CHANGTIAN PLASTIC & CHEMICAL LIMITED

RESPONSE TO SGX QUERY ON THE SECOND QUARTER FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2016

In response to the query from the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") on 6 September 2016 in relation to the announcement made on 12 August 2016, in relation to the second quarter financial statements of the Group for the half year ended 30 June 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 42.8% from RMB4.647 million to RMB6.638 million. Please provide breakdown and explain material items.

Company's Response

The breakdown of "Administrative expenses" for the three months ended 30 June 2015 ("**2Q15**") and three months ended 30 June 2016 ("**2Q16**") are as follows:-

	2Q15 RMB'000	2Q16 RMB'000	Variance RMB'000	Note
Audit fee	250	268	18	
Directors' remuneration	801	815	14	
Pre-operating expenses	1,208	3,024	1,816	i
Professional fees paid	465	378	(87)	ii
Rental expenses	182	182	-	
Staff costs	1,384	1,413	29	
Others	357	558	201	
	4,647	6,638		

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 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 RMB26.668 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 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 2Q16 are as follows:-

	FY15 RMB'000	2Q16 RMB'000
VAT credit on acquisition of property, plant and equipment	16,414	26,045
Others	1,032	815
	17,446	26,860

(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 12 of the Results Announcement "other pre-operating expenses for the development of Nylon-6 chips business in the current period". Please provide the following information:-

(a) Quantify and explain the development that is currently undertaken to justify the significant cost.

(b) How will this impact Company's prospects in next reporting period and financial year.

Company's Response

(a) The breakdown of "Pre-operating expenses" for 2Q15 and 2Q16 are as follows:-

	2Q15 RMB'000	2Q16 RMB'000	Variance RMB'000
Staff costs	926	2,529	1,603
Travelling expenses	31	189	158
Depreciation	23	71	48
Others	228	235	7
	1,208	3,024	

The construction works of Nylon-6 Chip Development was expected to be completed in October 2016. The subsidiary recruited more marketing and administrative staffs to well-prepare for the commencement of Nylon-6 Chip business and increased the staff costs and other pre-operating expenses in the current period.

(b) Since the production and sales of Nylon-6 Chips are expected to commence in the fourth quarter of 2016, an increase of pre-operating expenses is probable in the next reporting period (i.e. 3rd quarter of 2016). However, these expenses will be recorded to the relevant nature of expenses since the commencement of Nylon-6 Chips business in the 4th quarter of 2016.

Query 4

We note on page 13 of the Results Announcement that Property, plant and equipment has increased by 84.6% from RMB459.2 million to RMB847.7 million due to the increase of construction in progress and acquisition of machinery and equipment for Nylon-6 chips business in the first half of 2016. Please provide the following information:-

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

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

Company's Response

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

(b) The development is 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 expected completion date of the Nylon-6 Chip Development is 4th quarter of 2016.

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

Query 5

We refer to page 16 of the Company's Results Announcement. We note "Rental expenses to Xiamen Changtian Plastic & Chemical Co., Ltd" of RMB1.15 million in which Mr. Chen Yongfu, and Mr Yang Qingjin, directors of the Company and Mr Yang Jie, who is the son of Mr Yang Qingjin, have beneficial interests, were made with reference to the valuation report dated 5 March 2007 prepared by an independent valuer. Please provide the following information:-

(a) Details of size, location, why competing business housed in Company's premises, rental per annum, whether shareholders' approval sought or announced details under Chapter 9 of the Listing Manual.

(b) As the valuation report was prepared sometime back, Audit Committee to confirm that rental expenses of RMB1.15 million is arms' length.

Company's Response

(a) The Company's rented premises is located at 18 Xinsheng Road, Xinyang Industrial Zone, Haicang District, Xiamen City, Fujian Province, People's Republic of China 361026 with an aggregate building floor area of approximately 20,960 square meter. The annual rent is RMB2.3 million which has been disclosed in the Company's prospectus in 2007 and the Company's annual report every year. Besides, there is no competing business housed in Company's factory.

(b) The Board of Directors reviews occasionally the market price through the internet searching after the first three years and no material difference with our annual rent was found. Therefore, the Audit Committee considers the annual rent of RMB2.3 million is fair and on arm's length.

By Order of the Board
Yang Qingjin

Executive Chairman
CHANGTIAN PLASTIC & CHEMICAL LIMITED
8 September 2016