九天化工集团有限公司
JIUTIAN CHEMICAL GROUP LIMITED
(Company Registration No. 200415416H)

RESPONSES TO SIAS AND SHAREHOLDERS' QUESTIONS RELATED TO 16th ANNUAL GENERAL MEETING ON 28 APRIL 2021

The Board of Directors (the "**Board**") of Jiutian Chemical Group Limited (the "**Company**", together with its subsidiaries, the "**Group**") would like to thank shareholders for submitting their questions in advance of the Company's Annual General Meeting to be held by electronic means on Wednesday, 28 April 2021 at 10.30 a.m.

The Company would like to inform shareholders that the responses to all questions which have been submitted by shareholders prior to the deadline and questions received from SIAS are published in this announcement. Please refer to the Appendices of this announcement for details.

BY ORDER OF THE BOARD
Name: Han Lianguo
Designation: Non-executive and Non-independent Chairman
Date: 27 April 2021

Appendix I – Question From SIAS

Q1. As noted in the chairman's statement, the group reported a record-setting year for 2020 even as the COVID-19 pandemic raged across the world. In FY2020, the group increased its revenue by 9% to RMB 1.15 billion and recognised a net profit of RMB 173.1 million, an improvement over the RMB (278.9) million loss in FY2019. This was driven by a surge in demand for the group's main products from downstream users who are experiencing strong growth in both local and export markets.

Due to the closure of one of the largest competitors in the industry (which resulted in higher average selling prices) and the depressed market for energy (hence low raw material prices), the group capitalised on the turn of events to improve gross profit margins to 24% in FY2020, up from 7%.

The chairman has stated that customers in certain sectors are experiencing high growth rates, such as electric vehicle (EV) batteries, semiconductor, pharmaceuticals and animal feeds customers.

(i) Can management help shareholders better understand the uses of the group's products in EV, semiconductor and animal feeds?
(ii) How much visibility into customers' demand does the group have?
(iii) Does the group see further consolidation in the industry? The group is now China's second-largest DMF producer following the permanent closure of one of the group's largest competitors. In addition, what lessons, if any, could be learnt from the group's competitors who have exited the market?
(iv) How much pricing power does the group have? Would the continued good performance of the group depend largely on the average selling price achieved and also the cost of raw material?

The group has also ventured into the production of Oxygen-18 and deuterium-depleted water ("DDW", commonly known as light water) through the 45% owned subsidiary company, Henan Herunsheng Isotope Technology Co., Ltd.

(v) What is the scale of its investments into Oxygen-18 and DDW manufacturing? Who are the customers for these products?

Response:

(i) N-methylpyrrolidone (NMP), a downstream product of our main product monomethylamine, is an electronic-grade NMP product used as an electrode auxiliary material for lithium-ion batteries. It is an important solvent in the production of lithium-ion batteries for new energy electric vehicles.

Electronic copper clad laminates are a downstream product of Dimethylformamide (DMF). At present, domestic production of FR-4 glass fiber cloth-based copper clad laminates and high-frequency copper clad laminates are mainly used in 5G base stations, satellite communications and millimeter wave radars for assisted driving in vehicles.

Choline chloride, a downstream product of our main product trimethylamine, is an essential substance for the production of phospholipids, and is one of the important components involved in cell membranes, improving animal production speed and performance. Choline chloride is a main additive of animal feed.

(ii) After years of being a key producer in China for our main products of DMF and Methylamines, we have acquired a high degree of understanding of our customers and their downstream customers to have a good feel of the demand supply dynamics of our products.

Appendix I – Question From SIAS

Q1

(iii) The permanent closure of one of the group's largest competitors was mainly due to local environmental policy reasons, and not directly related to consolidation in the industry. We will closely monitor the changes in domestic environmental policies and will continue with strict implementation of our various environmental protection measures to ensure full compliance with the prevailing policies.

(iv) Being a key producer in China over the years, we have a relatively robust marketing and sales strategy and networks, and a stable customer base. The product prices are ultimately decided by factors including supply and demand of our products and the general economic conditions in both domestic and export markets.

(v) Henan Herunsheng Isotope Technology Co., Ltd.'s main products are oxygen-18 and deuterium-depleted water, with annual production capacity of 140 kg of oxygen-18 and 1,700 tons of deuterium-depleted water. The total investment cost of the project which has been substantially completed is RMB 80 million. The Group owned and contributed to 45% of this cost.

Oxygen-18 is a natural and stable isotope of oxygen. Being an environmental isotope, it is an important precursor for the production of fluorodeoxyglucose (FDG) used in positron emission tomography (PET), a medical diagnostic technique, commonly known as PET scan.

Deuterium-depleted water, also known more as light water, is water with a lower concentration of deuterium compared to normal water. Studies have shown that such water with a low deuterium concentration (<65% percent of volume) can inhibit cancer growth.

The target customers for these products include:
(1) Health care institutions
(2) Cosmetic manufacturers
(3) Health care manufacturers
(4) Pharmaceutical manufacturers

Appendix I – Question From SIAS

Q2. As can be seen from the consolidated statement of cash flows (page 64), after a rights issue [(1)] raising RMB 49 million, the group ended the year with RMB 259.7 million of cash and cash equivalents.

For FY2020, receivables increased by RMB 189.7 as at 31 December 2020 (page 64). Trade and other receivables increased to RMB 665.1 million (page 61 – Statements of financial position). In Note 12 (page 87 – Trade and other receivables), it was shown that trade bills receivables increased from RMB 308.5 million to RMB 385.4 million as at 31 December 2020.

(i) What is management's strategy to better manage its credit risk and to improve on its collection? The group has stated that more customers opted to use trade bills as a form of repayment which has led to a longer credit repayment period.

Separately, total advance payments to suppliers have increased significantly to RMB 77.8 million as at 31 December 2020.

	Group		Company	
	2020	2019	**2020**	2019
	RMB'000	RMB'000	**RMB'000**	RMB'000
Advance payments to suppliers:				
- Associated company	**21,213**	-	-	-
- Related party	**51,852**	4,873	-	-
- Third parties	**4,688**	626	-	-
Total advance payments to suppliers	**77,753**	5,499	-	-

(Source: company annual report)

The details of the advance payments made to interested parties are shown on pages 49 and 50. Reasons have included net advances given for working capital purposes, net advances for raw material and purchase of electricity and industrial steam.

The auditors have also included an emphasis of matter related to the amount due from an associated company (page 56). It was noted that non-trade receivables from an associated company, Anyang Jiujiu Chemical Technology Co. Ltd ("Anyang Jiujiu") amounted to RMB145,000,000 and constituted 10% of the group's total assets.

(ii) Can the board, especially the independent directors, help shareholders better understand the commercial basis to provide advance payments to suppliers? How were such terms negotiated?

(iii) Did the board carry out a risk assessment on the advance payments made to its suppliers?

(1) this should be a placement.

Appendix I – Question From SIAS

Q2

Response:

(i) As at 31 December 2020, trade bills made up approximately 88% of the Group's total net trade receivables. Trade bill as a form of payment is a common business practice in PRC. Management is of the view that the credit risk of these trade bill receivables are low due to:

(1) The risk of default of trade bills is low as they are issued by banks. Only trade bills issued by reputable banks in China are acceptable by us;
(2) Trade bills can be endorsed to our suppliers as a payment mode (please refer to our Annual report page 88). Included in the trade bills receivables, RMB 370.48 million were endorsed as payments made to our suppliers; and
(3) Trade bills can be encashed at banks with a discount rate reflecting prevailing interest rate.

(ii) The advanced payments to suppliers for purchase of raw materials, electricity and industrial steam were to ensure no interruption to the continuous operation of its wholly owned subsidiary, Anyang Jiutian's production plants. The advance payment to suppliers were related to their purchase of raw material. Due to the tight supply situation of the coal market in China from 4Q2020, the commercial terms to purchase coal by the suppliers have been changed from purchase with credit terms to advance payment before delivery. Accordingly, suppliers requested us to make corresponding advance payments. In addition, to ensure no interruption to our operation, suppliers were requested by us to stock up coal inventory as coal were short in supply during the winter period.

(iii) The board had assessed the risk of the advance payments made to its suppliers and concluded that the transactions were carried out on normal commercial terms and low risk. As at 31 March 2021, the suppliers had delivered the raw materials against the advance payments.

Appendix I – Question From SIAS

Q3. The group reported a profit and total comprehensive income for FY2020 of RMB 173.7 million (page 62 – Consolidated statement of changes in equity). On page 63, in the statement of changes in equity for the company, it was shown that the company recognised a loss and total comprehensive loss for the financial year of RMB (10.7) million (reproduced below).

STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2020

	Note	Share capital RMB'000	Accumulated losses RMB'000	Total equity RMB'000
Company				
Balance at 1 January 2019		661,153	(113,138)	548,015
Loss and total comprehensive loss for the financial year		–	(228,593)	(228,593)
Balance at 31 December 2019		661,153	(341,731)	319,422
Issue of shares	24	49,002	–	49,002
Share issue expenses	24	(178)	–	(178)
Loss and total comprehensive loss for the financial year		–	(10,685)	(10,685)
Balance at 31 December 2020		709,977	(352,416)	357,561

(Source: company annual report)

(i) Can the board help shareholders reconcile the significant difference in the profit and loss at the group level and at the company level?

In addition, on page 47, the company has stated that it has not recommended any dividend for FY2020 as the company was not profitable and was not in a position to declare dividend to shareholders as at 31 December 2020. According to SGX's data on the company's corporate actions, the company last paid a dividend in May 2008.

(ii) Can the board help shareholders understand the deliberations it has had on the declaration of dividends?

(iii) How does the board balance growth and providing returns to shareholders?

Response:

(i) FY2020, the Group level's profit are mainly generated from our wholly owned subsidiary, Anyang Jiutian Fine Chemical Co., Ltd ("**Anyang Jiutian**"). Whilst at Company level, the losses are mainly arising from the impairment loss for investment in associates.

(ii) According to Section 403 in the Companies Act, it is stipulated that no dividend shall be payable to the shareholders of any company except out of profits. In other words, dividends must be payable only out of profits. The principal activity of the Company is investment holding. The main income of the Company is the dividends from its subsidiaries or associates; however, we did not receive any dividends from our subsidiaries nor associates since FY2008. Thus, the Company was not in the position to declare dividend.

Appendix I – Question From SIAS

Q3

Company laws in PRC stipulate that dividends must be payable only out of its retained profits, and our subsidiaries and associates were in accumulated losses situation since FY2008. Notwithstanding, our main methylamine/DMF subsidiary, Anyang Jiutian has been generating profits and was already in retained profits position as at 31 December 2020. As such, barring unforeseen circumstances, we expect Anyang Jiutian to be in a position to pay dividends to the Company, thus placing the Company in a position to pay dividends to its shareholders.

(iii) Return to shareholders can be in the form of dividend and/or increase in share price, and these can be possible if the Company continues to grow its revenue and earnings base. The board will strive to provide return to shareholders by optimising the use of the Company's cash flow to both achieve a balance for growth and pay dividend.

Appendix II Question from Shareholders

1. **What's the strategy to maximise margin?**

   We will focus on continuing to operate efficiently and increasing our utilisation rates to take advantage of the current favourable operating margins of our main products.

2. **What's the strategy to accelerate growth?**
3. **What's the status on the expansion plan?**
4. **What and when are the expansion plans going to be?**

   The Group has been constantly exploring potential investment opportunities including acquisition of synergistic businesses or manufacturing facilities, and plant expansion where the market demand for the product is expected to be strong and sustainable. On this front, we are in the process of finalising an expansion plan comprising a new 100,000-ton methylamine plant adjacent to our current methylamine/ DMF facilities. Details of the proposed expansion plan will be announced in due course.

5. **How Jiutian is going to fund for upcoming expansion?**

   The Company expects that the upcoming expansion plan will be funded mainly by internally generated cash flows.

6. **Demand forecast for DMF going forward?**

   DMF is mainly used in Polyurethane ("PU"), sucralose, electronic copper clad laminates, pesticide and pharmaceutical intermediates and other industries, of which PU accounts for about 65% of the Group's DMF's demand. Given the strong and sustained recovery of China's economy and barring any significant resurgence of COVID-19 in China, we expect demand for DMF to be firm for 2021.

7. **What is next 2 years production output plan?**

   We are expecting a 100% capacity utilisation rate on Methylamine whilst the capacity utilisation rate for DMF will depend on the market situation, as management will balance of the production mix to maximise profit.

8. **How Jiutian business going forward will benefit from the electric vehicles sector?**

   Please refer to response to SIAS question 1(i)

9. **What did JT learn from the competitor's environment issue?**

   Please refer to response to SIAS question 1(iii)

10. **If JT needs fund, what is the fund-raising method JT will take?**

    We do not foresee ourselves needing fund for operations in the immediate term as we expect our operations to be sufficiently supported by our strong current operating cashflow. In the event that we embark on substantial investments, we can consider local bank project financing and share placement as funding avenues in addition to internally generated cashflow.

Appendix II Question from Shareholders

11. Who are the fund owning jiutian?

Please refer to the disclosed shareholding list at page 113 of annual report.

12. Under what conditions will the company consider giving out dividend?

Please refer to the response to SIAS question 3 (ii)

13. What are the company's plans to extract value from the investments in the 2 loss making associated companies?

We are in the process of reworking them including modifying the under-utilised facilities to produce similar products with new technology partners.

14. Elaborate on the rationale and committed capex for the production of oxygen-18 and DDW. What are the expected returns?

The rationale for production of Oxygen-18 and DDW is to diversify the Group's earnings base. Other details please refer to the SIAS question 1(v).

15. Is there any fundamental change in the demand for DMF/Methylamine that prompted the company to decide on expansion plans?

Due to the rising demand for our methylamine products from users in sectors experiencing high growth rates including electric-vehicle batteries, semiconductor, pharmaceuticals and animal feeds, we are in the process of finalising an expansion plan comprising a new 100,000-ton methylamine plant adjacent to our current methylamine/DMF facilities. When completed, we will have 250,000 ton of Methylamine capacity feeding into our current 150,000 ton of DMF facilities, which we believe will be the optimal combination to raise both Methylamine and DMF utilisation rate in due course.

16. Elaborate on the impact of the rise in raw material cost (methanol) on the profitability of the products DMF/Methylamine.

As methanol is the major raw material in producing methylamine (methanol comprise about 55% of the cost of Methylamine), and methylamine is the major feedstock for DMF (methylamine comprise about 69% of the cost of DMF), any material change in the cost of methanol will have a significant impact on the profitability of both products in the event that such cost increase cannot be passed on to our customers in product prices.