



CHANGTIAN PLASTIC & CHEMICAL LIMITED

RESPONSES TO SIAS' QUESTIONS ON THE CHANGTIAN PLASTIC & CHEMICAL LIMITED ANNUAL REPORT 2016

In response to the questions from the Securities Investors Association (Singapore) ("**SIAS**") in relation to the Changtian Plastic & Chemical Limited (the "**Company**") Annual Report 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 response:-

SIAS' Questions

Q1 Since the original plans for the Nylon-6 Chip Plant were made in 2012 and the further detailed assessment and feasibility study conducted by management in January 2013, the group has increased the capacity of the plant to 110,000 mt, citing "lowering the cost of production through mass manufacturing, more efficient use of marketing and managerial resources, greater bargaining power in bulk procurement and other such cost advantages in the chemical fibre industry."

The plant was originally estimated to be completed by 18 months from the commencement of development in May 2012 but it has been delayed by 3 years due to various factors.

a) **How have the market conditions changed over the last three years?**

Company's Response

The market for Nylon-6 chips in China fluctuated over this period due to both macro economic and industry factors. Nevertheless the broad market trend is still in a gentle growth stage, cushioned by the wide industrial applications for Nylon-6 chips. The Management expects the Nylon-6 chip market to expand further in the coming years.

b) **Are management's projections of market prices of Nylon-6 chips and raw material, operating costs, and the trading environment still valid?**

Company's Response

The market prices of Nylon-6 chips and raw materials, and operating costs are within the range of our Management's forecast.

c) **Is the group's new Nylon-6 Chip Plant competitive in terms of its technology?**

Company's Response

The production lines at Group's new Nylon-6 Chip Plant are acquired from a Germany machinery supplier and embodied the latest advanced manufacturing technology in the Nylon-6 Chips industry.

d) **Does the group have the technical expertise to operate the Nylon-6 plant?**

Company's Response

Beside the Group's in-house team who has considerable knowledge in Nylon-6 market, the group has recruited several engineers who have many years of experience in this

field and oversee the installation of the new plant. They will lead the production department and manage the research and development team. The Group will also have technical support from the Germany machinery supplier at the early stage of operations.

- e) **With the expected trial production to be completed by mid-FY2017, can shareholders understand what are the group's marketing efforts?**

Company's Response

The Group has recruited marketing staff who have communicated with potential customers to ascertain their respective specifications of Nylon-6 chips. Several sales personnel have been recruited and are undergoing training.

- Q2. In terms of the group's liquidity risks, it was noted that the group "has payables to suppliers, contracted capital commitments and planned expenditures (but not yet contracted for) amounting to RMB148.6 million in aggregate for the Nylon-6 business whilst cash and bank balances amounted to RMB65.1 million as at 31 December 2016" (page 37).**

- a) **When does management expect to finalise the terms and conditions of the credit line of up to RMB300 million with its principal banker?**

Company's Response

ICBC has confirmed in early 2017 the availability of RMB300 million in bank loan for the Group that may be utilized at any time. The Group's property, plant and equipment will be used as security for the bank loan. Interest rate chargeable will be fixed at the prevailing market rate at date of loan drawdown.

- b) **Does the group have sufficient working capital to run and operate the new Nylon-6 Chip plant efficiently?**

Company's Response

The Group has sufficient working capital from its own funds and bank borrowings, if necessary, to run and operate the new Nylon-6 Chip plant efficiently. Once the commercial sales of Nylon-6 chips commence, it is expected to generate more working capital for the Group.

- c) **What is the expected increase in working capital when the Nylon-6 plant go into full operations?**

Company's Response

Our working capital is expected to increase strongly when commercial production begin. During the initial period, this increase will be adequately covered by existing financial resources, including drawdown of credit lines. Subsequently, our revenue collection is projected to exceed working capital requirement.

- Q3. Two of the independent directors were first appointed to the board on 24 September 2007 and another was appointed on 29 April 2008. As disclosed in the Corporate Governance Report (page 17), both Mr Chan Yin David and Ms Liao Quanwen have served on the Board for more than nine years from the date of their first appointment. Mr Tan Siok Sing would have served on the board for more than nine years from 29 April 2017.**

The Board has concluded that Mr Chan and Ms Liao have continued to demonstrate independence in character and judgement over the years in discharging their duties and responsibilities as Independent Directors of the Company.

Guideline 2.4 of the Code of Corporate Governance 2012 (Code) issued by the Monetary Authority of Singapore requires the board to “also take into account the need for progressive refreshing of the Board”.

- a) **What are the company's near-term plans for the progressive refreshing of the board, as required by Guideline 2.4 of the Code?**

Company's Response

Presently, the NC is of the view that the current Board size of 7 directors of which 3 are Independent Directors, is appropriate and effective, taking into account the nature and scope of the Company's operations. The NC will regularly review the structure, size and composition of the Board from time to time to ensure that the size of the Board is conducive to effective discussions and decision making and will make recommendations to the Board with regard to any adjustments that are deemed necessary. The NC will identify gaps in the mix of skills, experience and other qualities required in an effective Board and to nominate or recommend suitable candidates to fill these gaps.

- b) **What is the search and nomination process for new board directors, especially independent directors?**

On the assessment of board's performance (Principle 5 of the Code), the NC has also disclosed that:

The NC reviews the criteria for evaluating the Board's performance and recommends to the Board a set of objective performance criteria focusing on enhancing long-term shareholders' value. Based on the recommendations of the NC, the Board has established processes for evaluating the effectiveness of the Board as a whole and its Board committees.

Company's Response

As disclosed in the Company's Corporate Governance Report, the selection and nomination process for new Directors includes:-

- (i) in carrying out this review the NC will take into account that the Board composition reflect balance in expertise, experience and diversity;
- (ii) the NC will identify suitable candidates for appointment to the Board having regard to skills required and skills represented to the Board; and
- (iii) external search companies, personal contacts and recommendations may be used from time to time to access a wide base of potential candidates.

The Board recognises that independent directors may over time develop significant insights in the Group's business and operations, and can continue to provide significant and valuable contribution objectively to the Board as a whole. When there are such directors, the Board will also do a rigorous review of their continuing contributions and independence and may exercise its discretion to extend the tenure of these directors.

- c) **Can the NC confirm that the company only has a formal assessment process to evaluate the effectiveness of the Board as a whole and its Board committees, but not the contributions by each director to the effectiveness of the board?**

Company's Response

The NC does have a formal process of evaluating how each Director is contributing to the overall effectiveness of the Board. As disclosed in the Company's Corporate Governance Report, the NC reviews the criteria for evaluating the Board's performance and recommends to the Board a set of objective performance criteria focusing on enhancing long-term shareholders' value. Based on the recommendations of the NC,

the Board has established processes for evaluating the effectiveness of the Board as a whole and its Board committees. The performance criteria for the Board evaluation includes an evaluation of the size and composition of the Board, the Board's access to information, accountability, Board processes, Board performance in relation to discharging its principal responsibilities, communication with Management and standards of conduct of the Directors.

In the course of the year, the NC has conducted the assessment by preparing a questionnaire to be completed by each Director, of which were then collated and the findings were analysed and discussed with a view to implementing certain recommendations to further enhance the effectiveness of the Board and its Board committees.

In addition each member of the NC abstains from making any recommendations and/or participating in any deliberation of the NC and from voting on any resolution, in respect of the assessment of his own performance or re-nomination as a Director. Through this process, the Board members get to evaluate their fellow peers on the Board, on their contribution to the effectiveness of the Board.

- d) As Principle 5 requires a formal assessment of the contribution by each Director to the effectiveness of the Board, would the NC explain why it has deviated from the Code?**

Company's Response

The Board is of the view that the current assessment procedures to evaluate the effectiveness of the Board is sufficient. Moreover, the Board works as a team to achieve results, and each Board member is able to contribute from a different and significant perspective. Hence, the Group is of the opinion that it is more purposeful to emphasize the evaluation of the Board as a whole rather than to focus on individual Board members;

Following the review, the Board is of the view that the Board and its Board Committees operates effectively and each Director is contributing to the overall effectiveness of the Board.

- e) Would the board and the NC reconsider the company's deviation from the Code?**

Company's Response

The Board works as a team to achieve results, and each Board member is able to contribute from a different and significant perspective. Hence, currently the Group is of the opinion that it is more purposeful to emphasize the evaluation of the Board as a whole rather than to focus on individual Board members. However, if required for the better management of the business, the Board will consider it.

By Order of the Board
Yang Qingjin

Executive Chairman
CHANGTIAN PLASTIC & CHEMICAL LIMITED
27 April 2017