

**ANCHUN INTERNATIONAL HOLDINGS LTD.**

Co. Registration Number: 200920277C

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Principal Office: 539 Lusong Road, Changsha Hi-tech Development Zone,
Changsha, Hunan, China**Response to Queries from the SGX-ST regarding First Quarter Results ("1Q2016") of Anchun International Holdings Ltd. (the "Company")**

Question 1: In the Company's announcement of its Financial Results for its First Quarter Ended 31 March 2016 ("Q1 FY2016 Results"), the Company disclosed on page 2 that costs of sales had increased by 21% to RMB14.3 million even though revenue had decreased by 21%.

Please provide a breakdown in the costs of sales and elaborate on the factors causing any significant changes in costs

Response:

i) The breakdown of the costs of sales in 1Q2016 as follows:

Item by nature	31/03/2016 RMB'000	31/03/2015 RMB'000	Change %
Engineering Services	670	811	-17%
CSC Business	11,337	8,500	33%
Catalyst Business	2,304	2,488	-7%
Total	14,311	11,799	21%

ii) Elaborations on the factors causing any significant changes in costs:

From the breakdown of the costs of sales in 1Q2016, the costs of sales in 1Q2016 increased by 21% to RMB14.3 million even though revenue had decreased by 21%. It is attributable to the CSC business costs of sales increase of 33% compared to 1Q2015. This is due to the resale of some finished goods from previously cancelled contracts which had a lower selling price due to market conditions and higher material cost. The finished goods were manufactured in FY 2013 and the material cost in FY 2013 is significantly higher than the material cost in FY 2014 and FY 2015. The costs of sales of engineering services and catalyst business have decreased by 17% and 7% respectively, which correspond to the sales decrease of engineering services and catalyst business.

Question 2: Please provide a breakdown of "Trade and Other Receivables" of RMB 68.6 million and an elaboration on the nature of the underlying transactions relating to material classes of "other receivables".

Response:

i) The breakdown of trade and other receivables as follows:

Item by nature	31/03/2016 RMB'000
A. receivables from sales	66,304
B. operation cash advances	734
C. bid bonds	1,518
D. rental deposits	60
Total	68,616

ii) Elaborations on the nature of each of the items

- A. Receivables from sales of goods and services from our three business segments.
- B. Cash advances are rendered based on operational needs so that the Company's employees do not need to bear too much expenses until a reimbursement cycle completes.
- C. Most of bidding activities require the advance payment of bid bonds.
- D. Singapore office rental deposits.

Question 3: On page 11 of the Q1 FY2016 Results, the Company disclosed that "The gross profit of CSC business decreased by RMB3.9 million from RMB7.5 million in 1Q2015 to RMB3.6 million in 1Q2016. The decrease of CSC business gross profit was mainly attributable to low profit margin of the resale of some finished goods due to previously cancelled contracts, which had a lower selling price due to market conditions and higher material cost".

Please quantify the "low profit margin of resale of some finished goods ... which had a lower selling price".

Response:

Since the resale of some finished goods due to previously cancelled contracts which had a lower selling price due to market conditions and higher material cost as explained in the response to question 1 , the gross loss of the resale is RMB 0.73 million and profit margin of the resale is -17%.

Question 4: On page 12 of the Q1 FY2016 Results, the Company disclosed that the increase in Administrative expenses of 23% to RMB 10 million "was mainly due to more unallocated manufacturing overhead was allocated in administrative expenses and the compensation expenses upon early terminations of staff contracts, an action taken after management conducted staff resources and operation efficiency review."

Please quantify the impact and provide further disclosure on why the unallocated overhead increased even though cost of sales had increased.

Response:

- i) The unallocated manufacturing overhead in the administrative expense of 1Q2016 increased by RMB 1.9 million or 107% compared to 1Q2015, and the compensation expenses upon early terminations of staff contracts in 1Q2016 is RMB 1.0 million while there was no such expense in 1Q2015.

- ii) The unallocated manufacturing overhead in the administrative expense is dependent on the plant production capacity utilization in 1Q2016. Since plant production capacity utilization is lower in 1Q2016 than in 1Q2015, there is more overhead allocated in the administrative expense in 1Q2016. The reason for the increase in cost of sales is explained in the response to question 1.

By Order of the Board
Anchun International Holdings Ltd.

Xie Ming
Executive Director and CEO
2 June 2016