



ANCHUN INTERNATIONAL HOLDINGS LTD.

Co. Registration Number: 200920277C

Co. Address: 81 Anson Road, Suite 8.20, Singapore 079908

Principal Office: 539 Lusong Road, Changsha Hi-tech Development Zone,
Changsha, Hunan, China

Response to Queries from the SGX-ST regarding disclosures in the Annual Report for the Financial Year ended 31 December 2019 (“Annual Report 2019”) of Anchun International Holdings Ltd. (the “Company”)

The Company has received the following queries on 6 May 2020 from the SGX-ST in relation to its Annual Report 2019 released on 15 April 2020 (the “**Announcement**”), and sets out its responses below:

Question 1: The Company outsourced its internal audit function to Peking Certified Public Accountants LLP “which provides assurance to the Board that internal controls over the key risks of the Group is adequate and effective”. Please provide:

- a. Detailed information on size and track record of Peking Certified Public Accountants LLP and its engagement partner. Please also state the professional bodies of which it is member of that oversees the standards of such professional firms;

Response:

Detailed information on Peking Certified Public Accountants LLP is set out as follows:

1) Size

Peking Certified Public Accountants LLP was founded in 1992 with the approval of the Ministry of Finance (China), and registered at the State Administration of Industry and Commerce with a capital contribution of RMB19.2 million and Mr. Hu Baihe as the principal partner.

As of December 31, 2019, Peking Certified Public Accountants LLP has 1,294 employees who are professionals in finance, accounting, audit, tax, IT, management consulting, including 481 certified public accountants (CPA), 13 senior CPAs, 14 CPA industry leaders.

Peking Certified Public Accountants LLP is qualified to conduct securities and futures audit, state-owned super-large enterprise audit, financial business audit and is a member of National Association of Financial Market Institutional Investors. As a formal member of DFK International Federation of Accountants, it’s one of the earliest comprehensive firms with large scale and sound qualifications.

2) Track Record

In FY2018, Peking Certified Public Accountants LLP reported 13% increase in revenue to RMB360.84 million and ranked 27 in business revenue published by CICPA.

In FY2018, the number of audit clients they have serviced is as follows:

Audit clients	Number
Audit annual reports of listed companies	38
Internal audit	17
Others [#]	3,145

Others include central and large state-owned enterprises annual financial statements, central enterprise economic responsibility, banks and non-bank financial institutions, corporate restructuring, reorganization, IPO, management consulting and auditing of financial statements of private enterprises, etc.

3) Engagement Partner

Mr Zhang Guang Qing is the Company's internal audit engagement partner. He holds a China Certified Public Accountant certificate. His strong audit working experience of over 25 years is one of the factors the Group has taken into consideration in its selection of IA service provider.

4) The Oversight Professional Bodies

Peking Certified Public Accountants LLP is a member of the Chinese Institute of Certified Public Accountants. The Professional Bodies that oversee standards of such professional firms include The Chinese Institute of Certified Public Accountants, the Ministry of Finance of the People's Republic of China and the China Securities Regulatory Commission etc.

- b. Whether the internal audit is undertaken in compliance with international internal auditing standards. If so, please elaborate on the standards applied; and

Response:

The internal audit work carried out is guided by the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

- c. Details and elaborate whether the firm has expertise and experience in performing the internal audit for any other listed companies of similar size and scale as the Company.

Response:

In FY2018, the number of internal audit clients of listed companies of similar size and scale as the Company is as follows:

Internal Audit clients of listed companies	Number
Listed Clients of China Main Board Market	13
Listed Clients of China SME(Small and Medium Enterprise) Board Market	1

Question 2: The Company is seeking re-election of its independent director Andrew Bek at the upcoming AGM. The Board upon the recommendation of the NC has opined that it is satisfied with the suitability of Andrew Bek for re-election. It was disclosed in the Annual Report that Andrew Bek was the Executive Director of China Environment Ltd during period 2008 to 2016 and that Andrew Bek has received a show cause letter from SGX issued to himself on 14 October 2019 with an opportunity to make representations for potential breaches of listing rules with respect to one of his past directorships.

China Environment Ltd was informed by Accounting and Corporate Regulatory Authority on 23 October 2015 of accounting standard compliance issues and also announced on 21 December 2016 that it lodged a report to the Commercial Affairs Department relating to the circumstances surrounding the overstatement of trade receivables in the Group financials. Taking into consideration Andrew Bek's involvement in China Environment Ltd as the Executive Director where he was responsible for overseeing the corporate strategies and corporate development and the SGX show cause letter issued to him involving his role as the Executive Director in relation to the above matters during the relevant period.

- a. Please explain in detail what has the Board done to obtain sufficient information to assess Andrew's suitability as the Company's independent director noting his involvement in the affairs of serious concerns over material misstatement of trade receivables in China Environment Ltd.

Response:

Upon receipt of Mr Bek's letter of 13th February 2020 to the Nominating Committee ("NC") that he had received a show cause letter on 14th October 2019 and that the SGX had clarified that the letter will constitute a part of the investigation by the SGX, the Company disclosed this in an announcement on 18th February 2020, and informed that the matter would be deliberated by the NC at its upcoming meeting on 26th February 2020.

After the NC meeting, a subsequent announcement was made on 27th February 2020 stating that following a representation by Mr Bek that there had been no formal outcome of the investigation from the Singapore Exchange Securities Trading Limited ("SGX"), pending the outcome of the investigation, the NC was of the view that there was no reason to call into question Mr Bek's suitability to act as an independent director of the Company.

Mr Bek had disclosed to the NC and the Board that the report lodged by China Environment Limited ("CEL") to the Commercial Affairs Department ("CAD") was specifically lodged against the ex-chairman and ex-CFO of CEL.

Subsequent to the NC and Board meetings, it was disclosed that CEL had further announced on 26th February 2020 that the CAD had completed their review. Having considered the facts and circumstances, CAD would not be taking further action as there was insufficient evidence of a criminal offence committed in Singapore. CAD had forwarded the information to their China counterparts for their necessary action and will review its decision if there is additional evidence to substantiate the allegations.

Mr Bek had represented to the NC and the Board that, at the material time, CEL's Executive Chairman, Chief Executive Officer and Chief Financial Officer respectively (collectively, the "Management") were primarily involved in the Group's day-to-day operations of the Group. Mr Bek was responsible for overseeing the group's corporate strategies and corporate development.

In this role, he focused on attracting strategic investment into CEL and was not involved in the day to day operations of CEL. In addition, a copy of the show cause letter dated 14th October 2019 has been provided to the NC and the Board by Mr Bek together with Mr Bek's response of 11th November 2019. This have been reviewed by the NC and the Board which have noted the gravity of the matters set out in the show cause letter as well as the position taken by Mr Bek in denying committing any of the breaches.

These factors have been taken into consideration by the NC and the Board in its deliberation. In addition, the NC and the Board note that the formal outcome of the investigations by the SGX are still pending and accordingly, are of the view that there is no reason to conclude that Mr Bek is not suitable to act as an independent director of the Company at this point in time. The NC and the Board also noted that Mr Bek had competently discharged his duties as an independent director of the Company since his appointment.

- b. Please elaborate on the specific role of Andrew Bek in China Environment Ltd. Has this been assessed by the NC and Board of the Company in the review his suitability to be re-appointed as a director of the Company? If not, please provide explanation why did the Board not do so.

Response:

Please see the response to Question 1 (a) above.

- c. Please disclose whether the NC and the Board, in forming their view that Andrew Bek is suitable to be re-elected as the Company's independent director despite his role as the executive director in China Environment Ltd, have noted the specific potential breaches against Andrew Bek in the Show Cause Letter. If so, please justify robustly the basis for their views taking into account the matters raised in the show cause letter.

Response:

The NC and the Board have reviewed the show cause letter dated 14th October 2019 and acknowledges the seriousness of the matters set out therein, in particular the potential breaches against Mr Bek. The NC and the Board have also noted the response of Mr Bek to these matters and his role as set out in his response to the SGX of 11th November 2019, and as represented to the NC and the Board by Mr Bek. In view of the position taken by Mr Bek who has denied committing any of the breaches referred to in the show cause letter, and pending a formal outcome of SGX investigations, the NC has recommended, and the Board has accepted, that Mr Bek remains as an independent director of the Company. The situation will be closely monitored and any developments that may affect the NC's and the Board's position will be considered and occasion a review of Mr Bek's suitability to continue as an independent director of the Company. Mr Bek has also undertaken to inform the Board in writing of any developments and in addition further undertaken that, in the event of any finding by any regulatory authority in Singapore or elsewhere which is in anyway adverse to him, or if the Board in its absolute discretion, determines that, in view of any developments that have occurred, his suitability to continue as a director has been called into question, he will resign from the Board, notwithstanding that he may not be legally disqualified from acting as a director.

- d. It is disclosed that Andrew Bek is one of the twenty largest shareholders of the Company with direct interest of 3.29% in the Company. Please explain if this will compromise the ability for Andrew Bek to serve as the independent director of the Company and justifications for his appointment as an independent director of the Company.

Response:

The NC had, in its deliberation of Mr Bek's independence with regard to his shareholding in the Company, had regard to the Code of Corporate Governance 2018, and had determined that his shareholding of 3.29% in the Company did not interfere with the exercise of his independent business judgement in the best interests of the Company.

By Order of the Board

Xie Ming
Executive Chairman
11 May 2020