CHANGTIAN PLASTIC & CHEMICAL LIMITED

RESPONSE TO SGX QUERY ON THE THIRD QUARTER FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016

In response to the query from the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") on 22 November 2016 in relation to the announcement made on 8 November 2016, in relation to the second quarter financial statements of the Group for the nine months ended 30 September 2016, the Board of Directors (the "**Board**") of Changtian Plastic & Chemical Limited (the "**Company**") together with its subsidiaries (the "**Group**") wish to provide the following additional information:-

SGX-ST's Query

Query 1

We note on page 1 of the Results Announcement that "Administrative expenses" has increased by 49.6% from RMB4.763 million to RMB7.125 million. Please provide breakdown of "Administrative expenses" and explain material items.

Company's Response

The breakdown of "Administrative expenses" for the three months ended 30 September 2015 ("**3Q15**") and three months ended 30 September 2016 ("**3Q16**") are as follows:-

	3Q15 RMB'000	3Q16 RMB'000	Variance RMB'000	Note
Audit fee	250	269	19	
Directors' remuneration	794	813	19	
Pre-operating expenses	1,792	3,937	2,145	i
Professional fees paid	98	235	137	ii
Rental expenses	182	182	-	
Staff costs	1,413	1,388	-25	
Others	234	301	67	
	4,763	7,125		

Notes:-

i. It represents the pre-operating expenses for Nylon-6 Chip Development.

ii. It consists of the company secretarial service fees, legal costs, professional fees on review of internal control system, company website and share registrars, etc.

Query 2

We refer to page 3 of the Results Announcement. We note that "Prepayments, deposits and other receivables" has increased from RMB17.446 million to RMB72.743 million. Please provide the following information:-

(a) Breakdown of "Prepayments, deposits and other receivables" with details of each on the material underlying transactions.

(b) Details of payment to whom and reasons for the significant payment.

Company's Response

(a) The breakdown of "Prepayments, deposits and other receivables" for the full year ended 31 December 2015 ("**FY15**") and 3Q16 are as follows:-

	FY15 RMB'000	3Q16 RMB'000
VAT credit on acquisition of property, plant and equipment	16,414	69,455
Others	1,032	3,288
	17,446	72,743

(b) According to the PRC tax regulations and rules, the purchaser is liable to pay VAT on the acquisition or self-construction of property, plant and equipment. By referencing to the Circular of 財稅[2008]170 號 issued by the PRC Tax Bureau on 19 December 2008, starting from 1 January 2009, the VAT paid on acquisition or self-construction of property, plant and equipment can be utilised to offset against the VAT expense on future sales revenue or other revenues which are subject to the VAT in the PRC of the same company. The payments of value-added tax were made to the PRC Customs Department for the production lines which were acquired and imported from the overseas suppliers. For the acquisitions of property, plant and equipment ("PPE") made in the PRC, the value-added taxes were paid to the suppliers of PPE directly. The acquisitions are made for the Nylon-6 Chip Development.

Query 3

We note on page 3 of the Results Announcement on "Accruals and other payables" of RMB190.994 million. Please provide breakdown of "Accruals and other payables" and the nature of underlying transaction and explain why the amount of “Accruals and other payables” is so significant.

Company's Response

The breakdown of "Accruals and other payables" for FY15 and 3Q16 are as follows:-

	FY15 RMB'000	3Q16 RMB'000	Note
Other payables on acquisition of property, plant and equipment	221,629	182,732	i
Others	4,009	8,262	ii
	225,638	190,994	

Notes:-

i. It represents the payables to the suppliers of property, plant and equipment and contractor of the new plant for the Nylon-6 Chip Development.

ii. It consists mainly of the accrued staff costs, directors’ remuneration, professional fees, other operating expenses and the provision of audit fee for the financial year ending 31 December 2016 together with the amount due to a director.

Query 4

We note on page 13 of the Results Announcement that Property, plant and equipment has increased by 122.3% from RMB459.2 million to RMB1,020.8 million due to the increase of construction and acquisition of production facilities for Nylon-6 chips business. Please provide the following information:-

(a) What is the current capacity, utilization and reason for significant increase in Property, plant and equipment.

(b) What is the total capacity of the new plant.

(c) How will the development be financed and to provide a breakdown of the total cost and completion date?

(d) When will plant be operational and what would be the impact to Company's financials and operations.

Company's Response

(a) The significant increase in Property, plant and equipment for the nine months ended 30 September 2016 was mainly due to the acquisition of production facilities and increase of construction costs of the plant for the business of new product, Nylon-6 chips which will commence operations in 2017.

(b) The Nylon-6 Chip Plant has an annual production capacity of approximately 110,000 metric tonnes.

(c) The breakdown of the budgeted total cost for the Nylon-6 Chip Development is as follows:-

	RMB'000
Cost of land acquisition	40,000
Construction cost of Nylon-6 Chip plant	270,000
Acquisition cost of production lines and auxiliary equipment	712,000
Installation cost of machinery	68,030
Other costs	30,370
Total	1,120,400

The development will be financed by the Group's internal funds and bank borrowings, if necessary. The Group had obtained a written confirmation from its principal banker in the PRC, which confirmed the availability of a credit line up to RMB300 million, the terms and conditions of which have not been finalized but include a pledge of the Group's plant and equipment.The Company expects that completion of the construction works for Nylon-6 Chip Development will be completed by the end of December 2016.

(d) The fine-tuning of machinery and trial production of Nylon-6 Chips will commence in early 2017. Commercial production and sales will commence once the Group is satisfied with the results of trial production. The new Nylon-6 Chips business will broaden the Group's product types provided to the customers and increase the sources of revenue and profit to the Group.

Query 5

We refer to page 13 of the Results Announcement. We note that "Prepayments, deposits and other receivables" has increased from RMB16.4 million to RMB69.4 million. Please provide the following information:-

(a) Breakdown of "Prepayments, deposits and other receivables" with details of underlying transactions.

(b) Details of payment to whom.

Company's Response

(a) The breakdown of "Prepayments, deposits and other receivables" for the full year ended 31 December 2015 ("**FY15**") and 3Q16 are as follows:-

	FY15 RMB'000	3Q16 RMB'000
VAT credit on acquisition of property, plant and equipment	16,414	69,455
Others	1,032	3,288
	17,446	72,743

(b) According to the PRC tax regulations and rules, the purchaser is liable to pay VAT on the acquisition or self-construction of property, plant and equipment. By referencing to the Circular of 財稅[2008]170 號 issued by the PRC Tax Bureau on 19 December 2008, starting from 1 January 2009, the VAT paid on acquisition or self-construction of property, plant and equipment can be utilised to offset against the VAT expense on future sales revenue or other revenues which are subject to the VAT in the PRC of the same company. The payments of value-added tax were made to the PRC Customs Department for the production lines which were acquired and imported from the overseas suppliers. For the acquisitions of property, plant and equipment ("PPE") made in the PRC, the value-added taxes were paid to the suppliers of PPE directly. The acquisitions are made for the Nylon-6 Chip Development. The Group incurred capital expenditures on acquisitions of new production facilities and construction of a new plant during the nine months ended 30 September 2016, therefore the corresponding VAT credit increased significantly from RMB16.4 million as at 31 December 2015 to RMB69.4 million as at 30 September 2016.

By Order of the Board
Yang Qingjin

Executive Chairman
CHANGTIAN PLASTIC & CHEMICAL LIMITED
24 November 2016