corporate Guarantee.
- c) On 29 September 2020, the Company announced that the proposed disposal of the entire equity interest in JJP to Shenzhen Qianhai Gatsway Petrochemical Co., Ltd (the “Purchaser”) pursuant to a framework agreement dated 4 July 2016 (the “Framework Agreement”) has been terminated via a Termination Agreement entered into on 10 July 2020 between the Group and the Purchaser. Arising from the Termination Agreement, the Group has refunded RMB 44.0 million on 3 September 2020 to the Purchaser out of the RMB 50.0 million deposit initially paid by the Purchaser to the Group in 2017, and effective from the date of the Termination Agreement, each party shall discharge and release the other parties from all rights, obligations and liabilities pursuant to the Framework Agreement or any other agreements entered into prior to the execution of the Termination Agreement and any such other agreements shall be terminated, and each party shall waive any and all claims against any other party in respect of the same.
- d) On 20 November 2020, the Company announced that W Capital Markets Pte. Ltd. has, for and on behalf of Harrier Group Pte. Ltd. (the “Offeror”), on 20 November 2020 issued an announcement that the Offeror intends to make a voluntary conditional cash offer (the “Offer”) to acquire all the issued and paid-up ordinary shares in the capital of the Company other than those already held by the Company as treasury shares, with a view to delisting and privatising the Company. The Offer is made with a view to delisting and privatising the Company.
- e) COVID-19 outbreak
An outbreak of COVID-19 (Coronavirus Disease 2019) had been reported to the World Health Organisation in China on 31 December 2019. At the date of these financial statements, while the outbreak has been most severe in Asia, it has spread to various regions around the world, including Europe, Middle East and the United States of America. The Group operates in various regions affected by the outbreak. While the full impact to the Group cannot be quantified reliably, the Group’s performance subsequent to the balance sheet date is likely to be negatively impacted as a result of regional and global travel restrictions, quarantine and/or illness of employees, loss of customers, supply chain disruptions, and other forms of interruptions to business.