
RESPONSE TO SGX QUERY IN RESPECT OF THE RESULT ANNOUNCEMENT FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2016

The Board of Directors (the “Board”) of Jiutian Chemical Group Limited (the “Company” or the “Group”) would like to respond to the following query raised by SGX on 6 September 2016 (“SGX Query”) in respect of the result announcement for the financial period ended 30 June 2016 (“2Q2016”) as follows:-

SGX Query:

We refer to the Company’s 2Q2016 financial statements announcement (“Results Announcement”).

- 1) We note on page 1 of the Results Announcement that ‘Distribution costs’ has increased by 53% from RMB2.839 million to RMB4.34 million. Please provide the following information:-
 - (a) Reasons for increase in ‘Distribution costs’ by 53% when ‘Revenue’ has decreased by 24%.
 - (b) Provide breakdown of ‘Distribution costs’ and explain material items.
- 2) We note on page 1 of the Results Announcement on the ‘Administrative expenses’ of RMB6.8 million. Please provide breakdown and explain material items.
- 3) We note on page 3 of the Results Announcement that ‘Trade and other receivables’ has increased by 18.3% from RMB366.035 million to RMB432.897 million. Please provide the following information:-
 - (a) Provide breakdown and aging schedule
 - (b) Elaborate on the nature of other receivable and the underlying transaction
 - (c) Explain reason for increase of ‘Trade and other receivables’ by 18.3% to RMB432.897 million from RMB366.035 million when Revenue has decreased by 24%.
 - (d) Explain why customers are not paying for their purchase
 - (e) Disclose identity of material debtors and whether Company has taken active steps to collect such outstanding debts. If so, disclose these.
- 4) We note on page 3 of the Results Announcement on the ‘Trade and other payables’ of RMB542.571 million. Please explain this is Trade and other payables relating to what, why is it so significant, quantify and identify major creditors and underlying transactions.
- 5) We note that the Company has a negative working capital of RMB104.3 million. Please explain whether the Company is able to operate as a going concern and basis for directors’ view and whether all material information has been disclosed.

SGX Query (cont'd):

- 6) We note on page 11 of the Results Announcement that there is an increase of advances to Anyang Jiujiu Chemical Technology Co., Ltd ("Anyang Jiujiu") for the payment of the construction of its plants amounted to RMB57.66 million. As the amount is material, please provide the following details:-
- Details on these plants under construction
 - How the total construction will be funded and contribution by each of the various shareholders
 - Operational financial impact of such construction on the future operations of Anyang Jiujiu.
 - Size of plant and location
 - Size of land, reason for new plant, land use right owned by whom
 - Date of commencement and completion and how much paid to-date.
 - Identity of contractor and how is cost reasonable.
- 7) We refer to page 12 of the Results Announcement. Please provide the following information:-
- What 'principal supplier' and since when.
 - On 'strategic partner' - to provide details of 'strategic partner', who runs this business, identity of controlling shareholder and directors, whether related to Company's directors, controlling shareholder and their respective associates.

Company's response:

1)

Breakdown of distribution cost

	2Q2016	2Q2015
	RMB'000	RMB'000
Transportation cost	3,929	2,457
Marketing staff cost	235	266
Others	176	115
	4,340	2,838

As observed above, the increase in distribution cost was mainly due to an increase in transportation cost, which resulted from more customers opting to purchase goods inclusive of transportation costs, rather than ex-factory.

***Comparison of quantity of goods sold inclusive of transportation**

	2Q2016	2Q2015
	Tonnes	tonnes
DMF	7,082	6,155
Methylamine	4,336	1,534

Others consist of traveling costs incurred by the marketing staff, entertainment expenses with customers, promotional gifts to customers etc.

2)

Breakdown of administrative expenses

	2Q2016	2Q2015
	RMB'000	RMB'000
Staff cost	3,163	3,246
Rental	392	420
Amortisation charges	233	233
Depreciation charges	494	484
Others	2,518	2,403
	6,800	6,786

Others consist of audit fees, secretarial fees, listing fees, annual report printing fees office expenses, travelling fees, property taxes etc.

Company's response (cont'd):

3)

a. Breakdown of trade and other receivables:

	As at 30 June 2016 RMB'000	As at 31 December 2015 RMB'000
Trade receivables	26,501	14,038
Trade bills receivables	256,831	258,691
	<u>283,332</u>	<u>272,729</u>
Less: Allowance for doubtful receivables	(4,716)	(4,716)
Total trade receivables, net	<u>278,616</u>	<u>268,013</u>
- Advance payments to suppliers	-	12
- Advance payments for purchase of property, plant and equipment	13,663	7,325
- Advances to associated company	119,105	61,422
- Advances to related parties	12,742	18,742
- Value-added tax recoverable	-	1,714
- Income tax recoverable	4,510	4,510
- Prepayments	-	349
- Refundable deposits	709	709
- Others	552	239
- Security deposits paid to secure corporate guarantee of the bank borrowing	3,000	3,000
	<u>154,281</u>	<u>98,022</u>
	<u>432,897</u>	<u>366,035</u>

Ageing of trade receivables

	As at 30 June 2016 RMB'000	As at 31 December 2015 RMB'000
Not past due and not impaired	277,121	265,135
Past due but not impaired	1,495	2,878
	<u>278,616</u>	<u>268,013</u>
Impaired receivables - individually assessed	4,716	4,716
Less: Allowance for doubtful receivables	(4,716)	(4,716)
	<u>-</u>	<u>-</u>
Total trade receivables, net	<u>278,616</u>	<u>268,013</u>

b. Please refer to 3(a) for the nature of other receivables

c. As disclosed in page 11 of the results announcement

The increase in trade and other receivables of RMB 66.86 million was mainly due to an increase of advances to Anyang Jiujiu Chemical Technology Co., Ltd ("Anyang Jiujiu") for the payment of the construction of its plants amounting to RMB 57.66 million, an increase in trade and receivables of RMB 10.60 million and an increase of RMB 6.34 million in prepayments for plant and equipment. These increases were partially offset by the repayment from related party amounting to RMB 6.00 million.

d. The increase in 'Trade and other receivables' of approximately RMB 66.86 million is largely due to an approximately RMB 57.66 million in advances to Anyang Jiujiu, whereby the Group will monitor their payment. Other than Anyang Jiujiu, the Group has no material customers who are not paying for their purchase.

Company's response (cont'd):

- e. There is no material individual debtor. The Group have however taken active steps to collect those past due debts, including but not limited to the following measures: stopping the supply of goods to customers until the debts are fully repaid; marketing staff visiting the offices of customers whose receivables are overdue to chase up on the outstanding receivables; and legal actions being taken against customers with past due and impaired receivables.

4)

	As at 30 June 2016 RMB'000	As at 31 December 2015 RMB'000
Trade payables due to:		
- Outside parties	33,511	32,557
- Associated company	138,015	158,881
- Related parties	72,113	71,496
Trade bills payables	234,482	214,033
Bills payables to banks	39,000	37,300
Total trade payables	<u>517,121</u>	<u>514,267</u>
- Advances from customers	5,306	10,818
- Advances from a related party	4,900	4,594
- Payable for purchase of property, plant and equipment	7,443	7,443
- Value-added tax payables	1,431	89
- Rental payable to associated company	1,360	959
- Others	5,010	6,452
	<u>25,450</u>	<u>30,355</u>
Total trade and other payables	<u><u>542,571</u></u>	<u><u>544,622</u></u>

The Group's major creditors are its related party, Anyang Chemical Industry Group Co., Ltd. ("Anhua Group") and its associated company, Anyang Jiulong Chemical Co., Ltd. ("Anyang Jiulong"), with total payables of RMB 211.49 million. Anhua Group and Anyang Jiulong are key suppliers of the Group, supplying key raw materials like liquid ammonia, methanol, industrial steam and electricity.

Trade bills payables represent trade bills receivables that have been endorsed as payments made to the suppliers. These trade bills payables will expire when the corresponding trade bill receivables mature.

- 5) As disclosed in page 12 of the Results Announcement.

Current liabilities of the Group as at 30 June 2016 exceeded its current assets by RMB 104.28 million attributable to the continuing losses in prior years. Despite the negative working capital, the Group believes that it will be able to repay its current liabilities as and when they fall due as a substantial part of the Group's current liabilities are owed to its principal supplier and strategic partner, Anhua Group and to its associated company, Anyang Jiulong totalling RMB 211.49 million. The Group secured a letter agreement of continued financial support from them, which had agreed to defer payments of trade and other payables owing to them till Anyang Jiutian is able to settle its other liabilities. This continued financial support agreement will span across a period of 2 years ending 31 December 2017, at which point the arrangement will be further reviewed.

With the continued financial support from Anhua Group and Anyang Jiulong, the Board believes that the Group will be able to operate as a going concern, despite the negative working capital of RMB 104.28 million which is less than the amount of RMB 211.49 million owed to but deferred till December 2017 by Anhua Group and Anyang Jiulong.

The Board is not aware of any other material information which has not been disclosed.

Company's response (cont'd):

6)

- a. As per our announcement dated 30 August 2016 in relation to the investment on project sodium hydrosulfite (the "Project") in Anyang Jiujiu Chemical Technology Co., Ltd (a 74% associated company of the Company) ("Anyang Jiujiu"), the key production facilities have been completed (details in (d) below), except for a dedicated solid waste incineration plant which is still under construction.

- b. The investment will be funded by a combination of internal resources (advances obtained from Anhua Group and the Group) and external borrowings. The funding of the investment as at 30 June 2016 is as follow:

RMB '000

Share capital:

- Jiutian Chemical Group Limited (49%)	40,000
- Anyang Jiulong Chemical Co., Ltd (51%)	41,633

Total share capital	81,633
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Hire purchase borrowing	98,276
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Advances from related parties:

- Anyang Jiutian Fine Chemical Co., Ltd	119,084
- Anyang Jiulong Chemical Co., Ltd	199,569
- Anyang Chemical Industry Group Co., Ltd	104,029
Group of companies	

Total advances from related parties	422,682
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Total fund received by Anyang Jiujiu	602,591
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- c. Upon commencement of commercial production slated for 1H2017 as announced on 30 August 2016, the Project is expected to have a material impact on the earnings per share and net tangible assets per share of the Group for the financial year ending 31 December 2017.

- d. The Project is located in the vicinity of our current facilities at Anyang City, Henan Province, PRC. The main production facilities are as follows:

45,000 tons of sodium formate (HCOONa);
 45,000 tons of sodium metabisulfite (Na₂S₂O₅);
 45,000 tons of liquid sulphur dioxide (SO₂); and
 140,000 tons of sodium hydrosulfite (Na₂S₂O₄).

- e. The size of the land for the project is 72,238m², with the land use right owned by Anyang Jiujiu. The reason for investing in the Project is to diversify the Group's earnings base.

- f. The Project commenced in April 2013 and is expected to be completed by 1H2017. As at 30 June 2016, total payments to contractors related to the Project was RMB 522.69 million.

- g. The EPC contractor of the Project is Wuhuan Engineering. Wuhuan Engineering is an engineering consulting, design and contracting enterprise of chemical petro-chemical and medical industries with all class A certificates in the PRC. Further information about Wuhuan Engineering and the services provided by them can be found at their website at www.cwcec.com.

To ensure the cost of the project are reasonable, Anyang Jiujiu's management have been involved in the contract biddings and negotiations along with Wuhuan Engineering with the subcontractors. As stipulated in the EPC contract, Wuhuan Engineering is responsible for purchasing of all equipment and materials required for the construction works. Equipment and materials used in the project should be in accordance with the agreed technical and design requirements and related standards. All purchases must be done through a tender, and Anyang Jiujiu's management has been involved in the entire process.

Company's response (cont'd):

- 7) Anhua Group is our “principal supplier” and “strategic partner”.

Anhua Group has been a key supplier of raw materials to the Jiutian Group since 2005. It was also disclosed in the Company's listing prospectus dated 24 April 2006 that Anhua is a key supplier of the Jiutian Group and that a 20-year supply agreement was entered into between Anyang Jiutian and Anhua on 1 January 2005 (the “Supply Agreement”).

Anhua Group is a state-owned enterprise incorporated in Anyang, Henan Province, PRC. Anhua is in turn a subsidiary of Henan Energy and Chemical Industry Group Co., Ltd (“HNEC”). HNEC is one of the PRC's most significant coal mining companies and a significant manufacturer in the chemical industry. Anhua Group is the holding company of Anyang Longyu, a Controlling Shareholder of Jiutian Chemical Group Limited.

There are 3 common directors in Jiutian Chemical Group limited and Anhua Group, being Mr Gao Heng, our Non-Independent and Non-Executive Chairman, and Mr Su Jing and Mr Huo Xiaofan, our Non-Executive and Non-Independent Directors.

By Order of the Board,

Sun Zhiqiang
Acting Chief Executive Officer
8 September 2016