



ANCHUN INTERNATIONAL HOLDINGS LTD.

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Response to Queries from the SGX-ST regarding Third Quarter Results (“3Q2019”) of Anchun International Holdings Ltd. (the “Company”)

The Company has received the following queries on 21 November 2019 from the SGX-ST in relation to its “Unaudited Results for the Third Quarter Ended 30 September 2019” released on 13 November 2019 (the “**Announcement**”), and sets out its responses below.

Question 1: In relation to Write-back of losses on financial assets:-

- a. Please disclose reasons why the Company had to write back losses on financial assets amounting to RMB7.57 million and RMB0.64 million in 3Q2018 and 3Q2019 respectively.

Response:

The write back of losses on financial assets consisting of trade receivables amounting to RMB7.57 million in 3Q2018 and RMB0.64 million in 3Q2019 were mainly the results of the Group’s continued intensive collection efforts even after the provision for impairments are made, coupled with customer’s improved cash flow (such as when loans are obtained), compliance with court orders or settlement agreements with us, and/or necessity of further technical assistance from the Group which incentivizes them to pay off the older debts. The actions taken by the Company have resulted in successful collections.

The write back of losses on financial assets are done periodically using the expected credit losses (ECL) model according to SFRS (I) 9. ECL model is based on the difference between the contractual cash flows due in accordance with the contract and all cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. Additional considerations include the customer’s industry influence, financial stability and past trading experience with the customers.

b. Please provide breakdown and disclose the nature of these financial assets.

Response:

Number	Customer Name	Total write-back of losses on financial assets 3Q2018
		RMB'000
1	华陆工程科技有限责任公司	1,806
2	中钢设备有限公司	983
3	阳煤集团太原化工新材料有限公司	800
4	山西天泽煤化工集团股份公司	800
5	陕西龙门煤化工有限责任公司	500
6	韩城市新丰清洁能源科技有限公司	500
7	新疆中能万源化工有限公司	500
8	云南云维集团有限公司	249
9	内蒙古齐华矿业有限责任公司	231
10	江苏华昌化工股份有限公司	116
11	安徽金禾实业股份有限公司	114
12	山东润银生物化工股份有限公司	100
13	Other Customers' sub-total (Each Customer with net write back of losses on financial assets of less than RMB100,000)	869
Total write-back of losses on financial assets		7,568

The write back of losses on financial assets amounting to RMB0.64 million in 3Q2019 are individually less than RMB100,000.

Question 2: Please elaborate what were the factors that resulted in:-

a. The gross profit margin of catalyst business to increase from Nil to 52% in 3Q2019.

Response:

Gross profit margin of catalyst business increase from Nil to 52% in 3Q2019 mainly attributable to increase of orders received and completed therefore increase of revenue from catalyst processing business, hydrocarbon catalysts ammonia catalyst orders, and reduced catalysts in 3Q2019 which contributed higher gross margin.

b. The gross profit margin of CSC business to increase from 10% to 25% in 3Q2019.

Response:

The gross profit margin increased by 15% from 10% in 3Q2018 to 25% in 3Q2019 mainly attributable to increase of revenue attributable to the Group's patented products which have better price and higher margin during 3Q2019.

Question 3: In relation to Contract assets:-

a. Please provide breakdown of contract assets amounting to RMB90.4 million according to significant contracts.

Response:

Number	Customer Name	3Q2019 Outstanding Balance(Net contract assets)	The status milestones of these underlying contracts	Percentage of received payment from the customer(As at 30.09.19)
		RMB'000	Notes	%
1	九江心连心化肥有限公司	9,352	C	31
2	中石化宁波工程有限公司	6,188	C	30
3	山东联盟化工股份有限公司	5,722	D	60
4	江苏海力化工有限公司	5,662	A	40
5	河南心连心	5,625	C	31
6	湖北三宁化工股份有限公司	4,965	A	20
7	智胜化工股份有限公司	3,453	D	66
8	新疆宜化化工有限公司	3,336	C	60
9	江苏海力化工有限公司	3,013	A	20
10	湖北潜江金华润化肥有限公司	2,940	D	41
11	福化省福化天辰气体有限公司	2,897	A	30
12	山西天泽集团永丰化肥有限公司	2,563	C	30
13	Other Customers' sub-total (Each Customer with net contract assets less than RMB2.5 million)	34,651		
Total Net contract assets		90,367		

Notes:

- (A) –Contract initiation and/or material ordering;
- (B) –Delivery of the chemical systems to customer.
- (C) –Acceptance of the chemical systems by customer;
- (D) –Successful commission of the chemical systems;
- (E) –Expiry of the quality assurance warranty period typically in 1 to 1.5 years after the successful commissioning of the chemical systems.

b. Please disclose the status milestones and progress of these underlying contracts.

Response:

Please see Notes A to E in the Company's response to Question 3 (a) above.

Question 4: The Company reported Administrative expenses of RMB5.32 million for 3Q2019 which consisted of other expenses such as litigation costs. Please provide breakdown of other expenses and provide further details on the litigation faced by the Company and justify if it is material to the Company.

Response:

Item by nature	3Q2019	3Q2018	3Q2019 vs.3Q2018 (Change)	
	RMB'000	RMB'000	RMB'000	%
Meeting expenses	19	108	(89)	(82)
Safety cost	38	125	(87)	(70)
Housing insurance	51	102	(51)	(50)
Travelling expenses	55	100	(45)	(45)
Vehicle usage expenses	47	79	(32)	(40)
Maintenance expenses	54	83	(29)	(35)
Research fees	-	26	(26)	N.A.
Property lease fees	108	125	(17)	(14)
Safety cost	38	55	(17)	(31)
Old-age insurance (养老保险)	132	147	(15)	(11)
Litigation costs	2	13	(11)	(85)
Others(Each nature of change less than RMB10,000)	583	666	(83)	(12)
Total	1,127	1,629	(502)	(31)

The litigation costs of RMB0.01 million for 3Q2018 were litigation costs from lawsuits filed against the Group's customers in relation to the collection of amounts owing to the Group.

Question 5: In relation to the Trade receivables owing to the Company for longer than 2 years amounting to RMB20.93 million:-

a. Please disclose the identities of these customers and reason why they are unable to repay.

Response:

Number	Customer Name	3Q2019 Outstanding Balance(Trade receivables) more than 2 year	Whether still Trading with Group / expect to trade with Group in the near future
		RMB'000	
1	阳煤集团太原化工新材料有限公司	3,827	No
2	河南心连心	2,745	Yes
3	内蒙古大唐鼎旺化工有限公司	2,740	Yes
4	山西天泽煤化工集团股份公司	1,631	Yes
5	昊华集团宣化有限公司	1,007	Yes
6	湖北碧弘盛科技有限公司	844	No
7	河北金万泰化肥有限责任公司	813	No
8	新疆中能万源化工有限公司	808	Yes
9	长治市郊区昌晋焦油化工有限公司	720	No
10	河南晋开集团郸城晋鑫化工有限公司	602	No
11	安乡晋煤金牛化工有限公司	368	Yes
12	河南晋开化工投资控股集团有限责任公司	351	Yes
13	内蒙古伊东集团九鼎化工有限责任公司	337	Yes
14	河北省冀州市银海化肥有限责任公司	336	No
15	湖北新鄂西化工有限公司	274	No
16	榆林环能煤化科技有限公司	267	No
17	Other Customers sub-total(Each with Trade receivables less than RMB200,000)	3,303	
Total Trade receivables more than 2 year		20,973	

As the Group's customers are primarily in the People's Republic of China, the slowdown of the China economy has resulted in more payment delays. However, the management conducts monthly cross-functional meetings to monitor outstanding debts closely and assess the needs to make impairment losses on financial assets.

- b. Please explain what has the Company done to follow up on the collection of these debts and whether the Company is still doing business with these customers.

Response:

The Group conducts monthly reviews on the outstanding trade receivables with senior management, accounting, sale and business segment personnel. The management team have staff make phone calls and send out collection letters. Staff are also dispatched to visit customers' sites for collection. Furthermore, Attorney Letters are sent out to debtors and lawsuits are filed where considered necessary. Impairment losses was fully provided for those customers expect no further trading with the Group in the near future.

Question 6: Please disclose whether Contract assets amounting to RMB6.97 million aged over 2 years have been fully collected.

Response:

These contract assets represent CSC product costs completed in previous years where customers have requested for postponement of delivery. The Group has made fully impairment allowance against these balances in accordance with the Group's accounting policy following SFRS(I) 9.

Number	Customer Name	3Q2019 Outstanding Balance of Contract Assets (Provision for Impairment)	Whether have been fully collected
		RMB'000	
1	内蒙古宏裕科技股份有限公司	6,297	No
2	湖南金宏泰肥业有限公司	677	No
Total Impairment of Contract assets		6,974	

Question 7: The Company's IPO took place in October 2010, please justify the amount of IPO proceeds raised at RMB133.5 million while only 41% of the amount has been utilized so far after 5 years of listing.

Response:

The summary of the usage of the IPO Proceeds was set out below:

Usage of IPO Proceeds (Announced in Jul.2015)	Amount allocated	Aggregated change in use	Amount utilised	Balance 3Q2019
	RMB'000	RMB'000	RMB'000	RMB'000
(A) Expand our production facilities and capacities	110,936	(26,698)#	(18,465)	65,773
(B) Enhance our R&D capabilities and widen our range of innovative and cost-effective solutions	15,479	-	(14,961)	518
(C) Working capital purposes	7,074	26,698#	(22,074)	11,698
Total	133,489	-	(67,198)	77,989

RMB15,000,000 and RMB11,698,000, being the sum re-allocated pursuant to October 2014 and July 2015 Announcements respectively.

Summary of Re-allocation IPO Proceeds

The main re-allocations made by the Group was from the RMB110,936 million, the portion of IPO proceeds for production and capabilities expansion purpose.

Prior to the IPO, our subsidiary intended to build a third plant in the 300 mu land we identified in the Changsha National Hi-tech Industrial Development Zone. However, due to the tightening measures on land provision policy in China, the governmental authorities set a much higher land price and mandatory fixed-amount taxations. The requirements of this land provision made the originally planned investment project in IPO prospectus become undesirable. Furthermore, considering the slow-down in demands of chemical engineering systems and certain chemical

reaction catalysts due to the macro-economic environment change, the Group concluded that it is not beneficial to proceed with the planned investment project until there are improvements in market conditions.

By Order of the Board

Xie Ming
Executive Chairman
25 November 2019