

CHANGJIANG FERTILIZER HOLDINGS LIMITED

(Registration Number: 200713878D)

RESPONSE TO QUERIES FROM SGX-ST

The Board of Directors of the Company together with its subsidiaries, (the “Group”) refers to the Group’s financial year ended 31 December 2014 results announcement (“Results announcement”) released to SGX-ST via SGXNet on 28 February 2015.

The following information is in response to the SGX-ST’s queries dated 19 March 2015:

- 1. We refer to page 1 of the Company’s results announcement. Please provide breakdown of ‘General and administrative expenses’ of RMB65.341 million and explain material items.**

Company’s reply:

The breakdown of “General and administrative expenses” for 4Q2014 is as follows:

Continuing operations-General and administrative expenses	RMB’000	%
Allowance for impairment of property, plant and equipment ⁽¹⁾	60,367	92.4
Work stoppage expenses-direct and indirect labour costs, depreciation, electricity ⁽²⁾	1,857	2.9
Staff costs	2,113	3.2
Exchange loss ⁽³⁾	782	1.2
Others administrative expenses	222	0.3
Total	65,341	100.0

Notes:

- 1) Arising from the independent valuer’s assessment of the property, plant and equipment as at 31 December 2014, impairment charge of RMB60,367,000 was recognized in 4Q2014 for the factory in Hanshou.
- 2) Direct and indirect labour costs, electricity and depreciation on property, plant and equipment are charged to work stoppage expenses for costs incurred by the factory in Hanshou during its shut-down.
- 3) Exchange loss arose because of the translation of RMB denominated balances owing to subsidiaries to Singapore dollar in the Singapore listco’s books.

2. We refer to page 7 of the Company's results announcement. Please provide breakdown of 'Assets of disposal group classified as held for sale' of RMB39.364 million.

Company's reply:

The breakdown of "Assets of disposal group classified as held for sale" is as follows :

	RMB'000
Property, plant and equipment	10,900
Intangible assets-land use rights	28,464
Total	<u>39,364</u>

3. We refer to page 7 of the Company's results announcement. Please provide breakdown of 'Other payables' of RMB16.887 million.

Company's reply:

The breakdown of "Other payables" is as follows :

	RMB'000
Loan from former controlling shareholder ⁽¹⁾	5,834
Accruals for operating expenses	4,951
Other payables	5,835
Amount due to a director	267
Total	<u>16,887</u>

Note:

- (1) Loan from former controlling shareholder pertains to loan from Zhu Cheng Bao. With effect from 16 May 2013, Zhu Cheng Bao has ceased to be the controlling shareholder of the Group.

4. We refer to page 14 of the Company's results announcement. Please provide the following information:-

- a) To explain why demand for the Group's product is weak and reported zero sales and that Company was unable to sell any of its inventory.

- b) To provide details of the inventory held by Miluo and Xiangyin plants and provide breakdown by type.
- c) Winding down of operations
 - (i) What is the reason the Company is required to wind down its operations?
 - (ii) Will there be any compensation?
 - (iii) When was Company informed to wind down its operations and what is the reason why company had not sought to address this requirement earlier?
- d) Other than Miluo and Xiangyin plants, what other plants or operations does Company have?

Company's reply:

- a) As there is a growing trend for farmers to prefer compound fertilizers over traditional fertilizers, demand for our Group's product is persistently weak. The weak demand could not satisfy the minimum threshold levels required for productions to justify the operational costs incurred. As such there was no production and zero sales and the Group was unable to sell any of its inventory.
- b) Inventory held by Miluo and Xiangyin plants:

	RMB'000
Raw materials	4,256
Less: Inventories written down	(4,256)
Total	<hr/> -

- c) (i) Miluo and Xiangyin plants have received notifications from the government to cease their operations in the existing factories which are located in urban areas of the cities for the purposes of the re-development of the cities.
- (ii) We are in the midst of negotiating with the local government regarding the compensation, both to the Company and our workers. We continue to pay our workers in the interim.

- (iii) The Company has on 21 June 2013 via SGXnet announced that the Company has received a notice from the Miluo City Environment Protection Agency for the winding down of its operations. The Company has also announced via the 3Q2013 results announcement released on 13 November 2013 under paragraph 10 “that the local governments of Miluo and Xiangying have indicated that our Jincheng and Xiangying plants may be required to be relocated for the purposes of the re-development of the cities”. The Company is now negotiating with the government on the compensation and is looking into other business continuity plans to address the issue of winding down of its operations in the above mentioned 2 plants.
- d) Other than Miluo and Xiangyin plants, the Group has one plant in Hanshou County, Hunan Province.

5. We refer to page 17 of the Company’s results announcement. Please provide the following information:-

- (a) To provide breakdown by type of ‘impairment of RMB248.9 million on property, plant and equipment in FY2013’ and a ‘further impairment of RMB117.0 million on property, plant and equipment’
- (b) To provide details of this ‘intangible assets’ with impairment of RMB6 million.
- (c) To explain the reason for impairment of advances to suppliers of RMB22.1 million which have been outstanding for more than one year.

Company’s reply:

- (a) The impairment charge breakdown is as follows:

RMB’000	Machinery and Equipment	Building and Workshops	Office Equipment	Motor Vehicles	Catalyst	Construction in-progress	Total
FY2013 Impairment	89,287	38,339	110	472	459	120,224	248,891
FY2014 impairment	48,459	17,196	147	783	910	49,476	116,971

(b) The intangible assets with impairment of RMB6 million refers to the land use rights in Xiangyin and Hanshou plants.

(c) Due to the halt in the production activities in our plants, our suppliers were not able to deliver the purchases to us based on the agreed schedule which resulted in a deterioration of quality of the inventory due to the extended storage time at warehouse. On grounds of prudence, we decided to make full provision for the impairment after a few rounds of futile negotiations in getting the refund from the suppliers. We are still attempting to get the refund back from our suppliers.

- 6. We refer to page 17 of the Company's results announcement on the deposit paid to acquire certain business assets from Yueyang City Xinsheng Fuhefei Co., Ltd for the production of compound fertilizers and the RMB22.4 million impairment provided for the deposit paid as the Company's management decided not to proceed with the acquisition.**

Please provide the following information:-

- (a) What were the terms of the agreement and why was the deposit not refundable?
- (b) Were terms of the acquisition disclosed via SGXNET with details pursuant to Rule 1010 of the Listing Manual.

Company's reply:

The salient terms of the MOU agreement are as follows:

- (a) Changjiang Huafei shall, within three (3) business days after the signing of the MOU, pay a deposit amounting to 40% of the Present Asset Value (equivalent to approximately RMB 22.40 million) to the Vendor (the "Deposit"). The Deposit is refundable subject to the condition in paragraph (c) below;
- (b) upon receipt of the Deposit, the Vendor shall facilitate the conduct of legal and financial due diligence exercises by independent third parties appointed by Changjiang Huafei (the "Due Diligence Exercise");
- (c) upon the discovery during the course of the Due Diligence Exercise of any substantial discrepancies relating to information provided by the Vendor on the assets, Changjiang Huafei will be entitled to a full refund of the Deposit and may elect to terminate the MOU; and

- (d) Changjiang Huafei shall, (3) business days upon obtaining the relevant regulatory and shareholder approvals, pay the remaining 60% of the Present Asset Value together with the Land Asset Payment (equivalent to a total of approximately RMB 114.33 million), subject to any adjustments to the Present Asset Value, based on a formulation to be agreed upon between the parties. In the event the relevant regulatory and shareholder approvals are not obtained, the Deposit will not be refunded to Changjiang Huafei.

The Company is in the process of seeking legal advice in respect of pursuing the refund of the Deposit, and will make such further announcement as and when appropriate to keep shareholders informed of any developments on the above matter.

The details specified under Rule 1010 were not set out in the announcement dated 27 December 2013 in respect of the memorandum of understanding for the acquisition, as the memorandum of understanding was not a definitive agreement for the acquisition and the terms and conditions of the acquisition had not been finalised at that stage.

- 7. We refer to paragraph 9 of the Results Announcement. Please comment on whether the current results are in line with the Company's commentary on prospects or previous quarter outlook in paragraph 10 of its previous quarterly results announcement and if there is a variance, to explain why.**

Company's reply:

Under paragraph 10 of the Company's previous quarterly results announced on 17 November 2014, the Company stated "the fertilizer industry continues to be depressing and is unlikely to improve for the rest of this year". Current results are in line with the above mentioned commentary.

BY ORDER OF THE BOARD

Changjiang Fertilizer Holdings Limited

Zhu Xue Cheng

Acting Chairman and Executive Director

23 March 2015