



ANCHUN INTERNATIONAL
HOLDINGS LTD.

CREATING FUTURE INNOVATION

ANNUAL REPORT
2019



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CORPORATE PROFILE



Anchun specialises in integrated chemical systems engineering and technology solutions that are environmentally friendly and energy-efficient to the PRC petrochemical and chemical industry, primarily for manufacturers of ammonia and methanol-based products. We are a one-stop solutions provider offering a full scope of services ranging from design and manufacturing to system production and project management for our customers.

Led by our senior management, with in-depth technological, marketing and management experiences, Anchun has a professional and dedicated team of senior and national registered engineers with strong R&D capabilities. Anchored on a highly efficient integrated business model, Anchun's wide range of services gives us a unique competitive edge as one of the leading solutions providers in China in our field.

We have been awarded thirty-eight national, four US and one Canadian patents. Our technological breakthroughs in engineering and environmental designs have earned us National Scientific and Technological Progress and provincial-level awards, making Anchun rise above other companies in terms of competitiveness and innovation. Located at the Changsha National Hi-Tech Industrial Development Zone in Hunan province, Anchun has one of the largest equipment and technology manufacturing bases for ammonia and methanol-related equipment in China with a total area of 95,000 square meters. Anchun was listed in the Singapore Exchange Mainboard on 25 October 2010.

Our Core Competence

With a key focus on sustainable development and stability, Anchun has recorded steady and continuous performance in chemical engineering industry over the past two decades based on our successful and proven business model.

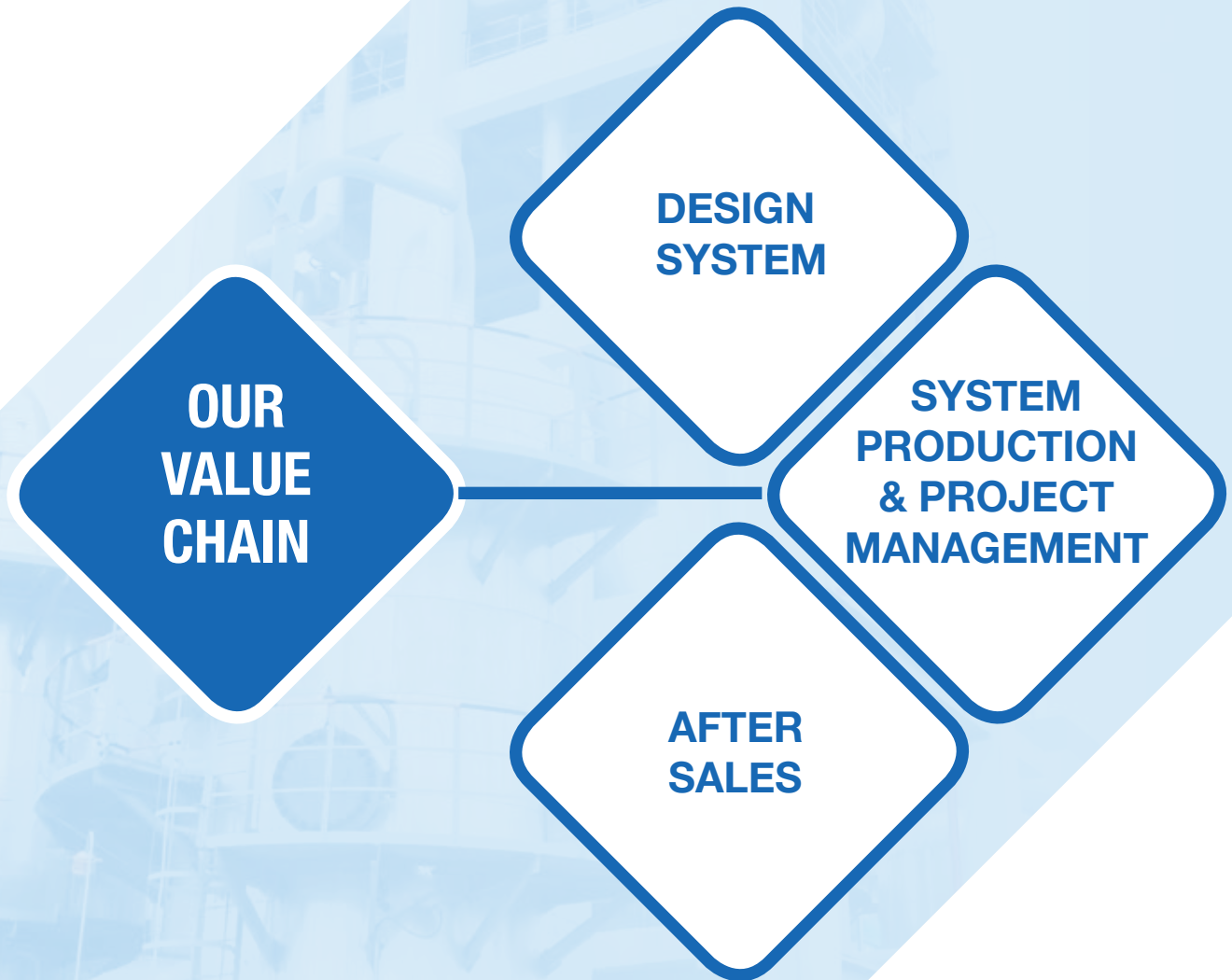
- Specialises in integrated chemical systems engineering and technology solutions
- Recognized intellectual property
- Well-qualified and experienced management and working teams
- Most well represented ammonia and methanol technology provider with established track record of accountability and agility

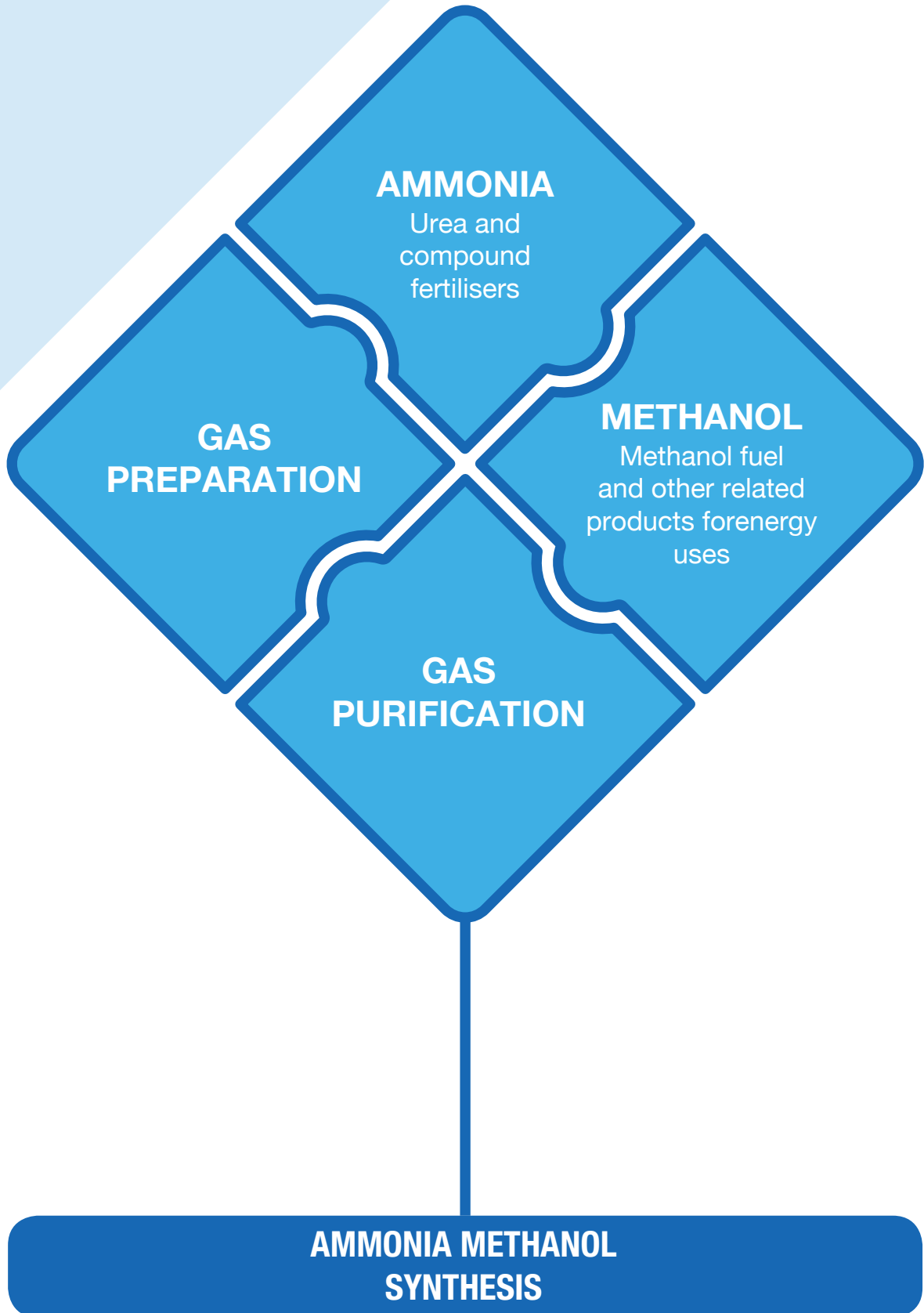
Market Opportunities

Emphasis by the Chinese government on proenvironmental policies will pave the way for demand of systems and solutions that reduce carbon emissions, energy consumption and air pollution. This impacts industries such as oil and petrochemical, electric power, iron and steel, nonferrous metals, coal, building materials, chemicals and transportation, as well as stateowned enterprises that need to achieve reductions in their chemical oxygen demand and emissions of carbon dioxide, sulphur dioxide, ammonia, nitrogen oxides and other major pollutants to the national average levels. As a major technology developer and reactor manufacturer in China, Anchun is well positioned to take advantage of the shift to more efficient and more environmentally-friendly engineering systems and solutions.

WHAT WE OFFER

From System Design To Production and Project Management, we provide Integrated Chemical Systems Engineering and Technology Solutions for our clients.





CEO'S MESSAGE

In FY2019, we achieved a 54% surge in our revenue to approximately RMB171.0 million, as compared to approximately RMB111.2 million in FY2018.



ZHENG ZHI ZHONG

CEO & Executive Director

Dear Shareholders,

On behalf of the Board of Directors of Anchun International Holdings Ltd. ("Anchun" or the "Group"), I am pleased to present our Annual Report for the financial year ended 31 December 2019 ("FY2019").

In FY2019, global markets were rocked by turbulent conditions as the macroeconomy trended downwards. In fact, global economic growth in 2019 was the lowest ever seen in a decade. Much uncertainty remains and there are major unprecedented challenges to overcome with the COVID-19 pandemic still unfolding across the globe. In line with the global economic trend, the petrochemical market remains sluggish while oil price plunges. This has negatively impacted the coal chemical industry.

However, the petrochemical industry in the People's Republic of China ("PRC") remained resilient with the optimisation of the economic reformation as the industry consolidated and enhanced its output quality.

Backed by these favourable conditions in the PRC market, the Group actively improved our quality management processes and continued to develop new technologies as we crafted strategies to consolidate management foundation, improve efficiency, promote organisational culture across departmental teams.

As a result, the Group's revenue surged by 54% to RMB171 million in FY2019 as we experienced revenue growth from our Chemical Systems and Components ("CSC") business and Catalyst business, although these were partially offset by a dip in revenue from the Engineering services. Consequently, the net profit attributable to owners of the Group gained by 11% to RMB11.6 million during the year.

BUILDING ON OUR FUNDAMENTALS

With continuous efforts made to diversify into non-fertiliser industries, the Group reaped results in the form of increased revenue contribution by these sectors which stood at RMB66.8 million in FY2019, representing 39% of total revenue as compared to 34% in FY2018. As of 31 December 2019, the Group's order book was about RMB86.8 million, out of which RMB43.2 million came from non-fertiliser industries. We will continue to implement initiatives and focus on making further inroads in this direction to boost the Group's profitability.

As testament to the strength of our capabilities, our patented technologies were well-received by the market. These technologies, such as ammonia synthesis, low pressure methanol and alcohol hydro-carbonation, have been implemented in companies like Fujian Zhisheng Chemical Co., Ltd, Henan Jinkai Chemical Industry Investment Holdings Group and Shandong Alliance Chemical Group Limited Company throughout the country.

As we fulfilled the management system requirements of enterprise development needs, we were awarded the ISO14001 environmental management system accreditation. In addition, we achieved OHSAS18001 occupational health and safety management system as we become more stringent in our environment protection, staff health and safety, as well as energy-saving efforts. We also achieved GB/T 29490-2013 enterprise intellectual property management system accreditation, propelling the Group's shift towards developing new patents and sharpening our competitive edge.

EXPANDING OUR MARKET SHARE

During the year, the Group implemented various strategies to enhance our market presence. We strengthened our position in our traditional markets

by continually improving and maximising our core patented technology to provide value-add services to our clients.

Through leveraging on our technology, accreditation and market advantage, the Group was able to satisfy the demands of our clients, as well as energy-saving and environmental regulations, even as we diversified into non-fertiliser industries by taking on projects in the fields of petroleum, petrochemical, natural gas, metallurgy, power, and even environmental protection. We also managed to reach out to the overseas market by tapping on international e-commerce website platform.

Our strategies have proven to be effective as the Group successfully promoted our design and manufacture of non-standard equipment to China's state-owned mega-conglomerate China Petrochemical Corporation (Sinopec Group) and became their certified supplier for numerous new and modified engineering projects, driving the growth of our equipment manufacturing business and boosting the Group's profitability.

DIVIDEND ANNOUNCEMENT

In appreciation of our shareholders, we are proposing a first and final cash dividend of RMB12 cents per ordinary share, subject to shareholder's approval at the Annual General Meeting ("AGM").

BUSINESS OUTLOOK

Trade protectionism and unilateralism were themes that prevailed in 2019 as major world economies continued to weaken in tandem. Global growth has slowed extensively with manufacturing industries taking a hit arising from US-China trade tensions, affecting business investments and employment.

Against the backdrop of a world economy characterised by uncertainty, the petrochemical and chemical industry continued to be driven by structural reforms and high-quality development. Within the industry, competition is increasingly intensifying with customers becoming more demanding, putting greater pressure on the Group's capital and operational requirements. On the back of increasing calls for production safety and eco-friendly products, the Group strives to handle these new challenges with advanced technology and dedicated teams.

Additionally, the macro-economic environment in China, particularly government policies in relation to the issue of credit and provision of utility subsidies to the industry, have a large impact on the Group's customers buying and investing decisions as our products and services are mostly related to capital intensive engineering projects in China. With the compounded issue of nitrogen fertiliser and urea prices trending low, the Group expects the business environment for the nitrogen fertiliser industry and

the majority of basic chemical producers in PRC to continue to be challenging, as well as essential to strategic long-term food security of China and every country in the world.

Furthermore, the recent outbreak of COVID-19 has cast great uncertainty over global economic development and delayed the re-commencement of operations at the Group's production facilities in the Changsha after the Lunar New Year holidays under the directives of relevant Chinese authorities. We will closely monitor the evolving situation and make necessary adjustments to our business operations.

Notwithstanding the existing circumstances, we will continue to tap on existing market and sectors of proprietary technology such as synthesis technology and temperature conversion technology to increase our market share as we broaden the application of proprietary technology in different sectors and open up new markets. We will also move to carry on developing new technologies and try to reap the economic benefits within the shortest period of time through capitalising on international e-commerce website platform and the One Belt One Road initiative to globalise our products and technology.

Going forward, we will direct our focus on enhancing project implementation processes to increase efficiency and market share. Our focus will be on developing new technologies like isothermal ammonia synthesis, and catalyst for its application. We will also research and promote low temperature heat utilisation technology and commercialization.

The Group will continue to exercise financial prudence as we continue our research efforts to enhance our portfolio of patented products and technical competency, so as to maintain our competitive advantage and be well-poised to explore any opportunities that may arise.

IN APPRECIATION

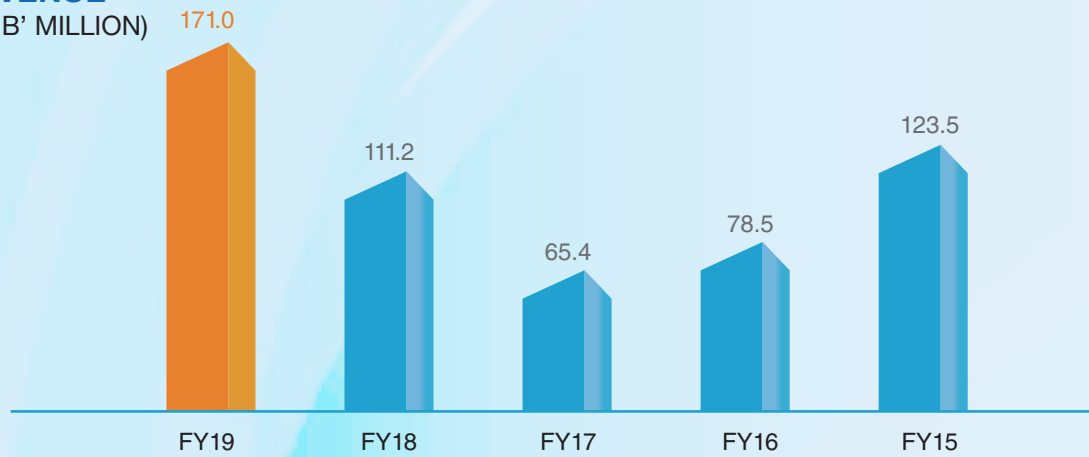
On behalf of the Board, I would like to welcome Mr He Zu Bing who was promoted to Chief Financial Officer position on 20 March 2019. We believe that his 10+ years-service with the Group and professional experience will be a great asset to the Group. We look forward to working together to achieve greater success.

I would also like to extend our appreciation to our Board of Directors for their invaluable guidance, as well as our management and staff for their hard work and commitment towards the Group. Last but not least, I would like to thank our customers, business associates and shareholders for their unwavering faith and support. Thank you staying with us through this journey. We will endeavour to create new milestones and greater value for our shareholders.

FINANCIAL HIGHLIGHTS

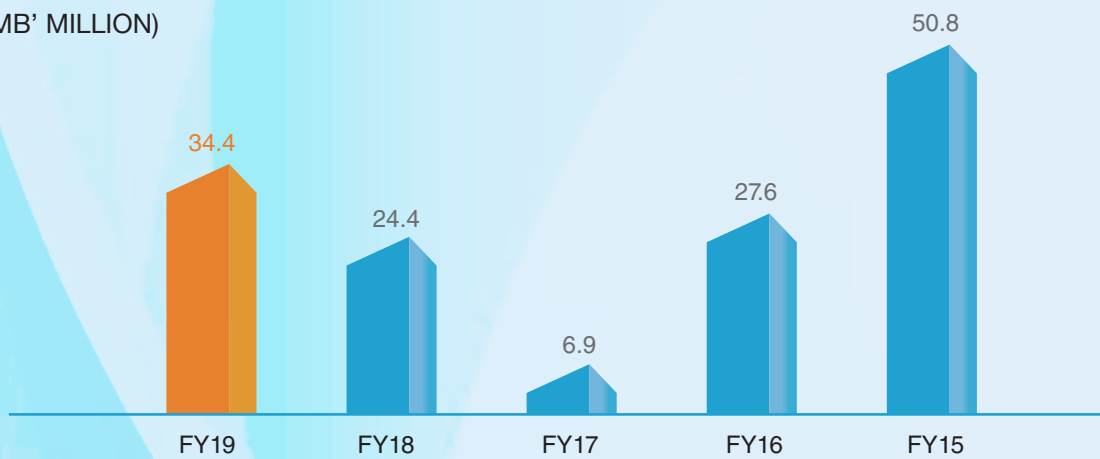
REVENUE

(RMB' MILLION)



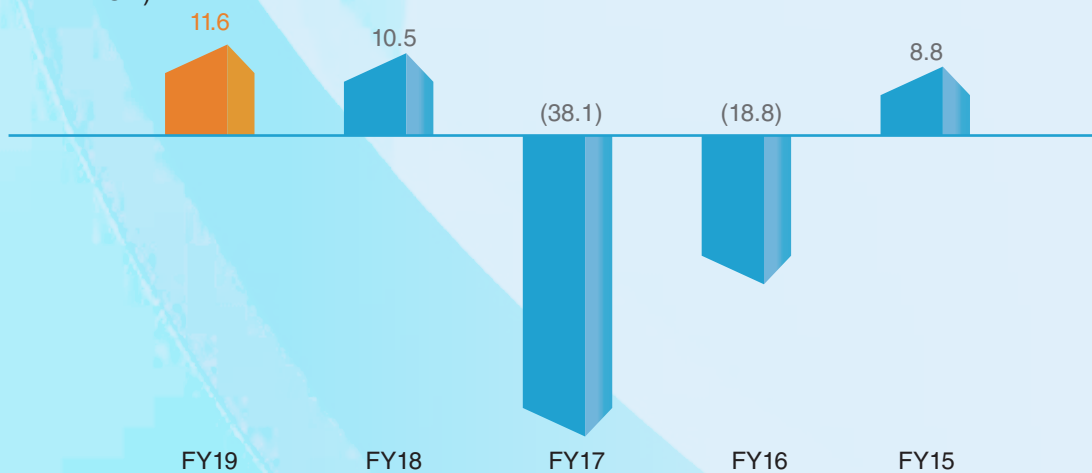
GROSS PROFIT

(RMB' MILLION)



PROFIT/(LOSS) AFTER TAX

(RMB' MILLION)



OPERATIONS AND FINANCIAL REVIEW

YEAR IN REVIEW

In FY2019, the Group reported 54% increase in revenue to RMB171.0 million mainly due to a gain in revenue from our Chemical Systems and Components (“CSC”) business and Catalyst business, which was partially offset by a decline in the revenue from our Engineering services.

REVENUE FROM CATALYST BUSINESS SEGMENT

Revenue from our Catalyst business surged by 157% to RMB16.7 million during the year led by a revenue hike from various product types of catalysts, including catalyst processing business, reduced catalysts, hydrocarbon catalysts and ammonia catalyst.

REVENUE FROM ENGINEERING SERVICES SEGMENT

Revenue from our Engineering services reduced by 36% to RMB6.1 million in the reporting year as a result of lower percentage of completion for service contracts.

REVENUE FROM CSC BUSINESS SEGMENT

Revenue from our CSC business increased by 56% to RMB148.2 million in FY2019 arising from the higher percentage of completion for CSC contracts and a rise in number of contracts in progress during the year.

GROSS PROFIT

Our overall gross profit rose by 41% to RMB34.4 million, while our gross profit margin decreased from 22% in FY2018 to 20% during the year.

The gross profit of our Catalyst business increased by RMB3.9 million to RMB7.1 million in FY2019 mainly due to revenue expansion from various product types of catalysts, including catalyst processing business, reduced catalysts, hydrocarbon catalysts and ammonia catalyst. However, gross profit margin reduced by 7% to 42% as led by an increase in the proportion of ammonia catalysts sold which contributed to lower gross margin.

Gross profit of our CSC business increased by RMB10.5 million to RMB25.1 million in FY2019 mainly attributable to more contracts in progress and higher percentage of completion for CSC contracts as gross profit margin also rose by 2% to 17%. This was mainly caused by increased revenue

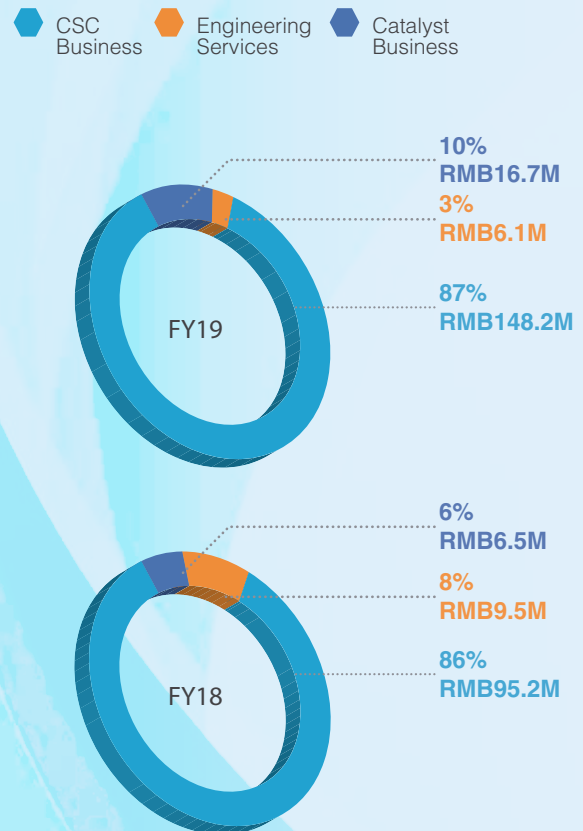
contribution from patented technologies, including isothermal CO shift technology, propionaldehyde reactor, low- pressure methanol ammonia technology and ammonia synthesis technology, which gave rise to higher gross margin.

The gross profit of our Engineering services contracted by RMB4.4 million to RMB2.2 million in FY2019 as gross profit margin decreased by 33% to 37% led by revenue decrease from environmental protection engineering services, which contributed higher gross margin.

OTHER INCOME & OPERATING EXPENSES

During the year, finance and other income reduced by 39% to RMB7.7 million in 12M2019 mainly due to the decrease of sales of scrap metal of RMB2.8 million, government grants of RMB0.5 million and financial income of RMB0.4 million, property rental income of RMB0.3 million and sales of accessories of RMB0.3 million, gain on disposal of PPE of RMB0.4 million and gain from contract penalty of RMB0.2 million.

REVENUE BY BUSINESS SEGMENT



OPERATIONS AND FINANCIAL REVIEW

In line with the challenging market conditions, staff bonus decreased and contributed to an 8% decline in marketing and distribution expenses to RMB5.3 million in FY2019. Correspondingly, administrative expenses contracted by 26% to RMB19.3 million in the reporting year.

As part of our efforts to actively develop new technologies, the Group's research expenses rose by 8% to RMB6.9 million during the review period due to higher expenses incurred for general design of RMB0.5 million.

Separately, finance costs dipped by 83% to RMB0.01 million in FY2019 arising from the decrease in interest expenses due to full repayment of the loan from the former shareholders of our subsidiary in 1Q2018.

Tax credit income reduced by RMB0.3 million to RMB0.3 million in FY2019 mainly due to the provision of withholding income tax for dividend.

FINANCIAL POSITION

The Group's non-current assets was 11% lower at RMB80.8 million as at 31 December 2019 as a result of property, plant and equipment depreciation charges of RMB9.3 million.

Current assets increased by 1.4% to RMB297 million as at 31 December 2019. The increase was mainly attributed to a decline in inventories of RMB2.3 million mainly due to raw materials used to fulfil the CSC business contract orders; rise in trade and other receivables of RMB3.2 million due to increase of contractual milestone billings; gain in contract assets

of RMB39.6 million due to more on-going contracts and a higher percentage of completion on these contracts, for which contractual milestone billings have not been reached; hike in bills receivable of RMB3.5 million; and lower prepayments of RMB13 million due to less payment made to the vendors for purchasing raw materials.

Current liabilities reduced by 16% to RMB83.4 million as at 31 December 2019 as a result of decrease in contract liabilities of RMB27.2 million in accordance with the Group's revenue recognition policy; increase in trade and other payables of RMB9.2 million arising from purchasing more raw materials for new sale contracts; rise in other liabilities of RMB2.7 million led by increase in payable items to transportation companies and sub-contractors due to settlement timing differences; and reduced income tax payable of RMB0.3 million due to increase of income tax refunded for overprovision of tax in previous year.

CASH FLOW STATEMENTS

Cash and cash equivalents decreased by RMB6.9 million in FY2019, which was mainly attributed to cash used in operating activities of RMB23.9 million, net cash used in investing activities of RMB1.1 million and cash generated from financing activities of RMB18.1 million.

BOARD OF DIRECTORS



XIE MING

Executive Chairman

Appointed on 2 November 2009

Xie Ming is our Executive Chairman and was last re-elected as a Director on 29 April 2019. She was re-designated from Executive Director and CEO to Executive Chairman on 1 June 2018. She worked for specialty chemical companies and a research institute in the USA for 13 years prior to joining Anchun, first as an analytical chemist in the Health & Science Center of Louisiana State University, the research laboratory of INVISTA and then as a Sr. Chemist for Champion Technologies.

Xie Ming earned her EMBA from Rice University, USA in May 2013. She holds a Bachelor's degree in Specialty Chemical Engineering from Jiangsu Institute of Petrochemical and Chemical Engineering, China and a Master degree in Science from Department of Chemistry, University of Louisiana at Monroe, USA.



ZHENG ZHI ZHONG

Executive Director and CEO

Appointed on 1 June 2014

Zheng Zhi Zhong is our Executive Director and Chief Executive Officer ("CEO") and was last re-elected as a Director on 28 April 2017. He was re-designated from Executive Director and Chief Operating Officer to Executive Director and CEO on 1 June 2018. He is currently the Legal Representative of Hunan Anchun. He has more than 20 years of extensive experience working in the industry and gained expertise in the areas of chemical engineering process design and programming, instrumentation and control system, information management, project management, reactor manufacture, marketing and sales. Zheng Zhi Zhong started his career with Hunan Anchun in 1993 as a Process Technology Programmer. Leveraging on his computer science knowledge, he worked closely with chemical engineers to develop the first generation computation software for Anchun's key technologies. His main contribution includes the process design and programming of "IIIJ D Type Adiabatic Inner-cooling Split-flow Internals of Ammonia Synthesis Reactor" and "Process and Application of Syn-gas Purification Alcohol- Hydrocarbon Technology", which won the National Scientific and Technological Progress Award (2nd-highest honours). Zheng Zhi Zhong is a certified Senior Engineer. He assumed the roles of IT Manager, Project Manager, Assistant General Manager and Deputy Manager in the past 20 years with Hunan Anchun. Zheng Zhi Zhong holds a Bachelor's degree in Computer Science and Technology from Shenyang Industrial University.

BOARD OF DIRECTORS



DAI FENG YU

Executive Director

Appointed on 9 September 2010

Dai Feng Yu is our Executive Director and was last re-elected on 26 April 2018. She is responsible for overall R&D including provision of basic supporting technologies, initiating new R&D projects and management of the company's proprietary intellectual property rights. Dai Feng Yu has more than 20 years of experience in the chemical industry. Between 1988 and 1993, she was a R&D staff in Changsha Chromic Salts Factory responsible for catalysts quality improvement and new product development.

Between 1993 and 1998, she was head of the laboratory of Anchun Energy Saving and was responsible for the research and development of catalysts as well as the introduction of catalysts to the market. In 1998, when operations of Anchun Energy Saving ceased and Hunan Anchun was established, she remained head of the laboratory of Hunan Anchun and was subsequently promoted to deputy holds a Bachelor's degree in industrial catalyst from East China University of Science and Technology (formerly known as the East China Institute of Chemical Technology). She was qualified as a registered senior engineer in 2001. The significant awards that Dai Feng Yu has won include the 2003 National Scientific and Technological Progress Award (2nd-highest honours) by the State Council in 2004, the Excellent Engineering Consultancy Award (2nd-highest honours) by the China Petroleum and Chemical Engineering Survey and Design Association in 2006 and the Outstanding Individual of Hunan Province contributed to scientific and progress by the Economic Committee of Hunan Province in 2008.



XIE DING ZHONG

Non-Executive Director

Appointed on 2 November 2009

Xie Ding Zhong is our Founder, Non-Executive Director, and member of the Remuneration Committee & Nominating Committee, and was last re-elected as a Director on 26 April 2018. He was re-designated from Non-Executive Chairman to Non-Executive Director on 1 June 2018. He has accumulated more than 40 years of experience in the chemical industry. Between 1961 and 1974, Xie Ding Zhong was a lecturer in the chemical engineering faculty of Hunan University. From 1975 to 1976, he was a technician in Dongting Nitrogen Fertiliser Factory.

Between 1976 and 1993, he was the chief engineer in Fertiliser Industry Company of Hunan Province, where he took charge of the production, R&D and system design of the small-sized nitrogen fertiliser manufacturers and provided solutions to technological problems as well as promoted technical innovation in Hunan Province. Between 1993 and 1998, he was the legal representative and general manager cum general engineer of Anchun Energy Saving in charge of the overall operations and management. In 1998, when operations of Anchun Energy Saving ceased, he set up Hunan Anchun with our founding management team and then employees to carry on the business, and he has since then been the legal representative and general manager cum general engineer responsible for directing the strategic directions and growth of Hunan Anchun. Xie Ding Zhong graduated with a Bachelor's degree in Chemical Engineering from Hunan University in 1961. In November 1999, he was qualified as a registered senior engineer (research fellow), which is the highest rank of engineers in the PRC. He is a committee member of various national specialist committees in the chemical industry, such as China Nitrogen Fertiliser Industry Association and China Petroleum and Chemical Engineering Survey and Design Association, etc. He has been entitled to a special subsidy granted by the State Council since 1991.



LEE GEE AIK

Lead Independent Director

Appointed on 9 September 2010

Lee Gee Aik is our Lead Independent Director, Chairman of the Audit Committee, and member of the Nominating Committee. He was last re-elected on 26 April 2019. He is a practising accountant who started his career as an auditor with KPMG Singapore in 1979. Mr Lee was seconded to KPMG USA Executive Office located in Manhattan, New York between 1986 to 1988. He was the regional controller of Omni Marco Polo Hotels, Singapore from 1993 to 1998. Mr Lee has over 38 years of extensive and varied experience in accounting, tax and financial matters. Mr Lee is a Fellow of the Association of Chartered Certified Accountants, United Kingdom, and the Institute of Certified Public Accountants of Singapore. He also obtained a Master of Business Administration from The Henley Management College, United Kingdom. He is currently an Independent Director of Astaka Holdings Limited, SHS Holdings Limited and Uni-Asia Group Limited. He formerly served on the board of Ley Choon Group Holdings Limited, Leader Environmental Technologies Limited, LHN Limited and International Healthway Corporation Limited.



TAN MIN-LI

Independent Director

Appointed on 9 September 2010

Tan Min-Li is our Independent Director, Chairman of the Remuneration Committee and member of the Nominating Committee & Audit Committee, and was last re-elected as a Director on 26 April 2019. She is currently a partner at CNPLaw LLP (former known as Colin Ng & Partners LLP), a firm of advocates and solicitors in Singapore, and has over 15 years of experience in the legal profession. Tan Min-Li has considerable experience in the areas of initial public offerings, regional investments, corporate restructuring, cross border joint ventures and mergers and acquisitions in the region. She regularly advises on Singapore Exchange compliance and corporate governance issues.

Tan Min-Li heads the Corporate Finance Practice Group, Greater China Practice Group and Japan Focus Group at CNPLaw LLP. Her principal areas of practice are in corporate and financial services with particular emphasis on corporate finance and mergers and acquisitions in Singapore and the region. Prior to joining CNPLaw LLP in 2003, she was a partner with KhattarWong, a firm of advocates and solicitors in Singapore, and had also held other positions at other law firms since graduation. She graduated with a Bachelor of Laws (Honours) from the National University of Singapore and a Master of Laws from University College London, University of London, and was admitted as an Advocate and Solicitor of the Supreme Court of Singapore in 1992. She currently also serves as Independent Director of Union Steel Holdings Limited and Ocean Sky International Limited.

BOARD OF DIRECTORS



YANG CHUN SHENG

Independent Director

Appointed on 9 September 2010

Yang Chun Sheng is our Independent Director, Chairman of the Nominating Committee & member of the Remuneration Committee, and was last re-elected as a Director on 26 April 2018. Mr Yang is a Registered Senior Engineer (Research Fellow) - the highest rank of engineers in the PRC. He is currently the consultant of the China Nitrogen Fertiliser Industry Association and the President of Shandong Chemical Fertiliser Industry Association. He was previously the President of Shandong Province Chemical Planning & Design Institute, Deputy Chief Engineer of Shandong Province Petrochemical Industry Department, Chief Engineer of Shandong Province Chemical Fertiliser Industry Company and General Manager of Shandong Province Chemical Fertiliser Industry Corporation.

As part of his role in the industry associations, Yang Chun Sheng proactively guides fertiliser enterprises on industrial upgrading and technological innovation activities, as well as hastens science and technology development in domestic coal gasification and the promotion and application of its related technologies. He led and also participated in the planning, standards drafting, policy review for the fertiliser industry, as well as provide advice on how to better develop the industry. Yang Chun Sheng was awarded the National Scientific and Technological Progress Award (2nd-highest honours) in December 1998 and the Scientific and Technological Progress Award (3rd-highest honours) by the China Petroleum and Chemical Industry Federation in October 2011. He regularly contributes professional articles relating to fertiliser industrial policies, technical progress and business management on national newspapers, periodicals and business networks.



ANDREW BEK

Independent Director

Appointed on 1 March 2014

Andrew Bek is our Independent Director, and member of the Audit Committee, and was last re-elected on 28 April 2017. Andrew Bek started his career in Arthur Andersen & Co and was there from 1988 to 1997. He later joined a manufacturing company from 1997 to 1998 overseeing the accounts and finance department. He was with Ernst & Young from January 1999 to May 2007. He was an Investment Director at OneEquity SG Private Limited from July 2007 to January 2020.

Currently he also serves as an Independent Director of a company listed on SGX-ST Catalist Board.

He formerly served as an Executive Director of two other companies listed on the SGX-ST.



HE MING YANG

Independent Director

Appointed on 1 January 2019

He Ming Yang is our Independent Director, and was appointed to our Group on 1 January 2019 and was last re-elected as a Director on 26 April 2019. He is the Professor of the School of Petrochemical Engineering at Changzhou University from July 2006 to present, Dean of the School of Petrochemical Engineering at Changzhou University from March 2010 to April 2017.

Mr He researched on Synthesis, structure, properties and application of ion exchange polymer catalyses, Fine chemicals cleaning production processes and technologies and Clean environment and energyrelated metal-organic framework material (MOF). The project Mr He Ming Yang researched was awarded the National Scientific and Technological Progress Award (2nd-highest honours) in 2006. And he has been entitled to a special subsidy granted by the State Council since 2008. He regularly contributes professional articles on national newspapers, periodicals and publications. He was also gotten many patents.

KEY EXECUTIVES



HE ZU BING

Chief Financial Officer

He Zu Bing is our Chief Financial Officer and was appointed to our Group on 20 March 2019. He is responsible for our Group overall finance and accounting functions. He has over 13 years of finance management experience. He worked as the Cost Accountant, General Ledger Accountant, Purchaser Member of Production Group and Deputy Financial Controller in Hunan Anchun Advanced Technology Co., Ltd since July 2010. He worked as the Accounting Manager in Hunan Guoda Investment Co., Ltd for more than 4 years since 2006. He has experience in enterprise finance management, accounting, tax, investment and finance management and internal control. He Zu Bing holds a China Certified Public Accountant certificate, and also possesses the intermediate Accountants Certificate.



LI JUAN

Finance Controller

Li Juan is our Financial Controller and was appointed to our Group on 16 May 2017. She is responsible for our Group overall finance management. She has over 8 years of finance experience. She worked as the GL Supervisor in corporations for more than 3 years since 2014. She has experience in accounting, tax, financing management and internal control. Li Juan holds a China Certified Public Accountant certificate, and also US Certified Management Accountant certificate.

SUSTAINABILITY REPORT



1. BOARD STATEMENT

We are pleased to present our annual Sustainability Report of Anchun International Holdings Limited (“**Anchun**”, the “**Company**”, and together with its subsidiaries, the “**Group**”) for our financial year ended 31 December 2019 (“**FY2019**”). This report is prepared in compliance with the requirements of Singapore Exchange Securities Trading Limited (“**SGX-ST**”) Listing Rules 711A and 711B, and references the Global Reporting Initiative (“**GRI**”) Standards, Core option. This report highlights the key economic, environmental, social and governance (“**EESG**”) related initiatives carried throughout a 12-month period, from 1 January to 31 December 2019.

Sustainability is a part of the Group’s wider strategy to create long-term value for all its stakeholders. As

such, the key material EESG factors for the Group have been identified and cautiously reviewed by the management. The data and information provided have not been verified by an independent third party. We have relied on internal data monitoring and verification to ensure accuracy of data and information. The board of directors of the Group (the “**Board**”) oversees the management and monitoring of these factors and takes them into consideration in the determination of the Group’s strategic direction and policies. We adopt the precautionary principle to minimize negative effects of conducting its business whenever feasible.

We welcome feedback from our stakeholders with regards to our sustainability efforts as this enables us to consistently improve our policies, systems and results. Please send your comments and suggestions to info@anchun.com.

31 March 2020

SUSTAINABILITY REPORT

2. SUSTAINABILITY APPROACH

STAKEHOLDERS ENGAGEMENT

An important starting point in our sustainability journey is to identify our stakeholders and material factors relevant to our business. The interests and requirements of key stakeholders are also taken into account when formulating corporate strategies. These key stakeholders include, but are not limited to shareholders, employees, customers, suppliers, contractors and authorities.

We adopt both formal and informal channels of communication to understand the needs of key stakeholders, and incorporate these into our corporate strategies to achieve mutually beneficial relationships.

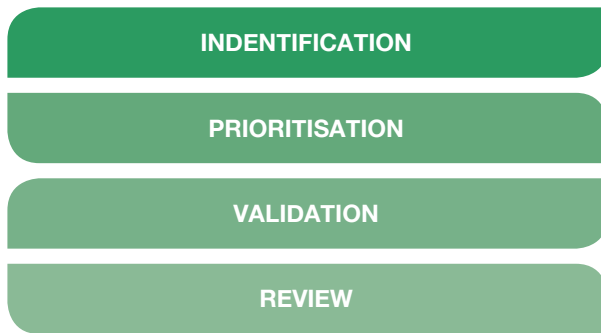


OUR SUSTAINABILITY METHODOLOGY

Stakeholders	Engagement Platforms	Frequency of Engagement	Key concerns raised
Employees and Trade Unions	Townhall sessions	Annually	Salary increase
	Open dialogues among teams	Monthly	Health and Safety
	Intranet portal	Ad-hoc	Training
Customers and Consumers	Hotline	Ad-hoc	Product Safety
	Email queries	Ad-hoc	Health and Safety
	Customer visit	Quarterly	Customer Service
	Onsite audit	Annually	
	Customer survey	Annually	
Suppliers and Service Providers	Face-to-face meetings	Weekly	Positive relationship
	Annual review and feedback sessions	Annually	Payment
Investors/Shareholders	Group Annual Report	Annually	Business growth
	Annual General Meeting	Annually	Business performance
	Quarterly result briefings	Quarterly	
	Informal discussion	Ad-hoc	
Local communities	Face-to-face meetings	Ad-hoc	Impact to community
	Various social events	Quarterly	
Media	Media releases	Quarterly	Transparency
	Quarterly result briefings	Quarterly	
Government and Regulators	Face-to-face meetings	Ad-hoc	Compliance to regulations
	Regular reports	Quarterly	
	Participation in discussions	Quarterly	
Trade associations	Engagements through business partnerships	Quarterly	Contribution
	Leading working groups in industry associations	Annually	

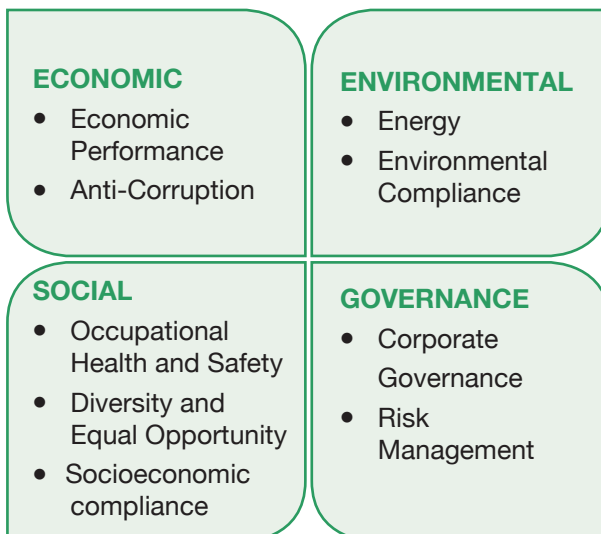
MATERIALITY ASSESSMENT

Our sustainability process begins with the identification of relevant factors. Relevant factors are then prioritized to identify material factors which are subject to validation. The end result of this process is a list of material factors disclosed in the Sustainability Report. Process of which are as shown below:



The Group has conducted a materiality assessment during the year with the help of an external consultant. We engaged our employees from different departments, seeking our internal stakeholders’ feedback for prioritization of these topics. Such materiality review will be conducted every year, incorporating inputs gathered from stakeholders’ engagements.

In order to determine if a factor is material, we assessed its potential impact on the economy, environment and society and its influence on the stakeholders. Applying the guidance from GRI, we have identified the following as our material factors:



3. ECONOMIC

ECONOMIC PERFORMANCE

Anchun is committed to grow our customers and exceed our customers’ expectations and providing them with competitive edge products by enhancing operational efficiency by incorporating effective use of technology, develop performance measures, communicate outcomes and results and implement necessary changes to provide fast and high-quality services at low transactional costs.

Revenue increased by RMB59.8 million or 54% from RMB111.2 million in FY2018 to RMB171 million in FY2019 (FY2017: 65.4 million). The increase was mainly due to the increase of revenue from CSC business and Catalyst business, partially offset by the decrease of revenue from Engineering services. Our overall gross profit increased by RMB10 million or 41% from RMB24.4 million in FY2018 to RMB34.4 million in FY2019 (FY2017: 6.9 million) and our gross profit margin decreased from 22% in FY2018 to 20% in FY2019 (FY2017: 11%).

For detailed financial results, please refer to the following sections in our Annual Report

- Financial Highlights, page 6
- Operations & Financial Review, pages 7 to 8
- Financial Statements, pages 65 to 134.

ANTI-CORRUPTION

Anchun does not tolerate corruption in any form. We communicated this externally with our customers and suppliers and internally with our employees.

We have established anti-corruption policy. We prohibit corruption in all forms, including extortion and bribery. As set out in our whistle-blowing policy, all complaints shall be reported to the Audit Committee Chairman of the Company either in person or via an email that is only accessible by the Audit Committee Chairman. Similar to FY2017 & FY2018, there were no reported incidents of corruption during FY2019.

Target: To maintain zero incidents of corruption.

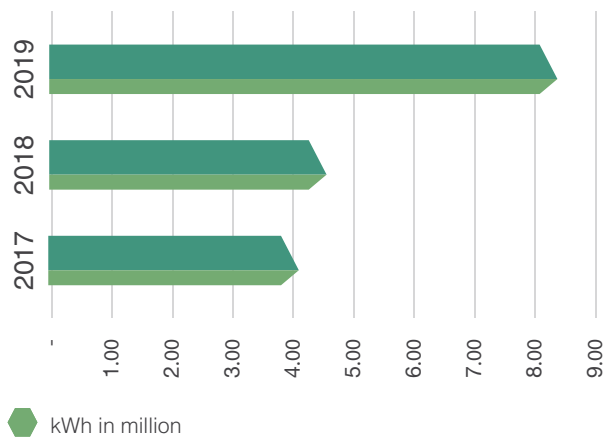
SUSTAINABILITY REPORT

4. ENVIRONMENTAL

ENERGY

The Group is fully aware of its responsibility for nurturing the environment and lessening negative environmental consequences at our worksites and the environment where we operate. We monitor our energy at our work places to ensure that we use our resources economically, meaningfully and responsibly.

ELECTRICITY CONSUMPTION



Significant increase in our electricity consumption was mainly due to the increase of our revenue from our catalyst business (157%).

Target: Based on our projected production in FY2020, our target energy consumption is 5.9 million kWh.

ENVIRONMENTAL COMPLIANCE

China’s rapid economic expansion and past relaxed environmental oversight have caused a number of ecological problems. With increasing public and global pressure, the national government has set in place a number of measures to curb pollution in the country and improve the China’s environmental situation.

Environmental policy is set by the National People’s Congress and managed by the Ministry of Environmental Protection (MEP) of the People’s Republic of China. Under MEP, the Department of Policies, Laws and Regulations is in charge of establishing and strengthening environmental laws, administrative policies and economical regulations. It is also responsible for the development of national environmental protection policy and macro strategy.

At Anchun, we have been adhering to local and international environmental guidelines. Our production facilities and processes are awarded for engineering design with focus on the environment:

- Class A Engineering Design (Ministry of Housing and Urban-Rural Construction, PRC)
- Class A Environmental Design (Ministry of Housing and Urban-Rural Construction, PRC)
- Pressure Pipeline Design (General Administration of Quality Supervision, Inspection and Quarantine, PRC)
- A1/A2/D1/D2 Pressure Vessel Design (General Administration of Quality Supervision, Inspection and Quarantine, PRC)
- Pressure Vessel Manufacture (General Administration of Quality Supervision, Inspection and Quarantine, PRC)
- ASME U Mark Certificate Pressure Vessel Manufacture (The American Society of Mechanical Engineers)

We are also ISO 9001 ‘Quality Management System’ certified, an international guideline that ensures we meet the statutory and regulatory requirements while delivering high quality products and services to our customers.

There were also no incidence of non-compliance with laws and regulations resulting in significant fines or sanctions in FY2019 (FY2018 & FY2017: Nil).

Target: To maintain zero incidents of non-compliance.

5. SOCIAL

OCCUPATIONAL HEALTH AND SAFETY

Our employees’ safety and health at the workplace is one of our top priorities, and our ultimate goal is to have a zero-accident workplace. We are committed to managing and reducing safety and health risks through effective risk management. We are also ISO 14001 ‘Environment Management System’ and OHSAS 18001 ‘Occupational Health and Safety Audit & Certificate’ certified.

We are pleased to confirm that zero fatal accidents were reported from FY2017 to FY2019.

Target: To maintain zero incidents of work place injury.

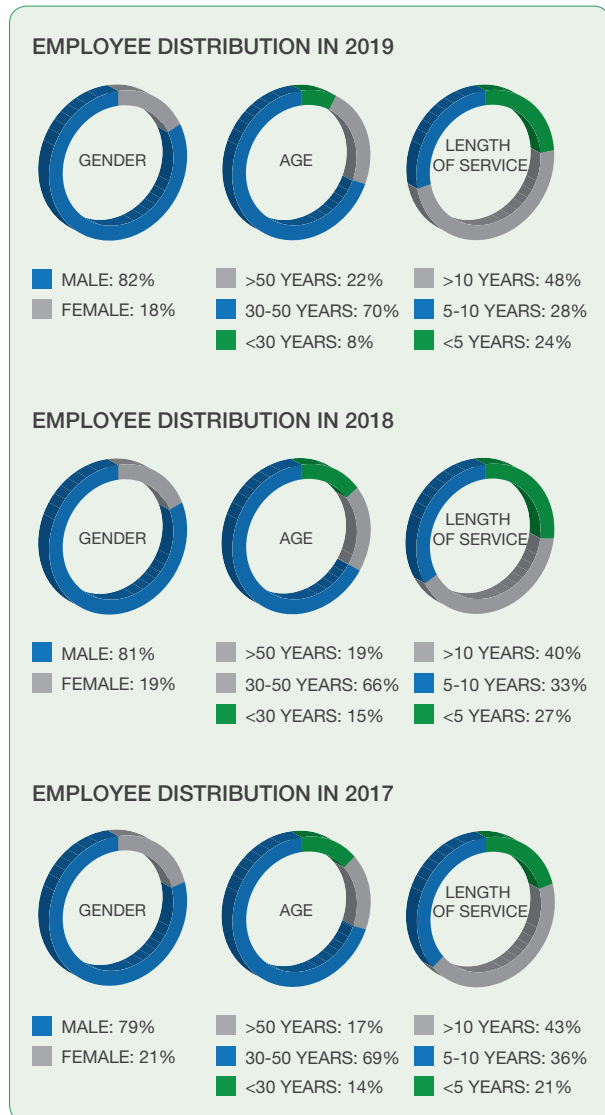
DIVERSITY AND EQUAL OPPORTUNITY

Although the group’s staff strength is very small, Anchun ensures compliance with labour and employment laws, including working hours. Furthermore, we ensure that no colleagues should be discriminated against because of age, gender, national origin, disability, religion, sexual orientation, marital or maternity status, union membership or political opinion, among others. Non-compliance in relation to discrimination is reportable through our whistleblowing system. Below shows the group’s staff composition chart in FY2019. Our headcount decreased from 285 in 2018 to 278 in 2019 (FY2017: 277). Due to the nature of the work, most of our employees are male.

The Company embraces the philosophy of giving back to the community by encouraging proactive involvement in the company’s various corporate social responsibility (“CSR”) initiatives and environmental conservation programs. Contributing time and resources, we are committed to aid the development and improvement of the society in which we live and work.

In FY2019, the company provided cancer screening test for all our female workers. The labor union of the company provides material and financial assistance to the employees in need. During the year, the company, together with our employees, donated RMB11,800 to two of our employees who suffered from the sickness. We organised different types of activities for our employees regularly, such as company anniversary celebration activities, singing competitions, sports day, and charity marathon.

Target: Zero complaints on discrimination.



SUSTAINABILITY REPORT



SOCIOECONOMIC COMPLIANCE

Anchun was not subject to any substantiated complaints or incidences of corruption, bribery, anti-competitive behaviour, data loss or privacy breaches from FY2017 to FY2019. There were no incidences of material penalties in relation to the sale of banned products, non-compliance with marketing and labelling regulations, Product Health and Safety, Occupational Health and Safety or environmental laws and regulations.

We abide by the listing rules as stated in the Listing Manual of the Singapore Exchange Securities Trading Limited (“SGX-ST”) on corporate governance and believe in the honesty, integrity and vigilance of our management and employees.

Target: To maintain zero incidents of non-compliance.

MEMBERSHIPS

Anchun’s contribution to the industry and Hunan province is clearly marked by our management positions in key associations and professional organizations.

- Director Unit of China Petroleum & Chemical Engineering Survey And Design Association
- Standing Member of China Nitrogen Fertilizer Industry Association
- Standing Member of China Chemical Industry Environmental Protection Association
- Director Unit of China Petroleum Chemical Industry Federation
- Member Unit of China Chemical Industry Equipment Association

- Standing Member of Hunan Society of Chemical and Chemical Engineering
- Director Unit of Hunan Survey and Design Association
- Director Unit of Hunan Provincial Association of Engineering Consultants
- Vice President Unit of Hunan Petroleum Chemical Industry Association
- Member Unit of Chemical Catalyst Division Technical Committee of National Standardization Technical Committee of Chemical
- Standing Member of Hunan Petroleum Society
- Member Unit of Hunan Association of Special Equipment Inspection
- Vice President Unit of Changsha Special Equipment Safety Management Association
- Member Unit of Changsha Work Safety Association

6. GOVERNANCE

CORPORATE GOVERNANCE

The Board and the Management of Anchun are committed to the best practices in corporate governance to ensure sustainability of the Group's operations. We believe that our constant drive for corporate excellence will allow us to establish a more transparent, accountable and equitable system, thereby increasing the value of the Company and its value to our shareholders. Please refer to the Annual Report 2019 pages 25 to 54 for details of the Group's Corporate Governance Report.

RISK MANAGEMENT

The Board is committed to ensuring that the Group has an effective and practical enterprise risk management framework in place to safeguard Shareholders' interests, and the sustainability of the Group as well as provide a basis to make informed decisions having regard to the risk exposure and risk appetite of the Group. For detailed disclosure on our risk management, please refer to pages 37 to 38 of our Annual Report 2019.

SUSTAINABILITY REPORT

7. GRI STANDARDS CONTENT INDEX

GRI Standard	Disclosure	Reference/Description	
GRI 101: Foundation 2016			
GENERAL DISCLOSURE			
GRI 102: General Disclosures	102-1	Name of the organization	Anchun International Holdings Ltd.
	102-2	Activities, brands, products and services	Page 1-3
	102-3	Location of headquarters	Refer to Corporate Information section
	102-4	Location of operations	Page 1
	102-5	Ownership and legal form	Page 1
	102-6	Markets served	Page 1
	102-7	Scale of the organization	Pages 7 to 8
	102-8	Information on employees and other workers	Page 19
	102-9	Supply chain	Page 2
	102-10	Significant changes to the organization's size, structure, ownership, or supply chain	None
	102-11	Precautionary Principle or approach	Page 15
	102-12	External initiatives	Pages 20 to 21
	102-13	Membership of associations	Pages 20 to 21
	102-14	Statement from senior decision maker	Page 15
	102-16	Values, principles, standards and norms of behaviour	Page 21
	102-18	Governance structure	Pages 21, 25 to 54
	102-40	List of stakeholder groups	Page 16
	102-41	Collective bargaining agreements	None
	102-42	Identifying and selecting stakeholders	Page 16
	102-43	Approach to stakeholder engagement	Page 16
	102-44	Key topics and concerns raised	Page 16
	102-45	Entities included in the consolidated financial statements	Page 101
	102-46	Defining report content and topic Boundaries	Page 15
	102-47	List of material topics	Page 17
	102-48	Restatements of information	None
	102-49	Changes in reporting	None
	102-50	Reporting period	1 Jan to 31 Dec 2019
	102-51	Date of most recent previous report	2018 Annual Report
	102-52	Reporting cycle	Annually
	102-53	Contact point for questions about the report	Page 15
	102-54	Claims if reporting in accordance with the GRI Standards	Page 15
102-55	GRI content index	Pages 22 to 23	
102-56	External Assurance	Page 15	

GRI Standard	Disclosure	Reference/Description
GRI 101: Foundation 2016		
MATERIAL TOPICS		
GRI 201: Economic performance	201-1	Direct economic value generated and distributed Page 17
GRI 205: Anti-corruption	205-1	Operations assessed for risks related to corruption Page 17
GRI 302: Energy	302-1	Energy consumption within the organization Page 18
GRI 307: Environmental Compliance	307-1	Non-compliance with environmental laws and regulations Page 18
GRI 403: Occupational Health and Safety	403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities Page 19
GRI 405: Diversity and equal opportunity	405-1	Diversity of governance bodies and employees Page 19
GRI 419: Socioeconomic Compliance	419-1	Non-compliance with laws and regulations in the social and economic area Page 20



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REPORT OF CORPORATE GOVERNANCE

The Board of Directors (“**Board**”) of Anchun International Holdings Ltd. (the “**Company**”) and together with its subsidiary (the “**Group**”) is committed to maintain high standards of corporate governance. Good corporate governance provides the framework for an ethical and accountable corporate environment, which will protect the interests of the Company’s shareholders (“**Shareholders**”) and promote investors’ confidence.

This report outlines the Company’s corporate governance practices and structures in the financial year ended 31 December 2019 (“**FY 2019**”) with specific reference made to each of the principles of the Code of Corporate Governance 2018 (the “**Code**”) and accompanying Practice Guidance issued on 6 August 2018, which forms part of the continuing obligations of the Listings Rules of the Singapore Exchange Securities Trading Limited (“**SGX-ST**”).

The Company is generally in compliance with the principles and provisions as set out in the Code. Where there are any deviations from the Code, the Board considered alternative practices adopted by the Group are sufficient to meet the underlying objectives of the Code. Appropriate explanations have been provided in the relevant sections when there are deviations.

BOARD MATTERS

The Board’s Conduct of Its Affairs

Principle 1: The Company is headed by an effective Board which is collectively responsible and works with Management for the long-term success of the company.

The Board is entrusted with the responsibility for the overall management of the business and corporate affairs of the Group. Provision 1.1

Matters which specifically require the Board’s decision or approval are those involving:

- (i) corporate strategy and business plans;
- (ii) investment and divestment proposals;
- (iii) funding decisions of the Group;
- (iv) nomination of Directors for appointment to the Board and appointment of key personnel;
- (v) announcement of half-year and full-year results, the annual report and accounts; and
- (vi) all matters of strategic importance.

All Directors, in the course of carrying out his or her duties, exercise due diligence and independent judgement, and act in good faith and in the best interests of the Group.

Continuous Training for Directors and Orientation for Incoming Directors

Newly-appointed Directors undergo an orientation program with materials provided to help them get familiarised with the business and organisation structure of the Group. To get a better understanding of the Group’s business, the newly-appointed Directors will also be briefed on their duties and obligations as director. They are also given the opportunity to visit the Group’s operational facilities and meet with the Management. The Directors are also provided with updates on the relevant new laws and regulations related to the Group’s operating environment through emails and regular briefings by the Company Secretary (or her representatives) and Ernst & Young LLP (“**External Auditors**”). Provision 1.2

Newly-appointed Directors, if any, will be issued a letter of appointment or service contract setting out their duties and obligations when they are appointed.

REPORT OF CORPORATE GOVERNANCE

Matters Requiring Board Approval

The Board has adopted a set of internal guidelines setting forth matters that requires its approval. Matters which are specifically reserved to the Board for approval include but not limited to the following:

Provision 1.3

- (i) any proposed acquisitions and disposal of assets;
- (ii) any proposed changes in the capital of the Company;
- (iii) any interested person transaction (as defined under Chapter 9 of the Listing Manual);
- (iv) dividends and other returns to shareholders; and
- (v) capital expenditure.

Delegation of Authority to Board Committees

To facilitate effective management, certain matters are delegated to committees whose actions are monitored by the Board. These committees include the Audit Committee (“**AC**”), the Nominating Committee (“**NC**”) and the Remuneration Committee (“**RC**”), all of which are chaired by Independent Director and operate within clearly defined terms of reference and functional procedures.

Provision 1.4

Please refer to the Principles 4, 6 and 10 in this Corporate Governance Report for further information on the duties and functions as well as the composition for the respective Board Committees.

Meetings of Board and Board Committees

The Board meets at least once every quarter. It also holds ad-hoc meetings as and when circumstances require. Telephonic and video conference attendance at Board’s meetings is allowed under the Company’s Constitution. The Board and Board committees may also make decisions by way of circulating resolutions.

Provision 1.5
and 10.5

During FY2019, the number of Board and Board Committees meetings held and attended by each member of the Board is as follows:

Name	Position	Number of meetings attended/ Number of meetings held			
		Board	AC	NC	RC
Current Directors					
Ms Xie Ming	Executive Chairman	4/4	4/4*	1/1*	1/1*
Mr Zheng Zhi Zhong	Executive Director and Chief Executive Officer	4/4	4/4*	1/1*	1/1*
Ms Dai Feng Yu	Executive Director	4/4	4/4*	1/1*	1/1*
Mr Xie Ding Zhong	Non-Executive Director	4/4	4/4*	1/1	1/1
Mr Lee Gee Aik	Lead Independent Director	4/4	4/4	1/1	1/1*
Ms Tan Min-Li	Independent Director	4/4	4/4	1/1	1/1
Mr Andrew Bek	Independent Director	4/4	4/4	1/1*	1/1*
Mr Yang Chun Sheng	Independent Director	4/4	4/4*	1/1	1/1
Professor He Ming Yang	Independent Director	4/4	4/4*	1/1*	1/1*

* By invitation

REPORT OF CORPORATE GOVERNANCE

Access to Information

Directors are furnished with timely and adequate information from the Management to enable them to discharge their duties effectively. Directors have unrestricted access to the Company's Management, records and information, and all Board and Board committees' minutes. Directors are also provided with agenda and meeting materials in advance of meetings, which include quarterly management accounts and summary data. The Management provides detailed explanation of the meeting materials to the Board, and in respect of budgets and financial results, any material variance between the projections and actual results are disclosed and explained.

Principle 1.6

Access to Management and Company Secretary

The Company Secretary or her representatives attend all Board meetings. Together with members of the Company's Management, the Company Secretary is responsible for ensuring that appropriate procedures are followed and that the requirements of the Companies Act, Chapter 50 of Singapore (the "Act"), and the provisions in the Listing Manual of the SGX-ST are complied with. Each Director has separate and independent access to the Company Secretary at all times, and also has the right to seek independent legal and other professional advice, at the Company's expense, concerning any aspect of the Group's operations or undertakings in order to fulfil his duties and responsibilities as Director.

Principle 1.7

The appointment and replacement of the Company Secretary is a matter for the Board.

Board Composition and Balance

Principle 2: The Board has an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interests of the company.

The Board is able to exercise objective judgement independently from Management on corporate affairs of the Group as Independent Directors constitute more than 50% of the Board. As such, no individual or small group of individuals dominate the decisions of the Board.

Board Composition and Degree of Independence of the Board

Provision 2.1,
2.2, 2.3, 4.1
and 4.4

As at 31 December 2019, the Board consisted of three Executive Directors (one of which is also our Executive Chairman), one Non-Executive Director and five Independent Directors. The Board currently comprises:

Executive Directors

Ms Xie Ming ("Ms Xie")
Mr Zheng Zhi Zhong ("Mr Zheng")
Ms Dai Feng Yu ("Ms Dai")

Non-Executive Director

Mr Xie Ding Zhong ("Mr Xie")

Independent Directors

Mr Lee Gee Aik ("Mr Lee")
Ms Tan Min-Li ("Ms Tan")
Mr Andrew Bek ("Mr Bek")
Mr Yang Chun Sheng ("Mr Yang")
Professor He Ming Yang ("Prof. He")

REPORT OF CORPORATE GOVERNANCE

The independence of each Director is reviewed annually by the NC. During FY2019, the NC adopts the definition in the Code as to what constitutes an Independent Director in its review. In addition, the NC also reviews the composition of the Board annually to ensure that the Board consists of persons who, together, contribute an appropriate balance and diversity of skills to provide core competencies necessary to meet the Company's objectives.

Based on the confirmation of independence and self-declaration submitted by the Independent Directors, the NC is of the view for FY2019, Mr Lee, Ms Tan, Mr Bek, Mr Yang and Prof. He are independent in accordance with the Code and satisfied that the Independent Directors are able to act with independent judgment.

During FY2019, none of the Independent Directors has a relationship with the Company or its related corporations, its substantial shareholders (holding 5% or more of its shares) or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgement.

As at 31 December 2019, the Independent Directors, Ms Tan and Mr Lee (appointed on 9 September 2010) and Mr Bek (appointed on 1 March 2014 and also act as alternate director of a former Director, Mr Ma Ong Kee from 2 August 2010 to 1 March 2014) have served on the Board beyond 9 years from the date of his/her initial appointment.

At 31 December 2019, Mr Bek holds 3.29% of the ordinary shares in the Company and is also an employee of OneEquity SG Private Limited, which is owned by a substantial shareholder, Mr Ma Ong Kee, who holds 6.69% of the ordinary shares in the Company. Mr Bek has confirmed his independence to the Board and that his employment by OneEquity SG Private Limited does not in any way interfere with his independent business judgements and decisions as a Independent Director of the Company. Mr Bek has notified the Board that he has resigned from OneEquity SG Private Limited on 31 January 2020.

In view of the above, the other Directors have been requested to particularly review and assess the continued independence of Ms Tan, Mr Lee and Mr Bek.

After due consideration and with the recommendation of the NC (with Ms Tan and Mr Lee abstaining), the Board continues to regard Ms Tan, Mr Lee and Mr Bek as independent notwithstanding the length of tenure of their service, after taking into consideration, inter alia, the guidelines for independence as provided for under the Code, the absence of potential conflicts of interest for the Independent Directors which may arise through, inter alia, a shareholding interest in the Company and/or business dealings directly or indirectly with the Group, and as they have demonstrated independence in character and judgment, through, inter alia, their contributions to Board discussions and deliberations and ability and preparedness to exercise independent business judgment and/or decisions with the view to the best interests of the Company, without undue reliance, influence or consideration of the Group's interested parties such as the Chairman, the other non-independent Directors, controlling shareholders and/or their associates.

The Board notes that, with effect from 1 January 2022, Ms Tan, Mr Lee and Mr Bek would have to comply with the requirements of Rule 720(5)(d)(iii) of the SGX-ST Listing Manual and for purposes of continuing to be designated as Independent Directors and the Company will take the necessary steps, where appropriate, to comply with such requirements.

REPORT OF CORPORATE GOVERNANCE

Alternate Directors

As of the date of this Report, the Company has not appointed any Alternate Directors.

Composition and Size of the Board

The Board and the NC has examined the size of the Board and is of the view that it is an appropriate size for effective decision-making, taking into account the scope and nature of the operations of the Company. In addition, the Board and the NC has taken into account, inter alia, the Directors' contributions, scope of work and the wide spectrum of skill and knowledge and are satisfied that the current Board's composition is appropriate for the Group.

Provision 2.4

The NC and the Board recognise the importance of an appropriate balance and diversity of industry knowledge, skills, backgrounds, experience and professional qualifications as well as gender and age in building an effective Board. For this reason, the NC periodically reviews the existing attributes and competencies of the Board and is satisfied that the Directors as a group have the appropriate mix of expertise to lead and govern the Group effectively. The diversity of the directors' expertise and experience allows for the useful exchange of ideas and views providing a balance of views at Board and Board Committee meetings. The Board currently comprises three female and six male directors who, as a whole have relevant competence, in accounting, finance, legal, business and management and strategic planning.

Details of the Directors' academic and professional qualifications and other appointments are set out on this Annual Report under Board of Directors' Profile.

Meetings without the presence of Management

The Independent Directors and the Non-Executive Director together confer regularly with the Executive Directors and Management to constructively challenge and help to develop proposals on strategy, review the performance of the management in meeting agreed goals and objectives, and monitor the reporting of performance. Where warranted, the Independent Directors and Non-Executive Director have conference calls and/or meetings regularly without the presence of Management or the Executive Directors to review any matters that must be raised privately.

Principle 2.5

REPORT OF CORPORATE GOVERNANCE

Chairman and Chief Executive Officer

Principle 3: There is a clear division of responsibilities between the leadership of the Board and Management, and no one individual has unfettered powers of decision-making.

Chairman and Chief Executive Officer (“CEO”)

The Chairman and CEO of the Company are separate individuals and are not related. On 1 June 2018, Ms Xie was re-designated from Executive Director cum CEO to Executive Chairman of the Board and Mr Zheng was re-designated from Executive Director cum Chief Operating Officer to Executive Director cum CEO. The roles of the Executive Chairman and CEO are kept separate to ensure an appropriate balance of power, greater capacity of independent Board decision making and increased accountability.

Principle 3.1

Furthermore, the Board is of the view that there is a strong independent element on the Board to enable exercise of objective judgment of corporate affairs of the Group by members of the Board, taking into account factors such as the number of Independent Directors on the Board, as well as the size and scope of the Group’s affairs and operations.

Roles and Responsibilities

The Executive Chairman plays a key role in promoting high standards of corporate governance, ensures that board meetings are held when necessary and sets the board meeting agenda (with the assistance of the Company Secretary and in consultation with the CEO) and ensures that the Board reviews the Group’s strategic direction, expansion plans and business development formulated by the CEO. The Executive Chairman also participates in communicating with key stakeholders, including shareholders and Management.

Principle 3.2

The CEO’s responsibilities, in addition to setting the strategic direction, expansion plans and business development, include managing the day-to-day business activities of the Group, executing the strategies and policies approved by the Board, reporting to the Board on the performance of the Group, providing guidance to the Group’s employees, and encouraging constructive relations between the Management and the Board.

Lead Independent Director

To promote a high standard of corporate governance, Mr Lee, has been appointed as the Lead Independent Director as well as the Chairman of the AC on 9 September 2010. In accordance with the Code, Mr Lee Gee Aik is available to shareholders when they have concerns where contact through the normal channels of the Chairman and CEO has failed to resolve the same, or for which such contact is inappropriate.

Principle 3.3

Where warranted, the Lead Independent Director meets with the other Independent Directors and Non-Executive Director without the presence of Management or the Executive Directors to review any matters that must be raised privately before providing feedback to the Chairman of the Board after such meetings.

REPORT OF CORPORATE GOVERNANCE

Board Membership

Principle 4: The Board has a formal and transparent process for the appointment and re-appointment of directors, taking into account the need for progressive renewal of the Board.

Composition and Terms of Reference of Nominating Committee

Currently, the NC comprises three Independent Directors, Mr Yang, Ms Tan and Mr Lee and one Non-Executive Director, Mr Xie. The Chairman of the NC is Mr Yang. The NC has written terms of reference that describe the responsibilities of its members.

Principle 4.1
and 4.2

The principal functions of the NC are as follows:

- (i) to review and recommend the nomination or re-nomination of directors having regard to the director's contribution and performance;
- (ii) to determine on an annual basis whether or not a director is independent, guided by the guidelines contained in the Code regarding independence;
- (iii) to decide whether a Director is able to and has been adequately carrying out his duties as a Director of the Company, particularly when the Director has multiple board representations;
- (iv) to evaluate the Board, based on objective performance criteria;
- (v) to assess the effectiveness of the Board as a whole and the contribution of each Director to the effectiveness of the Board; and
- (vi) to determine the appropriate training and professional development programs for the Board.

A Director who has no relationship with the Company, its related corporation, its substantial shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgement, is considered independent.

The NC has reviewed the Directors' independence based on the guidelines set out in the Code and the confirmations provided by the Independent Directors, and was satisfied with the independence of the Independent Directors as mentioned in relation to Principle 2.1 above.

Evaluation of the Board

In selecting and appointing a new Director, the NC will have regard to the desired competencies of the new Director so that he may complement the skills and competencies of the existing Board. Candidates may be suggested by Directors or Management or sourced from external sources.

Principle 4.3

The NC, after completing its assessment of the potential candidates, meets with the short-listed candidates to assess their suitability, before submitting the appropriate recommendations to the Board.

REPORT OF CORPORATE GOVERNANCE

Article 89 of the Company's Constitution requires one-third of the Directors to retire from office at each AGM of the Company and all Directors to retire from office at least once every three years. It is also provided in the Company's Constitution that the Directors appointed by the Board during the course of the year must retire and submit themselves for re-election at the next AGM of the Company following their appointments according to the Article 91 of the Company's constitution.

The date of first appointment and last re-appointment for each of the Directors are set out below:

Name	Date of initial appointment	Date of last re-appointment
Ms Xie Ming	2 November 2009	26 April 2019
Mr Zheng Zhi Zhong	1 June 2014	28 April 2017
Ms Dai Feng Yu	9 September 2010	26 April 2018
Mr Xie Ding Zhong	2 November 2009	28 April 2018
Mr Lee Gee Aik	9 September 2010	26 April 2019
Ms Tan Min-Li	9 September 2010	26 April 2019
Mr Andrew Bek	1 March 2014	28 April 2017
Mr Yang Chun Sheng	4 September 2014	26 April 2018
Professor He Ming Yang	1 January 2019	26 April 2019

Mr Zheng, Mr Xie and Mr Bek, comprising one-third of the Directors will be retiring at and will be submitting themselves for re-election at the forthcoming AGM pursuant to the Article 89 of the Company's constitution.

After assessing their past/existing contributions and performance, the NC has recommended, with the concurrence of the Board, that the abovementioned three directors be re-elected as Directors of the Company.

Each member of the NC has abstained from voting on any resolution in respect of the assessment of his or her performance and contribution for re-appointment as Director.

Key information regarding the Directors is set out under the "**Board of Directors**" Section of this Annual Report at pages 9 to 13.

Commitments of Directors Sitting on Multiple Board

Notwithstanding that some of the Directors have multiple board representations, the NC and the Board are satisfied that each Director is able to and has been adequately carrying out his/her duty as a Director of the Company. In arriving at the aforesaid conclusion, the NC had taken into account, inter alia, the contributions by the Directors during the meetings and attendance at such meetings.

Principle 4.5

REPORT OF CORPORATE GOVERNANCE

The NC and the Board are of the view that the assessment of whether each Director is able to devote sufficient time to discharge his/her duties should not be restricted to the number of board representations as it is for each Director to assess his/her own capacity and ability to undertake other obligations or commitments together with serving on the Board effectively. The NC, with the concurrence of the Board, has decided not to fix a limit on the number of board representations of each director as it considers that the board representations presently held by its directors do not impede the performance of their duties to the Company.

Board Performance

Principle 5: The Board undertakes a formal annual assessment of its effectiveness as a whole, and that of each of its board committees and individual directors.

The NC has adopted a formal process to annually assess the performance and effectiveness of the Board and its committees, as well as to evaluate the contribution of each Director to the effectiveness of the Board. The NC has adopted an assessment checklist, which includes various quantitative and qualitative evaluation factors, and disseminates the same to each Director for completion. The Board and the NC believe that the financial indicators are mainly used to measure the Executive Directors' and the Management's performance and hence are less applicable to the Independent Directors and Non-Independent Non-Executive Director.

Principle 5.1
and 5.2

The summary of the assessment results are discussed at the NC meeting. No external facilitator was engaged by the Company in FY2019.

The NC had conducted the Board's performance evaluation as a whole, together with the performance evaluation of the Board Committees and each Director individually as well as Chairman of the Board. The performance criteria, as determined by the NC, cover the following areas:

- (i) Board Composition and Structure;
- (ii) Conduct of Meetings;
- (iii) Corporate Strategy and Planning;
- (iv) Risk Management and Internal Control;
- (v) Measuring and Monitoring Performance;
- (vi) Training and Recruitment;
- (vii) Compensation;
- (viii) Financial Reporting;
- (ix) Chairman of the Board;
- (x) Board Committees;
- (xi) Board Contribution;
- (xii) Knowledges and Duties; and
- (xiii) Communication skills with internal and external parties *i.e.* *Shareholders*.

The assessment parameters for each Director include their knowledge and abilities, attendance records at the meetings of the Board and Board Committees, and the quality of participation at meetings. The NC and the Board have relied on the above-mentioned parameters to evaluate the Directors' contribution individually and have taken such evaluation into consideration for the re-nomination of the Directors.

REPORT OF CORPORATE GOVERNANCE

The replacement of a Director, when it occurs, does not necessarily reflect the Director's performance, but may be driven by the need to align the Board with the changing needs of the Group's business and operations.

REMUNERATION MATTERS

Procedures for Developing Remuneration Policies

Principle 6: The Board has a formal and transparent procedure for developing policies on director and executive remuneration, and for fixing the remuneration packages of individual directors and key management personnel. No director is involved in deciding his or her own remuneration.

Composition and Terms of Reference of Remuneration Committee

The RC, which terms of reference are approved by the Board, currently comprises two Independent Directors, Ms Tan and Mr Yang and the Non-Executive Director, Mr Xie. The Chairman of the RC is Ms Tan. The RC's principal responsibilities include:

Principle 6.1,
6.2 and 6.3

- (i) recommending to the Board a framework of remuneration for the directors and key management personnel;
- (ii) reviewing and determining specific remuneration packages for each Executive Director and key management personnel; and
- (iii) reviewing all aspects of remuneration, including but not limited to Directors' fees, salaries, allowances, bonuses, options and benefits in kind.

The RC's recommendation for directors' fees had been endorsed by the entire Board, following which the recommendation is tabled for shareholders' approval at the Company's AGM. Each member of the RC or the Board abstains from voting on any resolution in respect of his or her remuneration package.

In addition, where employees related to the substantial shareholders and Directors are employed, the RC will perform an annual review of such employees to ensure that their remuneration packages are in line with the Group's staff remuneration guidelines and commensurate with their respective job scope and level of responsibilities.

The RC has also reviewed the Group's obligations arising from the termination clauses and termination processes in relation to Executive Directors and key management personnel's contracts of service to ensure such clauses and processes are fair and reasonable.

Access to Remuneration Consultants

No remuneration consultants were engaged by the Company during FY2019. The RC and the Board were of the view that the Company does not need to engage remuneration consultants as the remuneration for Executive Directors and the key management personnel are based on their respective existing service agreements. The RC has full authority to obtain any external professional advice on matters relating to remuneration as and when the need arises.

Principle 6.4

REPORT OF CORPORATE GOVERNANCE

Level and Mix of Remuneration

Principle 7: The level and structure of remuneration of the Board and key management personnel are appropriate and proportionate to the sustained performance and value creation of the company, taking into account the strategic objectives of the Company.

Remuneration Structure of Executive Directors and Key Management Personnel

In reviewing and determining the remuneration packages of the Executive Directors and the Group's key management personnel, the RC considers their responsibilities, skills, expertise and contribution to the Group's performance when designing their respective remuneration packages. An appropriate proportion of their remuneration is linked to individual and corporate performance and is aligned with the interests of Shareholders to promote the long-term success of the Company.

Principle 7.1

The RC assesses whether Executive Directors and Management should be granted options or shares, and if so, the applicable vesting schedules.

Remuneration Structure of Independent Directors and Non-Executive Directors

The Independent Directors and Non-Executive Director do not have service agreements with the Company. They are paid fixed Directors' fees, which are determined by the Board, appropriate to the level of their contribution, taking into account factors such as the effort and time spent and the responsibilities of the Independent Directors and Non-Executive Directors. The fees of Independent Directors and Non-Executive Director are subject to approval by the shareholders at each AGM, thereby ensuring that their independence is not compromised.

Principle 7.2

Each member of the RC abstains from deliberating on or making recommendations in respect of any proposed Directors' fees to be paid by the Company to him/her.

Remuneration Framework

The Company uses contractual provisions or other measures to reclaim the incentives or any related payments from the parties involved should there be any misstatements of financial results, or of misconduct resulting in financial loss to the Group.

Principle 7.3

REPORT OF CORPORATE GOVERNANCE

Disclosure on Remuneration

Principle 8: The company is transparent on its remuneration policies, level and mix of remuneration, the procedure for setting remuneration, and the relationships between remuneration, performance and value creation.

Remuneration of Directors and Key Management Personnel

A breakdown, showing the level and mix of each individual Director's remuneration in FY2019 is as follows:

Principal 8.1
and 8.3

Name of Director	Fee#	Salary	Bonus	Benefits	Total
Below S\$250,000	%	%	%	%	%
Ms Xie Ming	–	63	37	–	100
Mr Zheng Zhi Zhong	–	61	39	–	100
Ms Dai Feng Yu	–	62	38	–	100
Mr Xie Ding Zhong	100	–	–	–	100
Mr Lee Gee Aik	100	–	–	–	100
Ms Tan Min-Li	100	–	–	–	100
Mr Andrew Bek	100	–	–	–	100
Mr Yang Chun Sheng	100	–	–	–	100
Professor He Ming Yang	100	–	–	–	100

Note:

These fees were approved by the shareholders at the AGM held on 26 April 2019.

A breakdown, showing the level and mix of top key management personnel in FY2019 is as follows:

Name of Key Management Personnel#	Salary	Bonus	Benefits	Total
Below S\$250,000	%	%	%	%
Mr He Zu Bing	53	47	–	100
Ms Li Juan	55	45	–	100

Note:

During the financial year under review, there were only two key management personnel.

The aggregate total remuneration paid to or accrued to key management personnel (who are not Directors or CEO) amounted to SGD80,427.00.

The remuneration of each individual Director and key executive is not fully disclosed as the Company believes that disclosure may be prejudicial to its business interests given the highly competitive environment it is operating in. The RC has reviewed the practice of the industry in weighing the advantages and disadvantages of such disclosure. As a Company with a small and tightly-knit team, such disclosure may adversely affect the cohesion and spirit of team work prevailing amongst the employees of the Group.

REPORT OF CORPORATE GOVERNANCE

The Company has in 2014 adopted an employee share option scheme and performance share plan whereby employees and Directors (including Non-Executive Director and Independent Directors) of 21 years old and above, and who are not undischarged bankrupts or entered into compositions with their creditors are eligible to participate. Controlling Shareholders and Associates of Controlling Shareholders are not eligible to participate. The scheme and plan is intended to align the interests of the employees with that of the Company's shareholders.

The Company has a remuneration policy, which comprises a fixed component and a variable component. The fixed and variable components are in the form of a base salary and a variable bonus, respectively, and take into account the performance of the Company and the performance of the individual Executive Director and key management personnel, to allow for the alignment of their interests with that of Shareholders. The Executive Directors do not receive Directors' fees.

The performance criteria used to assess the remuneration of Executive Directors and key management personnel is based on the revenue and profitability of the Group, and their individual leadership. There are currently no long-term incentives for the Executive Directors and key management personnel in their service agreements. The Executive Directors' and key management personnel's short-term incentives (namely the performance related variable component) proposed by the Executive Chairman are reviewed before being recommended by the RC for approval by the Board.

Remuneration of Employees who are Immediate Family Members of Directors, the CEO and/or Substantial Shareholders of the Company

Save that Mr Xie, the Non-Executive Director, who is the father of Ms Xie, the Executive Chairman of the Board, there is no family relationship between any of the Directors and/or the key executive, or between any of the Directors, key executive and substantial shareholder.

Principle 8.2

In addition, there is no other employee who is an immediate family member of a Director or CEO, and whose remuneration exceeds S\$100,000 during the financial year under review.

ACCOUNTABILITY AND AUDIT

Risk Management and Internal Controls

Principle 9: The Board is responsible for the governance of risk and ensure that Management maintains a sound system of risk management and internal controls, to safeguard the interests of the Company and its shareholders.

Risk Management System

The Board as a whole is responsible for risk management and no separate risk committee has been established. The Management regularly reviews the Company's business and operational activities and control policies and procedures, and highlights areas of significant risks to the Board. The Board then determines the Company's levels of risk tolerance and risk policies, and oversees the Management in the design, implementation and monitoring of the Group's risk management and internal control systems.

Principle 9.1

REPORT OF CORPORATE GOVERNANCE

To ensure that internal controls and risk management processes are adequate and effective, the AC is assisted by various independent professional service providers. External Auditors provide reasonable assurance on the true and fair presentation of the Group's financial statements. Internal Auditors provide assurance that controls over the key risks of the Group is adequate and effective. The External Auditors carry out statutory audits annually in accordance with their audit plan. Control observations noted during their audits and their recommendations thereto are reported to the AC. The AC will follow up to review the actions taken by Management to address the weaknesses highlighted based on the recommendations made by the External Auditors and Internal Auditors.

Assistance from Internal Auditors

To enhance the Group's system of internal controls, the Board has appointed an external professional firm, namely Peiking Certified Public Accountants LLP ("**Internal Auditors**"), to review the Group's internal control system and recommend any improvements to internal control weaknesses noted, and to expand and enhance on its policies and procedures manual.

Based on the internal controls established and maintained by the Group, work performed by External and Internal Auditors and the reviews by the Management and the various Board Committees, the AC and the Board are of the opinion, that the Group's internal controls, addressing financial, operational, compliance and information technology controls, and risk management systems are adequate and effective as at 31 December 2019.

The Board is responsible for ensuring that Management maintains a sound system of internal controls to safeguard shareholders' investments and the Group's assets. For FY2019, based on (i) the Group's framework of management control, (ii) the internal control policies and procedures established and maintained by the Group and (iii) regular audits and reviews performed by the Internal and External Auditors, the Board, with the concurrence of the AC, is of the opinion that the systems of internal controls and risk management within the Group are adequate and effective.

The Board acknowledges that it is responsible for the overall internal control framework, but recognizes that no cost effective internal control system will preclude all errors and irregularities, as a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss due to error, fraud or other irregularities.

Any material non-compliance and internal control weaknesses noted during the internal audit and the recommendations thereof are reported to the AC as part of the review of the Group's internal control system.

Assurance from CEO, Chief Financial Officer and Financial Controller

The Board has also received assurance from the CEO, Chief Financial Officer and Finance Controller that:-

Principle 9.2

- (i) the financial records have been properly maintained and the financial statements of the Group for FY2019 give a true and fair view of the Company's operations and finances; and
- (ii) the Group's risk management and internal control systems in place are effective.

REPORT OF CORPORATE GOVERNANCE

Audit Committee

Principle 10: The Board has an Audit Committee (“AC”) which discharges its duties objectively.

Composition and Terms of Reference of Audit Committee

The AC comprises three Independent Directors, namely Mr Lee, Ms Tan and Mr Bek, and has written terms of reference clearly setting out its authority and duties. The Chairman of the AC is Mr Lee. The Board is of the view that the AC has the necessary experience and expertise required to discharge its duties as the majority of its members are trained in accounting and financial management.

Principle 10.1
and 10.2

The AC has explicit authority to investigate any matter within its terms of reference and has full access to and co-operation of the Management and full discretion to invite any Director or key management personnel to attend its meetings. The AC has reasonable resources to enable it to discharge its duties properly.

The AC will meet quarterly to review, *inter alia*, the following:

- (i) the audit plan and discuss with the External Auditors, their evaluation of the system of internal controls, their audit report, their management letter and the management’s response;
- (ii) the internal audit plan and discuss with the Internal Auditors, their evaluation of the adequacy and effectiveness of the internal controls before submission of the results of such review to the Board for approval;
- (iii) the financial statements and quarterly results announcements before submission of the same to the Board for approval, focusing in particular, on changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit, the going concern statement, compliance with accounting standards as well as compliance with any stock exchange and statutory/regulatory requirements;
- (iv) the internal control and procedures and ensure co-ordination between the External and Internal Auditors and the Management, reviewing the assistance given by the Management to the External and Internal Auditors, and discuss problems and concerns, if any, arising from the interim and final audits, and any matters which the External or Internal Auditors may wish to discuss (in the absence of the Management where necessary);
- (v) the Group’s key risk areas, as identified by the External and Internal Auditors in the course of the audits;
- (vi) the independence and objectivity of the External Auditors;
- (vii) the terms of engagement, appointment or re-appointment of the External and Internal Auditors and matters relating to their resignation or dismissal;
- (viii) interested person transactions falling within the scope of Chapter 9 of the SGX-ST Listing Manual; and
- (ix) any potential conflicts of interest.

REPORT OF CORPORATE GOVERNANCE

In the review of the Financial Statements for FY2019, the AC has discussed with Management the accounting practices adopted for the financial year, including accounting policies, accounting estimates and financial statements disclosures have been adopted. The AC has also reviewed the judgements made by Management and with the External Auditors which might affect the integrity of the financial statements.

Provided below is a high-level overview of the matters which were identified as the Key Audit Matters (“KAM”) in the Independent Auditor’s Report on the consolidated financial statements of the Group for FY2019. These KAM were discussed with the Management and External Auditors and in the review carried out by the AC:

Key Audit Matters	How the AC reviewed and responded to the KAM
<p><i>Impairment of trade receivables and contract assets</i></p> <p><i>Refer to pages 61 and 62 in the Independent Auditor’s Report of this Annual Report</i></p>	<p>The AC discussed with the Management the approach taken to determine the impairment for trade receivables and contract assets at 31 December 2019. The AC also reviewed the reasonableness of the basis of impairment and factors that influenced management’s judgement.</p> <p>Impairment of trade receivables and contract assets was also an area of focus for the External Auditors. The External Auditors has included this item as a key audit matter in its audit report for FY2019.</p>
<p><i>Revenue from chemical systems and components (“CSC”) business and chemical engineering and technology (“CET”) engineering services</i></p> <p><i>Refer to pages 61 and 62 in the Independent Auditor’s Report of this Annual Report</i></p>	<p>The AC discussed with the Management the approach and methodology used to determine cost estimates and budgets used in their application to measure the progress towards completion of contract, for CSC revenue recognised over time. The AC also discussed and reviewed with the External Auditors on the adequacy for provision for onerous contracts at 31 December 2019.</p> <p>Revenue recognition from CSC business and CET engineering service was also an area of focus for the External Auditors. The External Auditors has included this item as a key audit matter in its audit report for FY2019.</p>

As a result of the above review and discussion, the AC recommended to the Board for approval, the FY2019 Financial Statements.

REPORT OF CORPORATE GOVERNANCE

The aggregate amount of fees paid and payable to the External Auditors for the audit services for FY2019 amounted to S\$189,000. Professional fees includes the provision of tax consultancy services, internal audit services and other audit services fees for PRC Statutory reporting purpose by other third party service providers for FY2019 amount to S\$46,000. Ernst & Young LLP and its member firms are the auditors of the Company and its subsidiary. The Board and AC are of the view that Company is in compliance with Rules 712 and 715 of the SGX-ST Listing Manual in relation to its External Auditors.

Whistle Blowing Policy

The AC, has put in place a whistle-blowing arrangement whereby the staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters to the AC Chairman or the CEO, in good faith and confidence. There are arrangements in place for the independent investigation of such matters for appropriate follow-up actions to be taken. No whistle-blowing reports were received in FY2019.

The procedures for whistle-blowing are disseminated to new employees as part of their orientation training, with the contact information of the AC Chairman and the CEO provided therein. Whistle-blowers are assured that all actions in good faith will not affect them in their work and staff appraisals.

Relationship with External or Internal Auditors

None of the members of the AC were former partners or directors of the Company's External or Internal Auditors within a period of two years commencing on the date of their ceasing to be a partner or director of the External and Internal Auditors and none of the AC members hold any financial interest in the above-mentioned auditing firms.

Principal 10.3

Internal Audit Function

The AC, in consultation with the Management, approves the hiring, removal, evaluation and the fees of the Internal Auditors. The Internal Auditors have unfettered access to all the Group's documents, records, personnel and the AC.

Principal 10.4

The Company has outsourced its internal audit function to Peiking Certified Accountants LLP. The Internal Auditors' primary line of reporting is to the AC Chairman.

The role of the Internal Auditors is to assist the AC in ensuring that the internal controls of the Group are adequate, effective and functioning as intended, to undertake investigations as directed by the AC and to conduct regular in-depth audits of high-risk areas. The AC is satisfied that the Internal Auditors are adequately resourced and have the appropriate standing to perform its function effectively. The AC is also satisfied that the Internal Auditors are suitably qualified and experienced professionals.

Peiking Certified Public Accountants LLP is a member of Chinese Institute of Certified Public Accountants. 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.

The Internal Auditors had submitted a report to AC on February 20th, 2020 which covered their findings and recommendations. The Internal Auditors had subsequently issued a report on March 31th, 2020 detailing the follow up review regarding the implementation of the internal audit recommendations.

REPORT OF CORPORATE GOVERNANCE

The Internal Auditors plan their internal work schedules in consultation with, but independent of the Management. The audit plan is submitted to the AC for approval prior to the commencement of the internal audit work. The AC has reviewed the results of the internal audit conducted in FY2019 and is satisfied that the internal audit function is adequate and effective.

Meeting with External and Internal Auditors

Annually, the AC meets physically separately with the External Auditors without the presence of Management. AC also meets via teleconference with the Internal Auditors to discuss their findings and provide opportunity for the internal auditors to bring to the its attention any significant matters encountered during the course of their internal audit.

Principle 10.5

SHAREHOLDER RIGHTS AND ENGAGEMENT

Shareholder Rights and conduct of general meetings

Principle 11: The company treats all shareholders fairly and equitably in order to enable them to exercise shareholders' rights and have the opportunity to communicate their views on matter affecting the company. The company give shareholders a balanced and understandable assessment of its performance, position and prospects.

Provision of Information to Shareholders

In line with the Group's disclosure obligations pursuant to the Listing Manual and the Act, the Board's policy is that all Shareholders should be informed simultaneously in an accurate and comprehensive manner for all material developments that impact the Group via SGXNET on an immediate basis. The Group recognises that the release of timely and relevant information is central to good corporate governance and enables shareholders to make informed decisions in respect of their investments in the Company, and will ensure that all information disclosed is as descriptive, detailed and forthcoming as possible.

Principle 11.1

Shareholders of the Company receive the annual reports and notices of AGMs which are also advertised in the newspapers within the prescribed deadlines prior to the AGMs. The Board encourages Shareholders' participation at the AGMs and periodically communicates with Shareholders through SGXNET throughout the financial year. Similarly, Shareholders receive circulars and notices of Extraordinary General Meetings ("EGMs") which are advertised in the newspapers within the prescribed deadlines prior to the EGMs.

Shareholders are also informed of the voting procedures prior to the commencement of voting by poll.

Proxies

The Company's Constitution allows an individual Shareholder to appoint not more than two proxies to attend and vote on his or her behalf at general meetings. In line with the amendments to the Act, corporate Shareholders of the Company which provide nominee or custodial services to third parties, are entitled to appoint more than two proxies to attend and vote on their behalf at general meetings. A proxy need not be a member of the Company.

REPORT OF CORPORATE GOVERNANCE

Separate resolutions

Separate resolutions on each distinct issue are tabled at general meetings. All resolutions at general meetings of the Company are put to vote by poll in line with Listing Rule 730A. The results of the poll voting on each resolution tabled at general meetings are announced after the meetings at SGXNET. The Company has adopted manual polling as a cost-effective method of conducting the polls. Principle 11.2

Attendees at General Meetings

All Shareholders are entitled to attend general meetings of the Company and are afforded the opportunity to raise questions to the Board, participate effectively and to vote at such meetings. Principle 11.3

The Board and the Management (including the chairman of the AC, RC and NC) are present at the general meetings to address any questions that shareholders may have. The External Auditors are also present at AGMs to address queries by Shareholders regarding the conduct of their audits and the contents of the auditors' report.

Voting in Absentia

Voting in absentia, which is currently not permitted, may only be possible following careful study to ensure that the integrity of information and authentication of the identity of Shareholders through the web are not compromised, and legislative changes are effected to recognize remote voting. Principle 11.4

Minutes of General Meetings

Minutes of general meetings, which include substantial comments or queries from shareholders and responses from the Board are available to shareholders upon written request. Principle 11.5

Dividend Policy

The Company does not have a fixed dividend policy. The form, frequency and amount of dividend will depend on the Company's earnings, general financial condition, results of operations, capital requirements, cash flow, general business condition, development plans and other factors as the Board may deem appropriate. Principle 11.6

Nevertheless, the Board has recommended proposed final dividend for FY2019 and subject to shareholder's approval at the forthcoming AGM.

Engagement with Shareholders

Principle 12: The company communicates regularly with its shareholders and facilitates the participation of shareholders during general meetings and other dialogues to allow shareholders to communicate their views on various matters affecting the company.

Communication with Shareholders

The Company is committed to maintaining and improving its level of corporate transparency of financial results and other pertinent information. Other than the routine announcements made in accordance with the requirements of the Listing Manual, the Company has issued additional announcements to update shareholders on the activities of the Company and the Group to keep the shareholders, investors and market apprised of corporate developments and financial performance of the Group. Principle 12.1

REPORT OF CORPORATE GOVERNANCE

The Company does not practise selective disclosure. Price-sensitive information is first publicly released via SGXNET before the Company meets with any group of investors or analysts.

At general meetings, shareholders are given the opportunity to air their views and ask Directors or Management questions regarding the Company and the Group. Both Executive Directors and Independent Directors meet or speak with Shareholders regularly, primarily through general meetings of Shareholders, to gather their views and address concerns.

Investor Relations Policy

The Board places great emphasis on investor relations. The Company strives to maintain a high standard of transparency and promote better investor communication.

Provision 12.2
and 12.3

The Company believes that a high standard of disclosure is essential to raise the level of corporate governance. Interim and full year results and press releases are published on SGXNET. All information of the Company's new initiatives is first disseminated via SGXNET followed by a press release.

Where there has been an inadvertent disclosure made to a selected group, the Company will make the same disclosure publicly to all others as soon as practicable.

Shareholders may also provide any feedback they may have about the Company to the Company's email at info@anchun.com.

MANAGING STAKEHOLDERS RELATIONSHIPS

Engagement with stakeholders

Principle 13: The Board adopts an inclusive approach by considering and balancing the needs and interests of material stakeholders, as part of its overall responsibility to ensure that the best interests of the company are served.

The Board adopts an inclusive approach by considering and balancing the needs and interests of material stakeholders, as part of its overall responsibility to secure the long-term future of the Company.

Principle 13.1
and 13.2

The Company's efforts on sustainability are focused on creating sustainable value for our key stakeholders, which include communities, customers, staff, regulators, shareholders and vendors.

Nevertheless, the company has announced the price-sensitive information is publicly released and is announced promptly and within the mandatory period as required and its Sustainability Report 2019 announced together with this Annual Report. Detailed information is set out in this Annual Report at pages 15 to 23.

Corporate Website

All material information on the performance and development of the Group and of the Company is disclosed in a timely, accurate and comprehensive manner through SGXNet, press releases, or the Company's website at www.anchun.com.

Principle 13.3

REPORT OF CORPORATE GOVERNANCE

DEALING IN SECURITIES

In compliance with Rule 1207(19) of the SGX-ST Listing Manual, the Company has adopted policies to provide guidance to its officers relating to dealings in the Company's securities.

The Company and its officers are prohibited from dealing in the Company's shares on short-term considerations or when they are in possession of unpublished price-sensitive information. They are also not allowed to deal in the Company's securities during the period commencing two weeks before the announcement of the Company's financial statements for each of the first three quarters of its financial year and one month before the announcement of the Company's financial statements for the full financial year, and ending on the date of announcement of the relevant results.

The Company and its officers are required to report to the Company Secretary whenever they deal in the Company's shares. The Company Secretary assists the Board in monitoring such share transactions and making the necessary announcements.

INTERESTED PERSON TRANSACTIONS

The Company does not have a general mandate from Shareholders for recurrent interested person transactions. The Company has adopted an internal policy in respect of any transaction with an interested person, which sets out the procedures for review and approval of such transaction.

All interested person transactions will be documented and submitted periodically to the AC for their review to ensure that such transactions are carried out on an arm's length basis and on normal commercial terms and are not prejudicial to the Company.

Details of the interested person transactions entered into by the Group for FY2019 as required to be disclosed pursuant to Rule 1207(17) of the SGX-ST Listing Manual are set out below:

Name of interested person	Aggregate value of all interested person transactions during FY2018 (excluding transactions less than \$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000)
Nil	Nil	Nil

MATERIAL CONTRACTS AND LOANS

Pursuant to Rule 1207(8) of the SGX-ST Listing Manual, the Company confirms that except as disclosed in the Directors' Statement and Financial Statements, there were no other material contracts and loans of the Company and its subsidiary involving the interests of the CEO or any Director or controlling shareholder, either still subsisting at the end of the financial year or if not then subsisting, which were entered into since the end of the previous financial year.

REPORT OF CORPORATE GOVERNANCE

UPDATE ON USAGE OF IPO PROCEEDS

As at 31 December 2019, the net proceeds from Group's initial public offering had been utilised in accordance with the intended purposes as follows:

Usage of IPO proceeds	Amount allocated (RMB'000)	Amount utilised (RMB'000)	Balance (RMB'000)
(A) Expand our production facilities and capacities	84,238	18,465	65,773
(B) Enhance our R&D capabilities and widen our range of innovative and cost-effective solutions	15,479	15,479	–
(C) Working capital purposes	33,772	22,074	11,698
Total	133,489	56,018	77,471

The breakdown of working capital utilization is as follows:-

Usage of IPO proceeds for working capital	Amount utilised (RMB'000)
For CO shift catalyst unit and technology implementations	(15,868)
For expanding sales and marketing capabilities and initiatives	(6,206)
Total	(22,074)

KEY INFORMATION ON DIRECTORS SEEKING RE-ELECTION PURSUANT TO RULE 720(6) OF THE LISTING MANUAL OF THE SGX-ST

Mr Bek, Mr Zheng and Mr Xie, are the Directors seeking re-election at the forthcoming annual general meeting ("AGM") of the Company – (collectively, the "Retiring Directors" and each a "Retiring Director").

Pursuant to Rule 720(6) of the Listing Manual of the SGX-ST, the information to the Retiring Directors as set out in Appendix 7.4.1 to the Listing Manual of the SGX-ST is set out below:-

Name of Directors	Andrew Bek	Zheng Zhi Zhong	Xie Ding Zhong
Date of Appointment	1 March 2014	1 June 2014	2 November 2009
Date of last re-appointment (if applicable)	28 April 2017	28 April 2017	26 April 2018
Age	53 years old	52 years old	82 years old
Country of principal residence	Singapore	Republic of China	Republic of China

REPORT OF CORPORATE GOVERNANCE

Name of Directors	Andrew Bek	Zheng Zhi Zhong	Xie Ding Zhong
The Board's comments on this appointment (including rationale, selection criteria, and the search and nomination process)	The Board has considered, among others, the recommendation of the Nominating Committee and has reviewed and considered the contribution, performance, attendance, preparedness, participation and suitability of Mr Bek for re-election as Director of the Company and concluded that Mr Bek possesses the experience, expertise, knowledge and skills to contribute towards the core competencies of the Board.	The Board has considered, among others, the recommendation of the Nominating Committee and has reviewed and considered the contribution, performance, attendance, preparedness, participation and suitability of Mr Zheng for re-election as Director of the Company and concluded that Mr Zheng possesses the experience, expertise, knowledge and skills to contribute towards the core competencies of the Board.	The Board has considered, among others, the recommendation of the Nominating Committee and has reviewed and considered the contribution, performance, attendance, preparedness, participation and suitability of Mr Xie for re-election as Director of the Company and concluded that Mr Xie possesses the experience, expertise, knowledge and skills to contribute towards the core competencies of the Board.
Whether appointment is executive, and if so, the area of responsibility	Non-Executive	Executive Director cum Chief Executive Officer	Non-Executive
Job title (e.g. Lead ID, AC Chairman, AC Member etc.)	Independent Director cum member of Audit Committee	Executive Director	Non-Independent None Executive Director cum member of Nominating and Remuneration Committee
Professional qualifications	As set out in Mr Bek's profile write-up at page 12 of this Annual Report.	As set out in Mr Zheng's profile write-up at page 9 of this Annual Report.	As set out in Mr Xie's profile write-up at page 10 of this Annual Report.

REPORT OF CORPORATE GOVERNANCE

Name of Directors	Andrew Bek	Zheng Zhi Zhong	Xie Ding Zhong
Working experience and occupation(s) during the past 10 years	<p>Mr Bek started his career in Arthur Andersen & Co and was there from 1988 to 1997.</p> <p>He was later attached to a manufacturing company from 1997 to 1998 overseeing the accounts and finance department.</p> <p>He then joined Ernst & Young from 1999 to 2007.</p> <p>He was an Investment Director at OneEquity SG Private Limited from July 2007 to January 2020.</p>	<p>Mr Zheng is the Executive Director and Chief Executive Officer (“CEO”) of Anchun International Holdings Limited and was last re-elected as a Director on 28 April 2017. He was re-designated from Executive Director and Chief Operating Officer to Executive Director and CEO on 1 June 2018. He is currently the Legal Representative of Hunan Anchun Advanced Technology Co.,Ltd. He has more than 20 years of extensive experience working in the industry and gained expertise in the areas of chemical engineering process design and programming, instrumentation and control system, information management, project management, reactor manufacture, marketing and sales.</p>	<p>Mr Xie is the Founder of Hunan Anchun Advanced Technology Co.,Ltd, Non-Executive Director, and member of the Remuneration Committee & Nominating Committee, and was last re-elected as a Director on 26 April 2018. He was re-designated from Non-Executive Chairman to Non-Executive Director on 1 June 2018. He has accumulated more than 40 years of experience in the chemical industry</p>
Shareholding interest in the listed issuer and its subsidiaries	Direct interest of 1,600,000 Shares	None	Direct interest of 120,000 Shares
Any relationship (including immediate family relationships) with any existing director, existing executive officer, the issuer and/or substantial shareholder of the listed issuer or of any of its principal subsidiaries	None	None	Father of Ms Xie, the Executive Chairman of the Company
Conflict of interest (including any competing business)	None	None	None

REPORT OF CORPORATE GOVERNANCE

Name of Directors	Andrew Bek	Zheng Zhi Zhong	Xie Ding Zhong
Undertaking (in the format set out in Appendix 7.7) under Rule 720(1) has been submitted to the listed issuer	Yes	Yes	Yes
Other principal commitments including directorships	Past (for the last 5 years)		
	(a) China Environment Ltd (b) Able Gallery Limited	None	None
	Present		
	(a) AA Group Holdings Ltd. (b) One Asia Capital Pte. Ltd. (c) OneMotor Car Accessories & Service Centre Sdn. Bhd.	None	None
Disclose the following matters concerning an appointment of Director, Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, General Manager or other Officer of equivalent rank. If the answer to any question is “yes”, full details must be given.			
a. Whether at any time during the last 10 years, an application or a petition under any bankruptcy law of any jurisdiction was filed against him/her or against a partnership of which he/she was a partner at the time when he/she was a partner or at any time within 2 years from the date he/she ceased to be a partner?	No	No	No

REPORT OF CORPORATE GOVERNANCE

Name of Directors	Andrew Bek	Zheng Zhi Zhong	Xie Ding Zhong
<p>b. Whether at any time during the last 10 years, an application or a petition under any law of any jurisdiction was filed against an entity (not being a partnership) of which he was a director or an equivalent person or a key executive, at the time when he was a director or an equivalent person or a key executive of that entity or at any time within 2 years from the date he ceased to be a director or an equivalent person or a key executive of that entity, for the winding up or dissolution of that entity or, where that entity is the trustee of a business trust, that business trust, on the ground of insolvency?</p>	No	No	No
<p>c. Whether there is any unsatisfied judgment against him?</p>	No	No	No
<p>d. Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving fraud or dishonesty which is punishable with imprisonment, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such purpose?</p>	No	No	No

REPORT OF CORPORATE GOVERNANCE

Name of Directors	Andrew Bek	Zheng Zhi Zhong	Xie Ding Zhong
<p>e. Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such breach?</p>	No	No	No
<p>f. Whether at any time during the last 10 years, judgment has been entered against him in any civil proceedings in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or he has been the subject of any civil proceedings (including any pending civil proceedings of which he is aware) involving an allegation of fraud, misrepresentation or dishonesty on his part?</p>	No	No	No
<p>g. Whether he has ever been convicted in Singapore or elsewhere of any offence in connection with the formation or management of any entity or business trust?</p>	No	No	No

REPORT OF CORPORATE GOVERNANCE

Name of Directors	Andrew Bek	Zheng Zhi Zhong	Xie Ding Zhong
h. Whether he has ever been disqualified from acting as a director or an equivalent person of any entity (including the trustee of a business trust), or from taking part directly or indirectly in the management of any entity or business trust?	No	No	No
i. Whether he has ever been the subject of any order, judgment or ruling of any court, tribunal or governmental body, permanently or temporarily enjoining him from engaging in any type of business practice or activity?	No	No	No
<p>j. Whether he has ever, to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of the affairs of:-</p> <p>(i) any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere; or</p>	<p>Yes</p> <p>Mr Bek has received a show-cause letter from Singapore Exchange Securities Trading Limited (“SGX-ST”) issued to himself on 14 October 2019 (“Letter”) with an opportunity to make representations for potential breaches of listing rules with respect to one of his past directorships.</p> <p>There has been no formal outcome arising from the investigation from SGX-ST.</p> <p>Mr Bek had notified on the above and the relevant announcements were made by the Company on 19 February 2020 and 27 February 2020 respectively.</p>	No	No

REPORT OF CORPORATE GOVERNANCE

Name of Directors	Andrew Bek	Zheng Zhi Zhong	Xie Ding Zhong
(ii) any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere; or	No	No	No
(iii) any business trust which has been investigated for a breach of any law or regulatory requirement governing business trusts in Singapore or elsewhere; or	No	No	No
(iv) any entity or business trust which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, in connection with any matter occurring or arising during that period when he was so concerned with the entity or business trust?	<p>Yes</p> <p>Mr Bek has received a show-cause letter from Singapore Exchange Securities Trading Limited (“SGX-ST”) issued to himself on 14 October 2019 (“Letter”) with an opportunity to make representations for potential breaches of listing rules with respect to one of his past directorships.</p> <p>There has been no formal outcome arising from the investigation from SGX-ST.</p> <p>Mr Bek had notified on the above and the relevant announcements were made by the Company on 19 February 2020 and 27 February 2020 respectively.</p>	No	No

REPORT OF CORPORATE GOVERNANCE

Name of Directors	Andrew Bek	Zheng Zhi Zhong	Xie Ding Zhong
<p>k. Whether he has been the subject of any current or past investigation or disciplinary proceedings, or has been reprimanded or issued any warning, by the Monetary Authority of Singapore or any other regulatory authority, exchange, professional body or government agency, whether in Singapore or elsewhere?</p>	No	No	No
<p>Any prior experience as a director of an issuer listed on the exchange?</p> <p>If yes, please provide detail of prior experience</p> <p>If no, please state if the director has attended or will be attending training on the roles and responsibilities of a director of a listed issuer as prescribed by the Exchange.</p>	<p>Yes</p> <p>(a) Independent Director of AA Group Holdings Ltd from 3 January 2020 to present</p> <p>(b) Executive Director of Koh Brothers Eco Engineering Limited from 20 May 2010 to 28 February 2013</p> <p>(c) Executive Director of China Environment Ltd. from 16 July 2013 to 23 June 2016</p> <p>(d) Non-Executive Director of China Environment Ltd. from 8 January 2008 to 15 July 2013</p>	<p>None</p> <p>Mr Zheng has attended some training sessions on roles and responsibilities under the Companies Act, Listing Manual and Code of Corporate Governance for listed company directors in 2014.</p>	<p>None</p> <p>Mr Xie has attended some training sessions on roles and responsibilities under the Companies Act, Listing Manual and Code of Corporate Governance for listed company directors in 2010.</p>

DIRECTORS' STATEMENT

The directors are pleased to present their statement to the members together with the audited consolidated financial statements of Anchun International Holdings Ltd. (the "Company") and its subsidiary (collectively, the "Group") and the balance sheet and statement of changes in equity of the Company for the financial year ended 31 December 2019.

Opinion of the directors

In the opinion of the directors,

- (a) the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2019 and the financial performance, changes in equity and cash flows of the Group and changes in equity of the Company for the year ended on that date; and
- (b) at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

Directors

The directors of the Company in office at the date of this statement are:

Xie Ming
Zheng Zhi Zhong
Dai Feng Yu
Xie Ding Zhong
Lee Gee Aik
Andrew Bek
Tan Min-Li
Yang Chun Sheng
He Mingyang

Arrangements to enable directors to acquire shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose object is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

DIRECTORS' STATEMENT

Directors' interests in shares or debentures

The following directors, who held office at the end of the financial year, had, according to the register of directors' shareholdings, required to be kept under section 164 of the Singapore Companies Act, Chapter 50, an interest in shares of the Company and related corporations (other than wholly owned subsidiary) as stated below:

Name of directors	Direct interest		Deemed interest	
	At the beginning of financial year	At the end of financial year	At the beginning of financial year	At the end of financial year
The Company				
<i>(Ordinary shares of the Company)</i>				
Xie Ding Zhong	120,000	120,000	–	–
Dai Feng Yu	–	–	4,082,200	4,082,200
Xie Ming	–	–	10,800,000	10,800,000
Andrew Bek	1,600,000	1,600,000	–	–

By virtue of Section 7 of the Companies Act, Xie Ming is deemed to have an interest in 10,800,000 shares of the Company through Ace Sense Holdings Limited.

Dawn Vitality International Limited holds 4,252,200 shares, of which 170,000 shares are held on trust for certain employees under Anchun Performance Share Plan 2014. Dai Feng Yu owns 25.24% of Dawn Vitality International Limited with the remaining 74.76% held on trust by her for 142 beneficiaries under a Trust Agreement.

There was no change in any of the above-mentioned interests in the Company between the end of the financial year and 21 January 2020.

Except as disclosed in this report, no director who held office at the end of the financial year had interests in shares, share options, warrants or debentures of the Company, or of related corporations, either at the beginning of the financial year, or date of appointment if later, or at the end of the financial year.

DIRECTORS' STATEMENT

Share options and share awards

In developing long-term incentive schemes, the Company's main objectives are to provide its employees an opportunity to participate in the equity of the Company and to enhance its competitive edge in attracting, recruiting and retaining talented key senior management and employees. In line with these objectives, the Company has adopted the Anchun Performance Share Plan 2014 ("Anchun PSP") and Anchun Employee Share Option Scheme 2014 ("Anchun ESOS").

The Company has adopted the Anchun PSP and Anchun ESOS which were approved by the shareholders at the Extraordinary General Meeting held on 29 April 2014. The Remuneration Committee is responsible for administering the Anchun PSP and Anchun ESOS.

In 2014, the Company has granted an aggregate of 1,700,000 share awards under the Anchun PSP to certain employees by way of transferring all its treasury shares to Dawn Vitality International Limited to be held on trust for such employees (the "EBT shares"). The 1,700,000 EBT shares under the awards were consolidated to 170,000 shares following a 10 to 1 ordinary share consolidation exercise effective from 26 May 2016.

In FY2017, employees of the Group became beneficially interested in an aggregate of 144,000 EBT shares after fulfilling the three years' service condition of the awards granted to them in FY2014. Of the remaining 26,000 EBT shares under the Anchun PSP, the Company has granted awards comprising 17,000 EBT shares to an employee on 29 December 2017. The employee will become beneficially interested in the 17,000 EBT shares after fulfilling the three years' service condition under the grant of the awards.

In FY2018, the Company had granted awards comprising the balance 9,000 EBT shares available for allocation to the employees of the Group. As at 31 December 2018, the Company held 417,400 treasury shares pursuant to the exercise of its share buyback mandate obtained from shareholders. The Company granted an award comprising 160,000 treasury shares to Mr Zheng Zhi Zhong, the Executive Director and CEO of the Company on 13 September 2018. The 160,000 treasury shares will be transferred to Mr Zheng Zhi Zhong after he has fulfilled the three years' service condition under the grant of the award.

As at 31 December 2019, the Company held 1,809,100 treasury shares pursuant to the exercise of its share buyback mandate obtained from shareholders. During the year, there is no treasury shares granted under Anchun PSP.

No directors or employees of the Group received 5% or more of the total number of share awards available under the Anchun PSP. Save as disclosed above, there were no share awards granted to directors, controlling shareholders of the Company and/or their associates.

DIRECTORS' STATEMENT

Audit Committee

The members of the Audit Committee ("AC") at the end of the financial year were as follows:

Lee Gee Aik (Chairman)
Tan Min-Li
Andrew Bek

The AC will meet quarterly to review, inter alia, the following:

- The audit plan and discuss with the External Auditors, their evaluation of the system of internal controls, their audit report, their management letter and the management's response;
- The internal audit plan and discuss with the Internal Auditors, their evaluation of the adequacy and effectiveness of the internal controls before submission of the results of such review to the Board for approval;
- The financial statements and quarterly results announcements before submission of the same to the Board for approval, focusing in particular, on changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit, the going concern statement, compliance with accounting standards as well as compliance with any stock exchange and statutory/regulatory requirements;
- The internal control and procedures and ensure co-ordination between the External and Internal Auditors and the Management, reviewing the assistance given by the Management to the External and Internal Auditors, and discuss problems and concerns, if any, arising from the interim and final audits, and any matters which the External or Internal Auditors may wish to discuss (in the absence of the Management where necessary);
- The Group's key risk areas, as identified by the External and Internal Auditors in the course of the audits;
- The independence and objectivity of the External Auditors;
- The terms of engagement, appointment or re-appointment of the External and Internal Auditors and matters relating to their resignation or dismissal;
- Interested person transactions falling within the scope of Chapter 9 of the SGX-ST Listing Manual; and
- Any potential conflicts of interest.

DIRECTORS' STATEMENT

Auditor

Ernst & Young LLP have expressed their willingness to accept re-appointment as auditor.

On behalf of the board of directors:



Zheng Zhi Zhong
Director



Dai Feng Yu
Director

31 March 2020

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ANCHUN INTERNATIONAL HOLDINGS LTD.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Anchun International Holdings Ltd. (the "Company") and its subsidiary (collectively, the "Group"), which comprise the balance sheets of the Group and the Company as at 31 December 2019, statements of changes in equity of the Group and the Company and the consolidated statement of comprehensive income and consolidated cash flow statement of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group, the balance sheet and the statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards (International) ("SFRS(I)") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2019 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and changes in equity of the Company for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority ("ACRA") Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled our responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ANCHUN INTERNATIONAL HOLDINGS LTD.

Key Audit Matters (cont'd)

Impairment of trade receivables and contract assets

The Group's trade receivable and contract assets were significant as these represent 35% of the total assets in the consolidated balance sheet. Trade receivables and contract assets amounted to RMB132.5 million as at 31 December 2019, against which an allowance for expected credit losses ("ECL") of RMB33.5 million was made. The Group uses a provision matrix to calculate ECL for trade receivables and contract assets, which is determined based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Trade receivables and contract assets impairment assessment requires significant management. As such, we determined this as a key audit matter.

We evaluated the Group's processes and controls relating to the monitoring of trade receivables, contract assets and review of credit risks of customers. In addition, our audit procedures included, amongst others, requesting trade receivable confirmations for selected trade debtors and checking to receipts from customers subsequent to the year end. We also evaluated management's assumptions and estimates used to determine the trade receivables impairment amount through analysis of ageing of receivables, assessment of material overdue individual trade receivables, review of customers' payment history and correspondences between the Group and the customers. In addition, we evaluated management's assumptions and inputs used in the computation of historical loss rates and assessed the reasonableness of management's assumptions used in establishing the forward-looking factors. The Group's disclosures on the trade receivables and the related risks such as credit risk and liquidity risk are in Note 22 and 33 to the consolidated financial statements.

In addition, audit procedures on contract assets included, evaluation of management's assumptions and estimates used to determine contract assets impairment amount through analysis of ageing of contract assets, assessment of material overdue individual material contract assets, and review of billing milestones. Specific review was performed on individual material contracts to ensure that the amount of respective ageing brackets is in line with the billing milestones. Subsequent to year end review on material contract assets that have met their billing milestones was performed by sighting to the invoices issued to customers.

Revenue from chemical systems and components ("CSC") business and chemical engineering and technology ("CET") engineering services

The Group recognises revenue from sale of chemical equipment under the CSC business and from rendering of design services under CET engineering services over time by reference to the Group's progress towards completing these contracts. The measure of the progress is determined based the proportion of contract costs incurred to date to the estimated total contract costs for each contract. The determination of total contract costs and costs to complete require significant management judgements and estimates, which may have an impact on the amounts of revenue and profits recognised during the year. Accordingly, we identified this as a key audit matter.

Our audit procedures include understanding and evaluating the design and operating effectiveness of internal controls with respect to the Group's project management, the project cost estimation and budgeting process, and accounting for revenue from these contracts. We reviewed the robustness of management's budgeting process by comparing the budgeted costs to actual costs incurred for major contracts completed during the year. For significant on-going contracts as at 31 December 2019, we reviewed the project files and discussed with management the progress of the contracts to determine if there are any adverse changes such as delays, penalties or overruns that could have a material impact on the estimation of contract costs. We evaluated management's underlying assumptions made in estimating total costs to complete by comparing to actual costs incurred for past similar projects.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ANCHUN INTERNATIONAL HOLDINGS LTD.

Key Audit Matters (cont'd)

Revenue from chemical systems and components ("CSC") business and chemical engineering and technology ("CET") engineering services (cont'd)

We checked the arithmetic accuracy of revenue and profit recognised based on the measure of progress calculation. We compared the contract revenue against the estimated total contract costs to assess if there is a need to consider provision for onerous loss-making contracts and assessed the reasonableness of provision for onerous contract provided by management.

In addition, we evaluated the Group's procedures and processes for recognising revenue from contracts with customers. We reviewed contractual terms and conditions for major contracts with customers. We evaluated management's assessment of the impact to revenue recognition. We also assessed the adequacy of the disclosures in respect of revenue in Note 4 and 30 to the consolidated financial statements.

Other Information

Management is responsible for other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and SFRS(I), and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ANCHUN INTERNATIONAL HOLDINGS LTD.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ANCHUN INTERNATIONAL HOLDINGS LTD.

Auditor's Responsibilities for the Audit of the Financial Statements (cont'd)

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Tan Soon Seng.

Ernst & Young LLP
Public Accountants and
Chartered Accountants

Singapore
31 March 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Renminbi)

	Note	Group	
		2019 RMB'000	2018 RMB'000
Revenue	4	170,999	111,205
Cost of sales		(136,562)	(86,785)
Gross profit		34,437	24,420
Other items of income			
Finance and other income	5	7,710	12,628
Write-back of impairment losses on financial assets, net		1,102	11,236
Other items of expense			
Marketing and distribution expenses		(5,346)	(5,786)
Administrative expenses		(19,323)	(26,036)
Research expenses		(6,981)	(6,440)
Other expenses	6	(360)	(118)
Finance costs	7	(7)	(40)
Profit before tax	8	11,232	9,864
Income tax credit	9	372	628
Profit for the year, representing total comprehensive income for the year attributable to owners of the Company		11,604	10,492
Profit per share (RMB cents):			
Basic	10	23.26	20.88
Diluted	10	23.17	20.85

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

BALANCE SHEETS

AS AT 31 DECEMBER 2019

(Amounts expressed in Renminbi)

	Note	Group		Company	
		2019	2018	2019	2018
		RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	14	64,709	74,037	–	–
Intangible assets	15	205	185	–	–
Land use rights	16	–	13,344	–	–
Right-of-use assets	17	13,156	–	177	–
Investment in a subsidiary	13	–	–	75,539	75,482
Investment properties	19	1,931	2,432	–	–
Prepayments	20	1	24	–	–
Deferred tax assets	18	842	628	–	–
		80,844	90,650	75,716	75,482
Current assets					
Inventories	21	26,348	28,672	–	–
Trade and other receivables	22	57,409	50,699	47,257	35,846
Contract assets	4	102,546	62,856	–	–
Prepayments	20	3,110	16,180	56	102
Investment	23	–	20,000	–	–
Cash and cash equivalents	24	107,592	114,518	14,523	19,086
		297,005	292,925	61,836	55,034
Total assets		377,849	383,575	137,552	130,516
EQUITY AND LIABILITIES					
Current liabilities					
Trade and other payables	25	40,211	30,973	11,932	11,625
Contract liabilities	4	17,625	44,809	–	–
Other liabilities	26	19,188	16,478	786	836
Lease liability	17	134	–	134	–
Provisions	27	62	59	–	–
Income tax payable		6,196	6,560	–	–
		83,416	98,879	12,852	12,461
Net current assets		213,589	194,046	48,984	42,573

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

BALANCE SHEETS

AS AT 31 DECEMBER 2019

(Amounts expressed in Renminbi)

	Note	Group		Company	
		2019	2018	2019	2018
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current liabilities					
Deferred tax liabilities	18	–	100	–	–
Lease liability	17	45	–	45	–
Total liabilities		83,461	98,979	12,897	12,461
Net assets					
Equity attributable to owners of the Company					
Share capital	28(a)	149,278	149,278	149,278	149,278
Treasury/employee benefit trust shares	28(b)	(2,420)	(604)	(2,420)	(604)
Other reserves	29	123,384	121,981	142	85
Accumulated profits/(losses)		24,146	13,941	(22,345)	(30,704)
Total equity		294,388	284,596	124,655	118,055
Total equity and liabilities		377,849	383,575	137,552	130,516

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Renminbi)

	Attributable to owners of the Company				
	Total equity	Share capital	Treasury/ employee benefit trust shares	Other reserves	Accumulated profits
	RMB'000	(Note 28) RMB'000	RMB'000	(Note 29) RMB'000	RMB'000
2019					
Group					
Opening balance at 1 January 2019	284,596	149,278	(604)	121,981	13,941
Profit for the year, representing total comprehensive income for the year	11,604	-	-	-	11,604
<u>Contributions by and distributions to owners</u>					
Grant of equity-settled performance shares	57	-	-	57	-
Purchase of treasury shares	(1,816)	-	(1,816)	-	-
	(1,759)	-	(1,816)	57	-
<u>Others</u>					
Utilisation of statutory reserve fund – safety production expenditure	-	-	-	(231)	231
Transfer to statutory reserve fund	-	-	-	1,577	(1,577)
Transfer to staff welfare payable	(53)	-	-	-	(53)
	(53)	-	-	1,346	(1,399)
Closing balance at 31 December 2019	294,388	149,278	(2,420)	123,384	24,146

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Renminbi)

	Attributable to owners of the Company				
	Total equity RMB'000	Share capital (Note 28) RMB'000	Treasury/ employee benefit trust shares RMB'000	Other reserves (Note 29) RMB'000	Accumulated profits RMB'000
2018					
Group					
Opening balance at 1 January 2018 (FRS framework)	275,671	149,278	(288)	121,001	5,680
Cumulative effects of adopting SFRS(I)	(1,254)	–	–	–	(1,254)
Opening balance at 1 January 2018 (SFRS(I) framework)	274,417	149,278	(288)	121,001	4,426
Profit for the year, representing total comprehensive income for the year	10,492	–	–	–	10,492
<u>Contributions by and distributions to owners</u>					
Grant of equity-settled performance shares	21	–	–	21	–
Purchase of treasury shares	(316)	–	(316)	–	–
	(295)	–	(316)	21	–
<u>Others</u>					
Transfer to statutory reserve fund – safety production expenditure	–	–	–	420	(420)
Transfer to statutory reserve fund	–	–	–	539	(539)
Transfer to staff welfare payable	(18)	–	–	–	(18)
	(18)	–	–	959	(977)
Closing balance at 31 December 2018	284,596	149,278	(604)	121,981	13,941

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Renminbi)

	Attributable to owners of the Company				
	Total equity RMB'000	Share capital (Note 28) RMB'000	Treasury/ employee benefit trust shares RMB'000	Other reserves (Note 29) RMB'000	Accumulated losses RMB'000
2019					
Company					
Opening balance at 1 January 2019	118,055	149,278	(604)	85	(30,704)
Profit for the year, representing total comprehensive income for the year	8,359	-	-	-	8,359
<u>Contributions by and distributions to owners</u>					
Grant of equity-settled performance shares	57	-	-	57	-
Purchase of treasury share	(1,816)	-	(1,816)	-	-
	(1,759)	-	(1,816)	57	-
Closing balance at 31 December 2019	124,655	149,278	(2,420)	142	(22,345)
2018					
Company					
Opening balance at 1 January 2018 (SFRS(I) framework)	121,082	149,278	(288)	64	(27,972)
Loss for the year, representing total comprehensive income for the year	(2,732)	-	-	-	(2,732)
<u>Contributions by and distributions to owners</u>					
Grant of equity-settled performance shares	21	-	-	21	-
Purchase of treasury share	(316)	-	(316)	-	-
	(295)	-	(316)	21	-
Closing balance at 31 December 2018	118,055	149,278	(604)	85	(30,704)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Renminbi)

	Note	Group	
		2019 RMB'000	2018 RMB'000
Cash flow from operating activities			
Profit before tax		11,232	9,864
<u>Adjustments for:</u>			
Depreciation of property, plant and equipment	14	10,189	11,676
Depreciation of right-of-use asset	17	453	–
Depreciation of investment properties	19	501	366
Amortisation of intangible assets	15	92	319
Amortisation of land use rights	16	–	365
Write-back of impairment losses on financial assets, net	22	(1,102)	(11,236)
Write-back of inventory obsolescence		(391)	–
Allowance for provision on onerous contracts, net	27	22	59
Gain on disposal of property, plant and equipment, net		(78)	(470)
Write-off of property, plant and equipment	14	213	30
Finance costs	7	7	40
Finance income	5	(2,796)	(3,209)
Grant of equity-settled performance shares		57	21
Unrealised exchange gain		(11)	(95)
Operating cash flows before changes in working capital		18,388	7,730
<u>Changes in working capital</u>			
<i>Decrease/(increase) in:</i>			
Inventories		2,715	(8,384)
Trade and other receivables		(5,608)	32,925
Contract assets		(39,690)	(41,581)
Prepayments		13,070	(9,598)
<i>Increase/(decrease) in:</i>			
Trade and other payables		9,295	2,455
Contract liabilities		(27,184)	27,316
Other liabilities and provision		2,638	2,098
Total changes in working capital		(44,764)	5,231
Cash flows (used in)/generated from operations		(26,376)	12,961
Interest received		2,796	3,209
Interest paid		(7)	(40)
Income taxes refund		(306)	–
Net cash flows (used in)/generated from operating activities		(23,893)	16,130

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Renminbi)

	Note	Group	
		2019 RMB'000	2018 RMB'000
Cash flow from investing activities			
Purchase of property, plant and equipment	A	(1,254)	(783)
Purchase of intangible assets – software	15	(112)	(240)
Proceeds from disposal of property, plant and equipment		224	933
Net cash flows used in investing activities		(1,142)	(90)
Cash flow from financing activities			
Purchase of treasury shares	33c	(1,816)	(316)
Repayment of loans from former shareholders of a subsidiary		–	(17,990)
Repayment of principal portion of lease liability	33c	(86)	–
Withdraw/(purchase) of investment at fair value through profit or loss managed by a fund manager	33c	20,000	(20,000)
Net cash flows generated from/(used in) financing activities		18,098	(38,306)
Net decrease in cash and cash equivalents		(6,937)	(22,266)
Cash and cash equivalents at 1 January		114,518	136,689
Effect of exchange rate changes on cash and cash equivalents		11	95
Cash and cash equivalents at 31 December	24	107,592	114,518

A. Purchase of property, plant and equipment

	Group	
	2019 RMB'000	2018 RMB'000
Current year additions to property, plant and equipment (Note 14)	1,220	873
Less: Payable to creditors	(120)	(196)
Prepayments made in prior year	(6)	(18)
	1,094	659
Add: Payments for prior year purchase	160	118
Prepayments made in current year	–	6
Net cash outflow for purchase of property, plant and equipment	1,254	783

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

1. CORPORATE INFORMATION

Anchun International Holdings Ltd. (the “Company”) is a limited liability company incorporated and domiciled in Singapore and is listed on the Singapore Exchange Securities Trading Limited (“SGX-ST”).

The registered office of the Company is located at 81 Anson Road, Suite 8.20, Singapore 079908. The principal place of business of the Group is located at No. 539, Lusong Road, Changsha National Hi-tech Industrial Development Zone, Changsha City, Hunan Province, PRC 410205.

The principal activity of the Company is an investment holding. The principal activities of the subsidiary are disclosed in Note 13 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company have been prepared in accordance with Singapore Financial Reporting Standards (International) (SFRS(I)).

The financial statements have been prepared on a historical cost basis except as disclosed in the accounting policies below.

The financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand (“RMB’000”), except when otherwise indicated.

2.2 Adoption of new and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except that in the current financial year, the Group has adopted all the new and amended standards which are relevant to the Group and are effective for annual financial periods beginning on or after 1 January 2019. Except for the adoption of SFRS(I) 16 Leases described below, the adoption of these standards did not have any material effect on the financial performance or position of the Group.

SFRS(I) 16 Leases

SFRS(I) 16 supersedes SFRS(I) 1-17 Leases, SFRS(I) INT 4 Determining whether an Arrangement contains a Lease, SFRS(I) INT 1-15 Operating Leases-Incentives and SFRS(I) INT 1-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the statement of financial position.

The Group adopted SFRS(I) 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application as an adjustment to the opening balance of retained earnings.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Adoption of new and amended standards and interpretations (cont'd)

The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying SFRS(I) 17 and INT FRS 104 at the date of initial application.

The effect of adopting SFRS(I) 16 as at 1 January 2019 was as follows:

	Increase	
	Group RMB'000	Company RMB'000
Right-of-use assets	13,344	–

The Group has lease contracts for office space and dormitories. Before the adoption of SFRS(I) 16, the Group classified each of its leases (as lessee) at the inception date as an operating lease. The accounting policy prior to 1 January 2019 is disclosed in Note 2.21.

Upon adoption of SFRS(I) 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. The accounting policy beginning on and after 1 January 2019 is disclosed in Note 2.21. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. Right-of-use assets are measured at an amount equal to the lease liability, adjusted for previously recognised prepaid and accrual lease payments.

The Group also applied the available practical expedients wherein it:

- used a single discount rate to a portfolio of leases with reasonable similar characteristics;
- relied on its assessment of whether leases are onerous immediately before the date of initial application as an alternative to performing an impairment review;
- applied the short-term leases exemption to leases with lease term that ends within 12 months of the date of initial application;
- excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Adoption of new and amended standards and interpretations (cont'd)

Based on the above, as at 1 January 2019, right-of-use assets of RMB13,344,000 were recognised, with no deferred tax impact or adjustment to opening balance of retained earnings.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as at 31 December 2018, as follows:

	RMB'000
Operating lease commitments as at 31 December 2018	5,210
Less:	
Commitments relating to short-term leases and leases of low-value assets	(5,210)
	<u>–</u>

2.3 Standards issued but not yet effective

The Group has not adopted the following standards applicable to the Group that have been issued but not yet effective:

Description	Effective for annual periods beginning on or after
Amendments to References to the Conceptual Framework in FRS Standards	1 January 2020
Amendments to SFRS(I) 1 and SFRS(I) 8 Definition of Material	1 January 2020
Amendments to SFRS(I) 3: Definition of a Business	1 January 2020

The directors expect that the adoption of the standards and amendments above will have no material impact on the financial statements in the year of initial application.

2.4 Basis of consolidation and business combinations

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.4 Basis of consolidation and business combinations (cont'd)

Basis of consolidation (cont'd)

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resulting gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Business combinations involving entities under common control are accounted for by applying the pooling of interest method.

Apart from the above, business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of SFRS(I) 9 *Financial Instruments*, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with SFRS(I) 9. Other contingent consideration that is not within scope of SFRS(I) 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.4 Basis of consolidation and business combinations (cont'd)

Basis of consolidation (cont'd)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units.

Where goodwill has been allocated to a cash-generating unit ("CGU") and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

2.5 Foreign currency

The financial statements are presented in Renminbi ("RMB"), which is also the Company and its subsidiary's functional currency.

Transactions and balances

Transactions in foreign currencies are measured in RMB and are recorded on initial recognition in RMB at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in profit or loss.

2.6 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition, property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.6 Property, plant and equipment (cont'd)

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

	<u>Years</u>
Buildings	20
Machinery	5 to 15
Office equipment and furniture	5
Motor vehicles	5

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

The residual value, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset is included in profit or loss in the year the asset is derecognised.

2.7 Intangible assets

Intangible assets acquired separately are measured initially at cost. Following initial acquisition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets are not capitalised and expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

Intangible assets with finite useful lives are amortised over their estimated useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Computer software

Computer software is measured at cost less accumulated amortisation and any accumulated impairment loss. It is amortised on a straight-line basis over its estimated useful lives of 3 years.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.8 Land use rights

Land use rights are initially measured at cost and give rise to a right-of-use asset that provides the Group to right to use the asset in exchange for a consideration. Following initial recognition, land use rights are measured at cost less accumulated amortisation. The land use rights are amortised on a straight-line basis over the lease term of 50 years.

2.9 Investment properties

Investment properties are properties that are either owned by the Group or leased under a finance lease that are held to earn rentals or for capital appreciation, or both, rather than for use in the production or supply of goods or services, or for administrative purposes, or in the ordinary course of business. Investment properties comprise completed investment properties and properties that are being constructed or developed for future use as investment properties. Properties held under operating leases are classified as investment properties when the definition of an investment property is met.

Investment properties are initially measured at cost, including transaction costs. The Group has adopted the cost model which is to measure investment properties at cost less accumulated depreciation and accumulated impairment losses. Depreciation is computed on a straight-line basis over the estimated useful lives of 20 years.

The carrying values of investment properties are reviewed for impairment when event or charges in circumstances indicate that the carrying value may not be recoverable.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of retirement or disposal.

2.10 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses are recognised in profit or loss.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit and loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.11 Subsidiaries

A subsidiary is an investee that is controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

In the Company's balance sheet, investment in subsidiary is accounted for at cost less impairment losses.

2.12 Financial instruments

(a) Financial assets

Initial recognition and measurement

Financial assets are recognised when, and only when the entity becomes party to the contractual provisions of the instruments.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Trade receivables are measured at the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third party, if the trade receivables do not contain a significant financing component at initial recognition.

Subsequent measurement

Investments in debt instruments

(i) Amortised cost

Financial assets that are held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the assets are derecognised or impaired, and through amortisation process.

(ii) Fair value through profit or loss

Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt instruments that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss in the period in which it arises.

De-recognition

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.12 Financial instruments (cont'd)

(b) Financial liabilities

Initial recognition and measurement

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

After initial recognition, financial liabilities that are not carried at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

De-recognition

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires. On de-recognition, the difference between the carrying amounts and the consideration paid is recognised in profit or loss.

2.13 Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss and financial guarantee contracts. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is recognised for credit losses expected over the remaining life of the exposure, irrespective of timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.14 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and short-term deposits which are subject to an insignificant risk of changes in value.

2.15 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing the inventories to their present location and condition are accounted for as follows:

- Raw materials: purchase costs on a weighted average basis.
- Finished goods and work-in-progress: costs of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity. These costs are assigned on a weighted average basis.

When necessary, allowance is provided for damaged, obsolete and slow-moving items to adjust the carrying value of inventories to the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2.16 Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources embodying economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Onerous contracts

A contract is onerous when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. When a contract is onerous, a present obligation under the contract shall be recognised and measured as a provision.

2.17 Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.18 Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the government grants relate to income, it is recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grant is intended to compensate. The grants are presented as a credit in profit or loss, under a general heading such as "Finance and other income".

2.19 Research costs

Research costs are expensed as incurred.

2.20 Employee benefits

(a) *Defined contribution plans*

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations.

PRC

The PRC subsidiary is required to provide certain staff pension benefits to their employees under existing PRC laws and regulations. Pursuant to the PRC laws and regulations, defined contributions are provided at rates stipulated by PRC regulations and contributed to a pension fund managed by government agencies, which are responsible for administering these amounts for the subsidiary's employees. Pension contributions are recognised as an expense in the period in which the related services are performed.

Singapore

The Company makes contribution to the Central Provident Fund scheme in Singapore, a defined contribution pension scheme. Pension contributions are recognised as an expense in the period in which the related services are performed.

(b) *Equity-settled share-based payment transactions*

Employees of the Group receive remuneration in the form of shares as consideration for services rendered. The cost of these equity-settled share based payment transactions with employees is measured by reference to the fair value of the shares at the date on which the shares are granted which takes into account vesting conditions. This cost is recognised in profit or loss, with a corresponding increase in the employee share reserve, over the vesting period. The cumulative expense recognised at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of shares that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.20 Employee benefits (cont'd)

(b) *Equity-settled share-based payment transactions (cont'd)*

Vesting conditions

Vesting conditions are conditions that determine whether the entity receives the services that entitle the counterparty to receive cash, other assets or equity instruments of the entity under a share-based payment arrangement.

Vesting conditions are limited to service condition (e.g., requires counterparty to complete a specified period of service).

(c) *Employee leave entitlement*

Employee entitlements to annual leave are recognised as a liability when they are accrued to the employees. The estimated liability for leave is recognised for services rendered by employees up to the end of the reporting period.

2.21 Leases

These accounting policies are applied on and after the initial application date of SFRS(I) 16, 1 January 2019:

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

(a) *As lessee*

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets as follows:

	<u>Years</u>
Office space	2
Land use rights	50

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment. The accounting policy for impairment is disclosed in Note 2.10.

The Group's right-of-use asset is disclosed in Note 17.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.21 Leases (cont'd)

(a) As lessee (cont'd)

Lease liability

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Group's lease liabilities are disclosed in Note 17.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies that the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

In prior year, leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased assets are classified as operating leases. Operating lease payments are recognised as an expense in the profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

(b) As lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms. The aggregate costs of incentives provided to lessees are recognised as a reduction of rental income over the lease term on a straight-line basis.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.22 Revenue

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Revenue is recognised when the Group satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognised is the amount allocated to the satisfied performance obligation.

(a) *Sale of chemical catalyst*

The Group supplies chemical catalyst for consumers, for use in the process of gas-making, ammonia synthesis and methanol synthesis.

Revenue from sale of chemical catalyst is recognised when control of the good has been transferred to the customer at a point in time. Control is transferred upon the delivery of goods.

The amount of revenue recognised is based on the contractual price, as the contracts with customer do not normally include variable consideration such as right of returns, refunds, trade discounts or volume rebates.

(b) *Sale of chemical equipment*

The Group manufactures chemical system equipments including reactors, pressure vessels and other auxiliary equipment for consumers.

Revenue from sale of chemical equipment is recognised when control of the equipment has been transferred to customer over time, as the Group has limited practicality of readily directing the customised equipment for another use, and has an enforceable right to payment for performance completed to date. Revenue is recognised over time, based on costs incurred to date as a proportion of the estimated total cost to be incurred.

The Group accounts for contract modifications arising from change orders to modify the scope or price of the contract as separate contracts if the modification adds distinct goods or services at their standalone selling prices. For contract modifications that add distinct goods or services but not at their standalone selling prices, the Group combines the remaining consideration in the original contract with the consideration promised in the modification to create a new transaction price that is then allocated to all remaining performance obligations. For contract modifications that do not add distinct goods or services, the Group accounts for the modification as continuation of the original contract and is recognised as a cumulative adjustment to revenue at the date of modification.

The contracts with customer includes only assurance-type warranty to assure that the equipment complies with agreed-upon specifications, and are accounted for as a provision for warranty.

Progress billings to the customers are based on a payment schedule in the contract and are typically triggered upon achievement of specified payment milestones. A contract asset is recognised when the Group has performed under the contract but has not yet billed the customer. Conversely, a contract liability is recognised when the Group has not yet performed under the contract but has received advanced payments from the customer. Contract assets are transferred to receivables when the rights to consideration become unconditional. Contract liabilities are recognised as revenue as the Group performs under the contract.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.22 Revenue (cont'd)

(c) *CET engineering services*

The Group provides chemical systems engineering and technology design services for the production of ammonia and methanol related products.

Revenue from the rendering of services is recognised when control over the engineering design services has been transferred to customer over time, as the customer simultaneously receives and consumes the benefits as the Group performs. Revenue is recognised over time, based on costs incurred to date as a proportion of the estimated total cost to be incurred.

2.23 Taxes

(a) *Current income tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period, in the countries where the Group operates and generates taxable income.

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(b) *Deferred tax*

Deferred tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiary, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.23 Taxes (cont'd)

(b) *Deferred tax (cont'd)*

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiary, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of each reporting period.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred tax relating to items recognised outside profit and loss is recognised outside profit and loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

(c) *Value-added-tax ("VAT")/Goods and services tax ("GST")*

Revenues, expenses and assets are recognised net of the amount of VAT/GST except:

- Where the VAT/GST incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT/GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of VAT/GST included.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.24 Segmental reporting

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by respective segment managers responsible for the performance of the respective segments under their charge. The segment manager reports directly to the management of the Company who regularly reviews the segment results in order to allocate the resources to the segments and assess the segment performance. Additional disclosures on each of these segments are shown in Note 30, including the factors used to identify the reportable segments and the measurement basis of segment information.

2.25 Contingencies

A contingent liability is:

- (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or
- (b) a present obligation that arises from past events but not recognised because:
 - (i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - (ii) The amount of the obligation cannot be measure with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent liabilities and assets are not recognised on the balance sheet of the Group.

2.26 Share capital and share issuance expenses

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

2.27 Treasury shares

The Group's own equity instruments, which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount of treasury shares and the consideration received, if reissued, is recognised directly in equity. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them respectively.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.28 Cash dividend

The Company recognises a liability to pay a dividend when the distribution is authorised and the distribution is no longer at the discretion of the Company. A corresponding amount is recognised directly in equity.

2.29 Current versus non-current classification

The Group presents assets and liabilities in the balance sheets based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period

The terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification. The Group classifies all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of each reporting period. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

3.1 Judgements made in applying accounting policies

Management is of the opinion that there is no significant judgement made in applying accounting policies that have a significant effect on the amounts recognised in the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONT'D)

3.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period are discussed below. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

(a) *Provision for expected credit losses of trade receivables and contract assets*

The Group uses a provision matrix to calculate the ECLs for trade receivables and contract assets, for which the matrix is initially based on historical observed default rates. The matrix is calibrated to adjust historical credit loss experience with forward-looking information which incorporated forecast macroeconomic conditions specific to the debtors and the environment in which the Group operates. At every reporting date, historical default rates are updated and changes in forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate, and may also not be representative of the actual default in the future. The carrying amount of the Group's trade receivables and contract assets, and information about its ECLs is disclosed in Note 4 and Note 22 to the financial statements.

(b) *Contracts and revenue recognition*

The Group recognises contract revenue by reference to the progress towards complete satisfaction of a performance obligation within the contract, when the outcome of a performance obligation can be reasonably measured. The progress is measured by reference of the costs incurred to date as a proportion of the estimated total cost to be incurred. Significant assumptions are required to estimate the total budgeted contract costs, progress towards completion, and remaining costs to completion.

For the financial year ended 31 December 2019, the Group recorded revenue of RMB154,292,000 (2018: RMB104,682,000) from contracts under CET engineering services and CSC business.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

4. REVENUE

(a) Disaggregation of revenue

	Catalyst business		CSC business		CET engineering services		Total revenue	
	2019	2018	2019	2018	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Primary geographical market								
People's Republic of China	16,707	6,523	148,272	95,233	6,020	9,449	170,999	111,205
	16,707	6,523	148,272	95,233	6,020	9,449	170,999	111,205
Major product or service lines								
Catalyst	16,707	6,523	-	-	-	-	16,707	6,523
Chemical equipment	-	-	148,272	95,233	-	-	148,272	95,233
Engineering and design services	-	-	-	-	6,020	9,449	6,020	9,449
	16,707	6,523	148,272	95,233	6,020	9,449	170,999	111,205
Timing of transfer of goods or services								
At a point in time	16,707	6,523	-	-	-	-	16,707	6,523
Over time	-	-	148,272	95,233	6,020	9,449	154,292	104,682
	16,707	6,523	148,272	95,233	6,020	9,449	170,999	111,205

(b) Judgement and methods used in estimating revenue

Recognition of revenue from sale of chemical equipment over time

For the sale of chemical equipment where the Group satisfies its performance obligations over time, management has determined that a cost-based input method provides a faithful depiction of the Group's performance in transferring control of the chemical equipment to the customers, as it reflects the Group's efforts incurred to date relative to the total inputs expected to be incurred for sale of chemical equipment. The measure of progress is based on the costs incurred to date as a proportion of total costs expected to be incurred up to the complete construction of the chemical equipment.

The estimated total construction and other related costs are based on contracted amounts and, in respect of amounts not contracted for, management relies on past experience and knowledge of the project engineers to make estimates of the amounts to be incurred. In making these estimates, management takes into consideration the historical trends of amounts incurred to construct other similar chemical equipment.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

4. REVENUE (CONT'D)

(c) Contract assets and contract liabilities

Information about receivables, contract assets and contract liabilities from contracts with customers is disclosed as follows:

	Group	
	2019 RMB'000	2018 RMB'000
Receivables from contracts with customers (Note 22)	29,970	25,274
Contract assets	102,546	62,856
Contract liabilities	17,625	44,809

The Group has recognised a write-back of impairment losses on receivables, net, on receivables arising from contracts with customers of RMB1,102,000 (2018: RMB11,236,000).

Contract assets primarily relate to the Group's right to consideration for work completed but not yet billed at reporting date for sale of chemical equipment. Contract assets are transferred to receivables when the rights become unconditional. During the year, no impairment loss was recognised on contract assets (2018: RMB6,975,000).

Contract liabilities primarily relate to the Group's obligation to transfer goods or services to customers for which the Group has received advances received from customers for sale of chemical equipment

Contract liabilities are recognised as revenue as the Group performs under the contract.

(i) Significant changes in contract assets are explained as follows:

	Group	
	2019 RMB'000	2018 RMB'000
Contract assets reclassified to receivables at beginning of the year	38,783	8,070

(ii) Significant changes in contract liabilities are explained as follows:

	Group	
	2019 RMB'000	2018 RMB'000
Revenue recognised that was included in the contract liability balance at the beginning of the year	38,046	9,283

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

4. REVENUE (CONT'D)

(d) Transaction price allocated to remaining performance obligation

The aggregate amount of transaction price allocated to the unsatisfied (or partially unsatisfied) performance obligations as at 31 December 2019 is RMB85,969,000 (2018: RMB150,332,000). The Group expects to recognise RMB83,147,000 as revenue relating to the transaction price allocated to the unsatisfied (or partially satisfied) performance obligations as at 31 December 2019 in the financial year 2020 and RMB2,822,000 in the financial year 2021.

5. FINANCE AND OTHER INCOME

	Group	
	2019 RMB'000	2018 RMB'000
<u>Finance income</u>		
Interest income on bank balances and deposits	2,796	3,209
<u>Other income</u>		
Government grants [^]	1,415	1,864
Sale of scrap materials and parts	742	3,836
Rental income from investment properties (Note 19)	2,482	2,784
Net foreign exchange gain	11	95
Gain from contract penalty	39	176
Gain on disposal of property, plant and equipment	224	488
Others	1	176
	7,710	12,628

[^] During the financial year ended 31 December 2019 and 2018, the Company's subsidiary in the People's Republic of China received cash grants for distinguished enterprise and research and development mainly from Changsha Finance Bureau High-Tech Zone.

6. OTHER EXPENSES

	Group	
	2019 RMB'000	2018 RMB'000
Loss on disposal of property, plant and equipment	146	18
Write-off of property, plant and equipment (Note 14)	213	30
Others	1	70
	360	118

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

7. FINANCE COSTS

	Group	
	2019	2018
	RMB'000	RMB'000
Interest expense on loans from former shareholders of a subsidiary	–	37
Interest on lease liability	4	–
Others	3	3
	7	40

8. PROFIT BEFORE TAX

The following items have been included in arriving at profit before tax:

	Note	Group	
		2019	2018
		RMB'000	RMB'000
Audit fees			
– Auditors of the Company		425	413
– Member firm of EY Global		531	516
Non-audit fees			
– Member firm of EY Global		–	50
Professional fees		235	325
Grant of equity-settled performance shares		57	21
Allowance for provision on onerous contracts, net	27	22	59
Amortisation of land use rights	16	–	365
Amortisation of intangible assets	15	92	319
Write-back of inventory to net realisable value	21	(391)	–
Expenses relating to short-term leases	17	652	674
Depreciation of property, plant and equipment	14	10,189	11,676
Depreciation of right-of-use asset	17	453	–
Depreciation of investment property	19	501	366
Employee benefits expense	11	30,723	29,382
Direct operating expenses arising from investment property	19	802	637
Inventories recognised as an expense in cost of sales	21	99,689	57,165
Write-off of property, plant and equipment	14	213	30
Gain on disposal of property, plant and equipment, net		(78)	(470)
Write-back of impairment losses on financial assets, net:			
– Trade receivables	22	(1,102)	(11,236)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

8. PROFIT BEFORE TAX (CONT'D)

Impairment losses on financial assets allocated by function are as follows:

	Group	
	2019 RMB'000	2018 RMB'000
Other income	(1,102)	(11,236)
Other expenses	–	–

9. INCOME TAX CREDIT

The major components of income tax credit for the years ended 31 December 2019 and 2018 are:

	Group	
	2019 RMB'000	2018 RMB'000
<i>Current income tax – continuing operations:</i>		
– Overprovision in respect of previous years	(364)	–
– Withholding tax on dividend	600	–
<i>Deferred income tax:</i>		
– Origination of temporary differences	(608)	(628)
Income tax credit recognised in profit or loss	(372)	(628)

Relationship between tax credit and accounting profit

The reconciliation between tax credit and the product of accounting profit multiplied by the applicable corporate tax rate for the years ended 31 December 2019 and 2018 is as follows:

	Group	
	2019 RMB'000	2018 RMB'000
Profit before tax	11,232	9,864
Tax at the domestic rates applicable to profit in the countries where the Group operates	1,752	1,425
Adjustments:		
– Non-deductible expenses	431	459
– Income not subject to taxation	(712)	(1,604)
– Effect of partial tax exemption and tax relief	(715)	(183)
– Benefits from previously unrecognised tax losses	(1,150)	(97)
– Withholding tax on dividend	600	–
– Overprovision in respect of previous years	(364)	–
– Recognition of deferred tax asset previously not recognised	(214)	(628)
Income tax credit recognised in profit or loss	(372)	(628)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

9. INCOME TAX CREDIT (CONT'D)

Major components of income tax credit (cont'd)

Anchun International Holdings Ltd. (the "Company")

The Company is incorporated in Singapore and is subject to a tax rate of 17% for the financial year ended 31 December 2019 (2018: 17%).

Hunan Anchun Advanced Technological Co., Ltd ("Hunan Anchun")

According to the Enterprise Income Tax Law of the PRC, promulgated by the State Council and the Administrative Measure for Determination of High and New Technology Enterprises, issued by the Ministry of Science and Technology, Finance and State Administration of Tax and effective on 1 January 2008, High and New Technology Enterprises that require key state support are subject to the applicable enterprise income tax rate of 15%. Given that Hunan Anchun has received the certificate of High and New Technology Enterprise since 2007, it enjoys the preferential income tax rate of 15%.

10. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing profit for the year, net of tax, attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share are calculated by dividing profit for the year, net of tax, attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the financial year plus the weighted average number of ordinary shares that would be issued on the conversion of all dilutive potential ordinary shares into ordinary shares.

The following tables reflect the profit and share data used in the computation of basic and diluted earnings per share for the years ended 31 December:

	Group	
	2019 RMB'000	2018 RMB'000
Profit for the year attributable to owners of the Company used in the computation of basic and diluted loss per share	11,604	10,492
Weighted average number of ordinary shares for basic earnings per share computation ('000)#	49,894	50,249
Effects of dilution of share awards ('000)	186	68
Weighted average number of ordinary shares for diluted earnings per share computation ('000)	50,080	50,317
Basic earnings per share (RMB cents)	23.26	20.88
Diluted earnings per share (RMB cents)	23.17	20.85

The weighted average number of ordinary shares takes into account the weighted average effect of changes in treasury and EBT shares transactions during the year.

In 2018, 160,000 treasury shares and 26,000 EBT shares granted to employees under the Performance Share Plan 2014 have been included in the calculation of diluted earnings per share.

As at 31 December 2019, no treasury shares and EBT shares are granted to employees under the Performance Share Plan 2014.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

11. EMPLOYEE BENEFITS EXPENSE

	Group	
	2019 RMB'000	2018 RMB'000
Employee benefits expense (including directors):		
Salaries and bonuses	25,322	23,834
Welfare expense	1,645	1,607
Contribution to defined contribution plans	3,698	3,920
Performance share expense	57	21
	30,722	29,382

Employee share awards

Performance Share Plan 2014

The Anchun Performance Share Plan 2014 (“Anchun PSP”) was approved by the shareholders of the Company on 29 April 2014. Under the Anchun PSP, certain employees are entitled to a grant of performance shares, which will be released to these employees once they have been in service for a period of three years from the date of grant.

Fair value of share awards granted

The fair value of the shares granted is determined by reference to the published market bid price at the respective grant date. The fair value of the services from employees received in exchange for the grant of the shares under the Anchun PSP is recognised as an expense in the income statement with a corresponding increase in Anchun PSP reserve. The total amount to be recognised over the vesting period is determined by reference to the fair value of the performance shares at the date of grant and the number of performance shares expected to be vested by vesting date. At the end of each reporting period, the Group revises its estimate of the number of performance shares that are expected to vest on vesting date. Any revision of this estimate is included in the income statement and a corresponding adjustment to Anchun PSP reserve over the remaining vesting period.

During the financial year, there were no revisions to this estimate of the number of employees who will fulfil the three years’ service condition (2018: no revisions). The movement in performance shares is disclosed in Note 28(b) to the financial statements.

Movement of share awards during the financial year

The following table illustrates the number (No.) of, and movements in, share awards during the financial year:

	2019 No. ('000)	2018 No. ('000)
Outstanding at 1 January	186	17
– Granted	–	169
	186	186

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

12. RELATED PARTY TRANSACTIONS

(a) Sale and purchase of services

In addition to related party information disclosed elsewhere in the financial statements, the following transactions between the Company and the related parties took place on terms agreed between the parties during the financial year:

	Company	
	2019	2018
	RMB'000	RMB'000
Service fee charged to a subsidiary	20	20

(b) Compensation of key management personnel

	Group	
	2019	2018
	RMB'000	RMB'000
Salaries, bonuses and fees	3,085	2,963
Contribution to defined contribution plans	105	98
Performance share expense	57	21
Total compensation paid to key management personnel	3,247	3,082
Comprises amounts paid to:		
– Directors of the Company	2,828	2,532
– Other key management personnel	419	550
Total compensation paid to key management personnel	3,247	3,082

Key management personnel's interest in employee share awards

As at 31 December 2018, 160,000 share awards have been granted to one of the Company's key management personnel under the Anchun PSP. The shares will be released to the employee at the conclusion of a three years vesting period. During the financial year ended 31 December 2019, no share awards have been granted under the Anchun PSP.

At the end of the reporting period, the total number of outstanding share awards granted by the Company to the abovementioned key management personnel under the Anchun PSP amounted to 160,000 (2018: 160,000).

Date of grant	Expiry date	2019 Number outstanding	2018 Number outstanding
2018	2021	160,000	160,000

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

13. INVESTMENT IN A SUBSIDIARY

	Company	
	2019 RMB'000	2018 RMB'000
Unquoted equity shares, at cost	75,000	75,000
Anchun PSP	539	482
	75,539	75,482

Details of the subsidiary is as follows:

Name of company	Country of incorporation	Principal activities	Proportion of ownership interest	
			2019 %	2018 %
<i>Held by the Company</i>				
Hunan Anchun Advanced Technology Co., Ltd ("Hunan Anchun") ⁽¹⁾	PRC	Provision of integrated chemical systems engineering and technology solutions to the petrochemical and chemical industries	100	100

(1) Audited by Peking Certified Public Accountants (Special General Partnership), Hunan Branch, for PRC statutory reporting purpose. Audited by Ernst & Young Hua Ming, Shenzhen office, for consolidation purpose.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

14. PROPERTY, PLANT AND EQUIPMENT

Group	Buildings	Machinery	Office equipment and furniture	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:					
At 1 January 2018	91,567	109,165	5,811	1,852	208,395
Additions	–	726	147	–	873
Disposals	–	(3,925)	(18)	–	(3,943)
Write-off	–	(317)	(17)	–	(334)
Transfers to investment properties (Note 19)	(6,840)	–	–	–	(6,840)
At 31 December 2018 and 1 January 2019	84,727	105,649	5,923	1,852	198,151
Additions	–	603	617	–	1,220
Disposals	–	(678)	(36)	(229)	(943)
Write-off	–	(1,189)	(587)	–	(1,776)
At 31 December 2019	84,727	104,385	5,917	1,623	196,652
Accumulated depreciation:					
At 1 January 2018	(40,256)	(74,176)	(5,004)	(1,264)	(120,700)
Depreciation charge for the year	(4,149)	(7,022)	(243)	(262)	(11,676)
Disposals	–	3,465	15	–	3,480
Write-off	–	289	15	–	304
Transfers to investment properties (Note 19)	4,478	–	–	–	4,478
At 31 December 2018 and 1 January 2019	(39,927)	(77,444)	(5,217)	(1,526)	(124,114)
Depreciation charge for the year	(4,013)	(5,720)	(260)	(196)	(10,189)
Disposals	–	546	33	218	797
Write-off	–	1,005	558	–	1,563
At 31 December 2019	(43,940)	(81,613)	(4,886)	(1,504)	(131,943)
Net carrying amount:					
At 31 December 2018	44,800	28,205	706	326	74,037
At 31 December 2019	40,787	22,772	1,031	119	64,709

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

15. INTANGIBLE ASSETS

	Group	
	2019 RMB'000	2018 RMB'000
Cost		
At 1 January	1,802	1,562
Additions	112	240
At 31 December	1,914	1,802
Accumulated amortisation		
At 1 January	(1,617)	(1,298)
Amortisation charge for the year	(92)	(319)
At 31 December	(1,709)	(1,617)
Net carrying amount		
At 31 December	205	185

Intangible assets relate to computer software purchased from vendors and have an average remaining amortisation period of 1 year (2018: 2 years). The amortisation of intangible asset is included in the "Administrative expenses" line item in the consolidated statement of comprehensive income.

16. LAND USE RIGHTS

	Group	
	2019 RMB'000	2018 RMB'000
Cost:		
At 1 January	18,271	18,271
Reclassification to right-of-use asset (Note 17)	(18,271)	–
	–	18,271
Accumulated amortisation:		
At 1 January	(4,927)	(4,562)
Reclassification to right-of-use asset (Note 17)	4,927	–
Amortisation for the year	–	(365)
At 31 December	–	(4,927)
Net carrying amount		
At 31 December	–	13,344
Amount to be amortised:		
– Not later than one year	–	365
– Later than one year but not later than five years	–	1,460
– Later than five years	–	11,519

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

16. LAND USE RIGHTS (CONT'D)

The Group has land use rights over three plots of state-owned land in the People's Republic of China (PRC) where the Group's PRC manufacturing and storage facilities reside. The land use rights are not transferable and have an average remaining tenure of 33 years (2018: 34 years). The tenure of the land use rights gives rise to a right-of-use asset that provides the Group to right to use the asset in exchange for a consideration. The amortisation of land use rights is included in the "Administrative expenses" line item in the consolidated statement of comprehensive income.

17. LEASES

Group as a lessee

The Group has lease contract for office space. The Group is restricted from assigning and subleasing the leased asset. The weighted average incremental borrowing rate for the Group is 2.58%. The Group has land use rights over three plots of state-owned land in the People's Republic of China (PRC) where the Group's PRC manufacturing and storage facilities reside. The land use rights are not transferable and have an average remaining tenure of 33 years (2018: 34 years). The tenure of the land use rights gives rise to a right-of-use asset that provides the Group to right to use the asset in exchange for a consideration.

(a) Carrying amounts of right-of-use assets

	Office space RMB'000	Land use rights RMB'000	Total RMB'000
Group			
Cost:			
At 1 January 2019	-	-	-
Reclassification from land use rights (Note 16)	-	18,271	18,271
Additions	254	-	254
Translation difference	12	-	12
At 31 December 2019	266	18,271	18,537
Accumulated depreciation:			
At 1 January 2019	-	-	-
Reclassification from land use rights (Note 16)	-	(4,927)	(4,927)
Depreciation charge for the year	(88)	(365)	(453)
Translation difference	(1)	-	(1)
At 31 December 2019	(89)	(5,292)	(5,381)
Net carrying amount:			
At 31 December 2019	177	12,979	13,156

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

17. LEASES (CONT'D)

(a) *Carrying amounts of right-of-use assets (cont'd)*

	Office space RMB'000	Land use rights RMB'000	Total RMB'000
Company			
Cost:			
At 1 January 2019	–	–	–
Additions	254	–	254
Translation difference	12	–	12
At 31 December 2019	266	–	266
Accumulated depreciation:			
At 1 January 2019	–	–	–
Depreciation charge for the year	(88)	–	(88)
Translation difference	(1)	–	(1)
At 31 December 2019	(89)	–	(89)
Net carrying amount:			
At 31 December 2019	177	–	177

(b) *Carrying amounts of lease liabilities*

	2019	
	Group RMB'000	Company RMB'000
Office space		
At 1 January 2019	–	–
Additions	258	258
Accretion of interest	4	4
Payments	(90)	(90)
Translation difference	7	7
At 31 December 2019	179	179
Current	134	134
Non-current	45	45
Total	179	179

The maturing analysis of lease liabilities is disclosed in Note 31.

The Group also has certain leases of dormitories with lease term of less than 12 months in which the Group applies the 'short-term lease' recognition exemptions for these leases.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

17. LEASES (CONT'D)

The following are the amounts recognised in profit or loss:

	2019	2018
	RMB'000	RMB'000
Depreciation expense of right-of-use asset	88	–
Interest expense on lease liability	4	–
Expenses relating to short-term leases	652	674
Total amount recognised in statement of comprehensive income	744	674

18. DEFERRED TAX

Deferred tax as at 31 December relates to the following:

	Group	
	2019	2018
	RMB'000	RMB'000
Deferred tax assets:		
Unutilised tax losses	842	628
Deferred tax liabilities:		
Others	–	(100)

Reconciliation of deferred tax assets, net

	Group	
	2019	2018
	RMB'000	RMB'000
As of 1 January	628	–
Tax credit recognised in profit or loss	214	628
As at 31 December	842	628

Unrecognised tax losses

At the end of the reporting period, the Group has tax losses of approximately of RMB1,843,000 (2018: RMB9,572,000) that are available for offset against future taxable profits. As at 31 December 2019, all tax losses have been recognised as deferred tax asset. In FY2018, RMB5,385,000 of tax losses were not recognised as deferred tax asset due to uncertainty of its recoverability. The use of these tax losses is subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation of the respective countries in which the companies operate. In FY2018, if the Group were able to recognise all unrecognised deferred tax assets, the profit would increase by RMB5,385,000. The tax losses have no expiry date except for an amount of RMB1,843,000 (2018: RMB9,258,000) which will expire in 2026.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

18. DEFERRED TAX (CONT'D)

Unrecognised temporary differences relating to investment in subsidiary

At the end of the reporting period, no further deferred tax liability has been recognised for withholding tax that would be payable on the remaining undistributed earnings of the PRC subsidiary as the Group has determined that undistributed earnings of its PRC subsidiary will not be distributed in the foreseeable future for working capital utilisation purpose. Such temporary difference for which no deferred tax liability has been recognised aggregates RMB46,388,000 (2018: RMB42,747,000) and the deferred tax liability is estimated at RMB2,319,000 (2018: RMB2,137,000).

There are no income tax consequences attached to the payment of dividend in 2019 by the Group to its shareholders.

19. INVESTMENT PROPERTIES

	Group	
	2019 RMB'000	2018 RMB'000
Balance sheet:		
Cost		
At 1 January	10,551	3,711
Transfer from property, plant and equipment (Note 14)	–	6,840
At 31 December	10,551	10,551
Accumulated depreciation		
At 1 January	(8,119)	(3,275)
Transfer from property, plant and equipment (Note 14)	–	(4,478)
Depreciation charge for the year	(501)	(366)
At 31 December	(8,620)	(8,119)
Net carrying amount		
At 31 December	1,931	2,432
Fair value	26,422	28,017
Consolidated statement of comprehensive income		
Rental income from investment property:		
– Minimum lease payments	2,482	2,784
Direct operating expenses (including repairs and maintenance) arising from:		
– Rental generating property	(802)	(637)
Profit arising from investment properties carried at fair value	1,680	2,147

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

19. INVESTMENT PROPERTIES (CONT'D)

The Group has no restrictions on the realisability of its investment property and no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

Valuation of investment property

The fair value of investment property in Xiang Kai Shi Hua Tower is determined based on comparable market transactions that consider the sales of similar properties that have been transacted in the open market.

The fair value of investment property in Lufeng Road is determined based on discounted cash flows method. Details of valuation techniques and inputs are disclosed in Note 31 to the financial statements.

The investment property held by the Group as at 31 December 2019 is as follows:

Description and location	Existing Use	Tenure of land	Unexpired lease term
10 th floor, Xiang Kai Shi Hua Tower, Changsha, PRC	Offices	Leasehold, 50 years lease from 2 August 1999	30 years (2018: 31 years)
No. 65, Lufeng Road, Hi-Tech Industrial Development Zone, Changsha, PRC	Manufacturing	Leasehold, 50 years lease from 16 August 2002	33 years (2018: 34 years)

20. PREPAYMENTS

	Group		Company	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Non-current				
Prepayments relating to purchase of property, plant and equipment	1	24	–	–
Current				
Prepayments to trade suppliers	2,990	15,770	–	–
Prepaid operating expenses	120	410	56	102
	3,110	16,180	56	102

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

21. INVENTORIES

	Group	
	2019 RMB'000	2018 RMB'000
Balance sheet:		
Raw materials (at cost)	18,029	19,977
Work-in-progress (at cost or net realisable value)	1,811	1,836
Finished goods (at cost or net realisable value)	6,508	6,859
	26,348	28,672
Consolidated statement of comprehensive income:		
Inventories recognised as an expense in cost of sales	99,689	57,165
Write-back of inventory obsolescence	(391)	–

22. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Trade receivables	29,970	25,274	–	–
Bill receivables	25,804	22,279	–	–
VAT/GST receivables	26	35	26	35
Amount due from a subsidiary (non-trade)	–	–	47,201	35,781
Other receivables	1,609	3,111	30	30
Total trade and other receivables	57,409	50,699	47,257	35,846
Add:				
Contract assets	102,546	62,856	–	–
Cash and cash equivalents (Note 24)	107,592	114,518	14,523	19,086
Less:				
VAT/GST receivables	(26)	(35)	(26)	(35)
Total financial assets carried at amortised cost	267,521	228,038	61,754	54,897

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

22. TRADE AND OTHER RECEIVABLES (CONT'D)

Trade receivables

Trade receivables are unsecured, non-interest bearing and are normally settled 90 to 180 days' terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

Trade and other receivables denominated in foreign currency at 31 December are as follows:

	Group	
	2019 RMB'000	2018 RMB'000
Singapore dollars	55	65

Bill receivables

Bill receivables are interest-free and have maturity periods of approximately 90 to 180 days' terms.

Amount due from a subsidiary

The amount is non-trade related, unsecured, non-interest bearing, repayable on demand and are to be settled in cash.

Trade receivables that are past due but not impaired

The Group has trade receivables amounting to RMB29,970,000 (31 December 2018: RMB25,274,000) that are past due at the end of the reporting period but not impaired. The analysis of their aging at the balance sheet date is as follows:

	Group	
	2019 RMB'000	2018 RMB'000
Trade receivables past due but not impaired:		
Within 1 year	26,470	14,706
1 year to 2 years	1,831	3,984
2 years to 3 years	1,669	6,584
More than 3 years	-	-
	29,970	25,274

NOTES TO THE FINANCIAL STATEMENTS

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22. TRADE AND OTHER RECEIVABLES (CONT'D)

Trade receivables that are impaired

The Group's trade receivables that are impaired at the end of the reporting period and the movement of the allowance accounts used to record the impairment are as follows:

	Group	
	2019 RMB'000	2018 RMB'000
Trade receivables – nominal amounts	26,509	28,568
Less: Allowance for impairment	(26,509)	(28,568)
	–	–

Expected credit losses

The movement in allowance for expected credit losses of trade receivables and contract assets computed based on lifetime ECL are as follow:

	Group			
	Trade receivables	Contract assets	Trade receivables	Contract assets
	2019 RMB'000	2019 RMB'000	2018 RMB'000	2018 RMB'000
Movement in the allowance accounts:				
At 1 January	28,568	6,975	39,804	6,975
Charge for the year	–	–	6,518	–
Write-back during the year	(1,102)	–	(17,754)	–
Written-off	(957)	–	–	–
At 31 December	26,509	6,975	28,568	6,975

Trade receivables that are individually determined to be impaired at the end of the reporting period relate to debtors that are in significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

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23. INVESTMENT

	Group	
	2019 RMB'000	2018 RMB'000
Current:		
Investment at fair value through profit or loss managed by a fund manager	-	20,000

In prior year, the investment at fair value through profit or loss managed by a fund manager relate to funds placed with China Construction Bank and are managed by a fund manager for investment into a diversified portfolio of financial products, with an investment tenure of 60 to 90 days. The investment was fully withdrawn during the year.

24. CASH AND CASH EQUIVALENTS

	Group		Company	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Cash at banks and on hand	90,911	90,988	4,036	3,297
Short-term deposits	16,681	23,530	10,487	15,789
Cash and cash equivalents	107,592	114,518	14,523	19,086

Cash at banks

Cash at banks earns interest at floating rates based on daily bank deposit rates.

Short-term deposits

Short-term deposits are made for varying periods between one and three months (2018: one and three months), and earn interests at the respective short-term deposit rates.

The weighted average effective interest rates as at 31 December 2019 for the Group and the Company were 2.4% (2018: 2.0%) and 2.3% (2018: 2.7%) respectively.

Cash and cash equivalents denominated in foreign currency at 31 December are as follows:

	Group and Company	
	2019 RMB'000	2018 RMB'000
Singapore dollars	4,036	3,297

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25. TRADE AND OTHER PAYABLES

	Group		Company	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Trade payables	15,979	9,461	–	–
Bill payables	3,864	–	–	–
Payables to suppliers of property, plant and equipment	678	749	–	–
Amount due to subsidiary (non-trade)	–	–	11,932	11,625
Other taxes payable	2,048	1,147	–	–
VAT payable	14,511	12,617	–	–
Other payables	3,131	6,999	–	–
	40,211	30,973	11,932	11,625
Add:				
Other liabilities (Note 26)	19,188	16,478	786	836
Lease liabilities (Note 17)	179	–	179	–
Less:				
Other taxes payable	(2,048)	(1,147)	–	–
VAT payable	(14,511)	(12,617)	–	–
Total financial liabilities carried at amortised cost	43,019	33,687	12,897	12,461

Trade payables

Trade payables are non-interest bearing and are normally settled on 30 to 60 days' term.

Bill payables

Bill payables are non-interest bearing and have maturity period of 90 days' term.

Amount due to subsidiary (non-trade)

These amounts are unsecured, non-interest bearing, repayable on demand and to be settled in cash.

Other payables

Other payables are non-interest bearing and have an average term of six months.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

26. OTHER LIABILITIES

	Group		Company	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Accrued salaries and bonuses	5,720	6,960	570	468
Accrued operating expenses	6,814	3,521	216	368
Accrued welfare expenses	6,654	5,997	–	–
	19,188	16,478	786	836

Other liabilities denominated in foreign currency at 31 December are as follows:

	Group and Company	
	2019	2018
	RMB'000	RMB'000
Singapore dollars	745	679

27. PROVISIONS

	Group and Company	
	Onerous contract provision	
	2019	2018
	RMB'000	RMB'000
At 1 January 2019	59	–
Utilisation for completed contracts	(19)	–
Over-provision in previous years	(39)	–
Provision for the year	61	59
At 31 December 2019	62	59

Provision for onerous contract is made when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. Movement in provision for onerous contract is included in the “Cost of sales” line item in the consolidated statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

28. SHARE CAPITAL AND TREASURY/EMPLOYEE BENEFIT TRUST SHARES

(a) Share capital

	Group and Company			
	2019 No. of shares	2019 RMB'000	2018 No. of shares	2018 RMB'000
Issued and fully paid ordinary shares				
At 1 January and 31 December	50,500,000	149,278	50,500,000	149,278

The holders of ordinary shares (except treasury shares) are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions. The ordinary shares have no par value.

The Company has employee share awards plan (Note 11) pursuant to which ordinary shares of the Company have been granted to the certain employees, which shall vest and be released to these employees once they have been in service for a period of three years from the date of grant.

(b) Treasury/employee benefit trust shares

	Group and Company			
	2019 No. of shares	2019 RMB'000	2018 No. of shares	2018 RMB'000
At 1 January	(443,400)	(604)	(186,000)	(288)
Acquired during the year	(1,391,700)	(1,816)	(257,400)	(316)
At 31 December	(1,835,100)	(2,420)	(443,400)	(604)

Treasury shares acquired during the year

Treasury shares relate to ordinary shares of the Company that is held by the Company.

The Company acquired 1,391,700 (2018: 257,400) shares in the Company through purchases on the Singapore Exchange during the financial year. The total amount paid to acquire the shares was RMB1,816,000 (2018: RMB316,000) and this was presented as a component within shareholders' equity.

On 13 September 2018, the Company has granted 160,000 treasury shares to an employee under the Anchun PSP. The shares shall be released to the employee at the conclusion of a three years' vesting period.

There are no shares issued under the Anchun PSP during the financial year ended 31 December 2019.

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

28. SHARE CAPITAL AND TREASURY/EMPLOYEE BENEFIT TRUST SHARES (CONT'D)

(b) Treasury/employee benefit trust shares (cont'd)

EBT shares reissued during the year

Employee benefit trust (EBT) shares relate to treasury shares which are transferred to an EBT managed by a director-related company.

On 30 December 2014, the Company had granted an aggregate of 1,700,000 share awards under the Anchun PSP to certain employees. The 1,700,000 shares are consolidated to 170,000 shares following a 10 to 1 share consolidation exercise effective from 26 May 2016.

On 29 December 2017, 144,000 treasury shares held under the EBT were released to employees after fulfilling the three years' service condition under the Anchun PSP. The remaining 26,000 treasury shares held under the EBT were re-allocated and granted to two employees of 17,000 shares and 9,000 shares on 29 December 2017 and 13 September 2018 respectively.

There are no treasury shares granted under EBT during the financial year ended 31 December 2019.

29. OTHER RESERVES

	Group		Company	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
(a) Statutory reserve fund	40,807	39,230	–	–
(b) Statutory reserve fund – safety production expenditure	5,710	5,941	–	–
(c) Contribution from shareholder	1,725	1,725	–	–
(d) Merger reserve	75,000	75,000	–	–
(e) Gain on reissuance of EBT shares	64	64	64	64
(f) Anchun PSP reserve	78	21	78	21
	123,384	121,981	142	85

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

29. OTHER RESERVES (CONT'D)

(a) Statutory reserve fund

In accordance with the Foreign Enterprise Law applicable to entities in the People's Republic of China ("PRC"), the Company's PRC subsidiary is required to make appropriation to a Statutory Reserve Fund ("SRF"). At least 10% of the statutory after tax profits as determined in accordance with the applicable PRC accounting standards and regulations must be allocated to the SRF until the cumulative total of the SRF reaches 50% of the subsidiary's registered capital. Subject to approval from the relevant PRC authorities, the SRF may be used to offset any accumulated losses or increase the registered capital of the subsidiary. The SRF is not available for dividend distribution to shareholders.

	Group	
	2019 RMB'000	2018 RMB'000
At 1 January	39,230	38,691
Transferred from accumulated profits	1,577	539
At 31 December	40,807	39,230

(b) Statutory reserve fund – safety production expenditure

In accordance with the Regulation on Safety Production Expenditures applicable to the subsidiary in the People's Republic of China ("PRC"), the subsidiary is required to make appropriation ranges from 0.1% to 2% of the revenue generated to a Statutory Reserve Fund – safety production expenditure. The safety production expenditure is recognised in the profit or loss when it is incurred.

	Group	
	2019 RMB'000	2018 RMB'000
At 1 January	5,941	5,521
(Utilisation of)/transfer from accumulated profits	(231)	420
At 31 December	5,710	5,941

(c) Contribution from shareholder

Contribution from shareholder represents the shares given by a shareholder to employees.

(d) Merger reserve

This represents the difference between the consideration paid and the paid-in capital of the subsidiary when business combination of entities under common control was accounted for by applying the pooling of interest method.

NOTES TO THE FINANCIAL STATEMENTS

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29. OTHER RESERVES (CONT'D)

(e) Gain on reissuance of EBT shares

This represents the gain arising from the reissue of EBT shares to employees after fulfilling the three years' service condition under the Anchun PSP.

(f) Anchun PSP reserve

This represents the Anchun PSP cumulative expense recognised in profit or loss prior the vesting date of the Anchun PSP and is reduced by the release of shares to employees who become beneficially interested in the shares after fulfilling the three years' service condition.

30. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services, and has three reportable operating segments as follows:

(i) Catalyst Business

The catalyst business segment involves manufacturing of a variety of catalysts for use in the process of gas-making, ammonia synthesis and methanol synthesis.

(ii) Chemical systems and components ("CSC") Business

This segment involves manufacturing of chemical equipment designed by the chemical engineering and technology consultancy services department.

(iii) Chemical engineering and technology ("CET") Engineering Services

This segment involves providing chemical systems engineering and technology design services for the production of ammonia and methanol related products such as agriculture fertilisers and biodiesel which are mainly used in the agriculture and energy industries.

Except as indicated above, no operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on gross profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

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30. SEGMENT INFORMATION (CONT'D)

Segment assets and liabilities are not disclosed as they are not regularly provided to the chief operating decision maker.

	Catalyst Business RMB'000	CSC Business RMB'000	CET Engineering Services RMB'000	Total RMB'000
Group				
2019				
Revenue				
External customers	16,707	148,272	6,020	170,999
Total revenue	16,707	148,272	6,020	170,999
Results:				
Segment gross profit	7,065	25,138	2,234	34,437
Finance income				2,796
Other income				4,914
Write-back of impairment losses on financial assets, net				1,102
Marketing and distribution expenses				(5,346)
Administrative expenses				(19,323)
Research expenses				(6,981)
Other expenses				(360)
Finance costs				(7)
Profit before tax				11,232
Depreciation and amortisation				11,235
Other material non-cash items				
Write-back of impairment losses on financial assets, net				(1,102)
Allowance for provision on onerous contracts, net				(22)
Gain on disposal of property, plant and equipment, net				(78)
Write-off of property, plant and equipment				213
Write-back of inventory obsolescence				(391)

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30. SEGMENT INFORMATION (CONT'D)

	Catalyst Business	CSC Business	CET Engineering Services	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Group				
31 December 2018				
Revenue				
External customers	6,523	95,233	9,449	111,205
Total revenue	6,523	95,233	9,449	111,205
Results:				
Segment gross profit	3,170	14,606	6,644	24,420
Finance income				3,209
Other income				9,419
Write-back of impairment losses on financial assets, net				11,236
Marketing and distribution expenses				(5,786)
Administrative expenses				(26,036)
Research expenses				(6,440)
Other expenses				(118)
Finance costs				(40)
Profit before tax				9,864
Depreciation and amortisation				12,726
Other material non-cash items				
Write-back of impairment losses on financial assets, net				(11,236)
Allowance for provision on onerous contracts, net				(59)
Gain on disposal of property, plant and equipment, net				470
Write-off of property, plant and equipment				30

Geographical information

No geographical information is provided as the principal assets employed by the Group are located in the PRC and the Group's revenue and profits are derived primarily from customers in the PRC.

Information about major customers

During the financial year ended 31 December 2019, revenue from two (2018: two) major customers amount to RMB55,761,000 (2018: RMB30,068,000), arising from sales by the CSC Business segment (2018: CSC Business and CET Engineering Services segments).

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

31. COMMITMENTS

(a) Operating lease commitments – as lessee

In addition to the land use rights disclosed in Note 16, the Group has operating lease commitments with respect to the rental of motor vehicles, office and dormitory facilities. These leases have an average tenure of between one to three years (2018: one to three years) with no renewal option or contingent rent provision included in the contracts. There are no restrictions placed upon the Group by entering into these leases.

As disclosed in Note 2.22, the Group has adopted SFRS(I) 16 on 1 January 2019. These lease payments have been recognised as right-of-use assets and lease liabilities on the balance sheets as at 31 December 2019, except for short-term and low-value leases.

At the end of the reporting period, the Group has the following commitments for future minimum lease payments under non-cancellable operating leases (excluding land lease rights) with a term of more than one year as follows:

	Group		Company	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Not later than 1 year	777	680	–	43
Later than 1 year but not later than 5 years	–	33	–	–
	777	713	–	43

(b) Operating lease commitments – as lessor

The Group has entered into commercial property leases on its investment property. The non-cancellable leases have remaining lease terms of between one to three years (2018: one to three years). Certain leases include a clause to enable upward revision of the rental charge on an annual basis on prevailing market conditions.

Rental income recognised by the Group during the year is RMB2,510,000 (2018: RMB2,788,000)

Future minimum rental receivable under non-cancellable operating leases at the end of the reporting period are as follows:

	Group	
	2019 RMB'000	2018 RMB'000
Not later than 1 year	2,159	2,454
Later than 1 year but not later than 5 years	642	2,756
	2,801	5,210

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

32. FAIR VALUE OF ASSETS AND LIABILITIES

(a) Fair value hierarchy

The Group categorises fair value measurements using a fair value hierarchy that is dependent on the valuation inputs used as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – Unobservable inputs for the asset or liability.

Fair value measurements that use inputs of different hierarchy levels are categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

(b) Asset measured at fair value

The following table shows an analysis of each class of asset measured at fair value at the end of the reporting period:

Note	Group Quoted prices in active markets for identical instruments (Level 1)	
	2019 RMB'000	2018 RMB'000
Financial assets measured at fair value through profit or loss		
Investment at fair value through profit or loss managed by a fund manager	23	-
		20,000

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32. FAIR VALUE OF ASSETS AND LIABILITIES (CONT'D)

(c) Assets not measured at fair value, for which fair value is disclosed

The following table shows an analysis of the Group's assets not measured at fair value, for which fair value is disclosed:

		Group 31 December 2019 RMB'000		
		Fair value measurements at the end of the reporting period using		
	Note	Significant observable inputs other than quoted prices (Level 2)	Significant unobservable inputs (Level 3)	Carrying amount
Investment properties	19			
– Xiang Kai Shi Hua Tower		17,911	–	83
– Lufeng Road, Hi-Tech Industrial Development Zone		–	8,511	1,848
		Group 31 December 2018 RMB'000		
		Fair value measurements at the end of the reporting period using		
	Note	Significant observable inputs other than quoted prices (Level 2)	Significant unobservable inputs (Level 3)	Carrying amount
Investment properties	19			
– Xiang Kai Shi Hua Tower		19,539	–	260
– Lufeng Road, Hi-Tech Industrial Development Zone		–	8,478	2,172

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

32. FAIR VALUE OF ASSETS AND LIABILITIES (CONT'D)

(c) Assets not measured at fair value, for which fair value is disclosed (cont'd)

Determination of fair value

Level 2 fair value measurements

The fair value of investment property in Xiang Kai Shi Hua Tower as disclosed in the table above is determined based on comparable market transactions that consider the sales of similar properties that have been transacted in the open market.

Level 3 fair value measurements

The following table shows the information about fair value measurements using significant unobservable inputs (level 3):

Description	Fair value as at 31 December 2019 RMB'000	Valuation techniques	Unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Recurring fair value measurements				
Investment properties				
– Lufeng Road, Hi-Tech Industrial Development Zone	8,511	Discounted cash flow	Discount rate (12.1%) 10 years net operating cash flow (RMB14.3 million)	An increase in discount rate in isolation would result in a lower fair value measurement. An increase in net operating cash flow would result in a higher fair value measurement.

NOTES TO THE FINANCIAL STATEMENTS

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32. FAIR VALUE OF ASSETS AND LIABILITIES (CONT'D)

(c) Assets not measured at fair value, for which fair value is disclosed (cont'd)

Description	Fair value as at 31 December 2018 RMB'000	Valuation techniques	Unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Recurring fair value measurements				
Investment properties				
- Lufeng Road, Hi-Tech Industrial Development Zone	8,478	Discounted cash flow	Discount rate (12.1%) 10 years net operating cash flow (RMB14.3 million)	An increase in discount rate in isolation would result in a lower fair value measurement. An increase in net operating cash flow would result in a higher fair value measurement.

Using the discounted cash flow method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including a terminal value. This method involves the projection of a series of cash flows on an investment property. To this projected cash flow series, a market-derived discount rate is applied to establish the present value of the income stream associated with the asset.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews and lease renewal. The appropriate duration is typically driven by market behaviour that is a characteristic of the class of real property. Periodic cash flow is typically estimated as gross cash flow less maintenance cost and other operating and management expenses. The series of periodic net operating cash flow, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted. Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and discount rate, and an opposite change in the long term vacancy rate.

NOTES TO THE FINANCIAL STATEMENTS

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32. FAIR VALUE OF ASSETS AND LIABILITIES (CONT'D)

(d) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

Trade and other receivables (Note 22), contracts assets (Note 4), cash and cash equivalents (Note 24), trade and other payables (Note 25), other liabilities (Note 26) and provisions (Note 27).

Management has determined that the carrying amounts of these financial assets and liabilities are reasonable approximation of their fair values due to their short-term nature or they approximate their fair values based on the market incremental rates for similar types of financial instruments at the end of the year.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group and the Company is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include interest rate risk, liquidity risk, credit risk and foreign currency risk. The board of directors reviews and agrees policies and procedures for the management of these risks. The Audit Committee provides independent oversight to the effectiveness of the risk management process. It is and has been throughout the current and previous financial year, the Group's policy that no trading in derivatives shall be undertaken. The Group does not apply hedge accounting.

There has been no change to the Group's exposure to these financial risks or the manner in which it manages and measures the risks.

The following sections provide details regarding the Group's and the Company's exposure to the above-mentioned risks and the objectives, policies, and processes for the management of these risks.

(a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates. The Group's and the Company's exposure to interest rate risk arises primarily from its floating rate cash at bank balances and deposits. The Group's and the Company's policy is to obtain the most favourable interest rates available.

Sensitivity analysis for interest rate risk

At the end of the reporting period, if RMB and SGD interest rates had been 100 basis points higher/lower with all other variables held constant, the Group's profit before tax would have been RMB1,076,000 (2018: RMB1,145,000) higher/lower, arising mainly as a result of higher/lower interest income on floating rate cash at bank balances. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(b) *Liquidity risk*

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Group's and the Company's financial assets and liabilities at the balance sheet date based on contractual undiscounted repayments obligations.

2019	1 year or less RMB'000	1 to 5 years RMB'000	Total RMB'000
Group			
<i>Financial assets</i>			
Trade and other receivables (excluding sales tax receivables)	57,383	–	57,383
Contract assets	102,546	–	102,546
Cash and cash equivalents	107,592	–	107,592
Total undiscounted financial assets	267,521	–	267,521
<i>Financial liabilities</i>			
Trade and other payables (excluding sales tax payables)	23,652	–	23,652
Other liabilities	19,188	–	19,188
Lease liability*	134	45	179
Total undiscounted financial liabilities	42,974	45	43,019
Total net undiscounted financial assets/(liabilities)	224,547	(45)	224,502

* relates to contractual obligation of lease commitment

NOTES TO THE FINANCIAL STATEMENTS

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33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(b) Liquidity risk (cont'd)

Analysis of financial instruments by remaining contractual maturities (cont'd)

2018	1 year or less RMB'000	1 to 5 years RMB'000	Total RMB'000
Group			
Financial assets			
Trade and other receivables (excluding sales tax receivables)	50,664	–	50,664
Contract assets	62,856	–	62,856
Investment	20,021	–	20,021
Cash and cash equivalents	114,518	–	114,518
Total undiscounted financial assets	248,059	–	248,059
Financial liabilities			
Trade and other payables (excluding sales tax payables)	17,209	–	17,209
Other liabilities	16,478	–	16,478
Total undiscounted financial liabilities	33,687	–	33,687
Total net undiscounted financial assets	214,372	–	214,372
2019			
	1 year or less RMB'000	1 to 5 years RMB'000	Total RMB'000
Company			
Financial assets			
Trade and other receivables (excluding sales tax receivables)	47,230	–	47,230
Cash and cash equivalents	14,523	–	14,523
Total undiscounted financial assets	61,753	–	61,753
Financial liabilities			
Trade and other payables	11,932	–	11,932
Lease liability*	134	45	179
Other liabilities	786	–	786
Total undiscounted financial liabilities	12,852	45	12,897
Total net undiscounted financial assets/(liabilities)	48,901	(45)	48,856

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(b) *Liquidity risk (cont'd)*

Analysis of financial instruments by remaining contractual maturities (cont'd)

2018	1 year or less RMB'000	1 to 5 years RMB'000	Total RMB'000
Company			
Financial assets			
Trade and other receivables (excluding sales tax receivables)	35,811	–	35,811
Cash and cash equivalents	19,086	–	19,086
Total undiscounted financial assets	54,897	–	54,897
Financial liabilities			
Trade and other payables	11,625	–	11,625
Other liabilities	836	–	836
Total undiscounted financial liabilities	12,461	–	12,461
Total net undiscounted financial assets	42,436	–	42,436

* relates to contractual obligation of lease commitment

(c) *Changes in liabilities arising from financing activities*

2019	Non-cash changes				
	1 January RMB'000	Cash flows RMB'000	Additions RMB'000	Translation difference RMB'000	31 December RMB'000
Treasury shares	(604)	(1,816)	–	–	(2,420)
Lease liability	–	(86)	258	7	179
Investment at fair value through profit or loss managed by fund manager	(20,000)	20,000	–	–	–
Total liabilities under financing activities	(20,604)	18,098	258	7	(2,241)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(d) *Credit risk*

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's and the Company's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including cash and cash equivalents), the Group and the Company minimises credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis by the Group.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period.

The Group has determined the default event on a financial asset to be when the counterparty fails to make contractual payments, and when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at reporting date with the risk of default as at the date of initial recognition.

The Group considers available reasonable and supportive forwarding-looking information and significant changes in the payment status and behaviour of debtors.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 180 days past due in making contractual payment.

The Group determined that its financial assets are credit-impaired when:

- There is significant difficulty of the debtors
- A breach of contract, such as a default or past due event
- It is becoming probable that the debtor will enter bankruptcy

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. Where loans and receivables have been written off, the Group continues to engage enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

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33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(d) Credit risk (cont'd)

Trade receivables and contract assets

The Group provides for lifetime expected credit losses for all trade receivables and contract assets using a provision matrix. The provision rates are determined based on the Group's historical observed default rates analysed in accordance to years past due. The loss allowance as at 31 December 2019 is determined as follows, the expected credit losses below also incorporate forward looking information such as forecast of economic conditions where the gross domestic product will deteriorate over the next year, leading to an increased number of defaults.

Summarised below is the information about the credit risk exposure on the Group's trade receivables and contract assets using provision matrix:

31 December 2019	% of allowance provision	Gross carrying amount RMB'000	Loss allowance provision RMB'000
Contract assets	6	109,521	6,975
Trade receivables:			
Within 1 year	17	31,733	5,262
1 year to 2 years	47	3,429	1,598
2 years to 3 years	66	4,954	3,286
More than 3 years	100	16,363	16,363
Total		166,000	33,484
31 December 2018	% of allowance provision	Gross carrying amount RMB'000	Loss allowance provision RMB'000
Contract assets	10	69,831	6,975
Trade receivables:			
Within 1 year	14	17,040	2,333
1 year to 2 years	50	7,904	3,921
2 years to 3 years	54	14,261	7,677
More than 3 years	100	14,637	14,637
Total		123,673	35,543

Information regarding loss allowance movement of trade receivables and contract assets are disclosed in Note 22.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(d) *Credit risk (cont'd)*

Trade receivables and contract assets (cont'd)

Exposure to credit risk

At the end of the reporting period, the Group's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised on the balance sheets.

Credit risk concentration profile

At the end of the reporting period, approximately 10% (2018: 9%) of the Group's trade receivables were due from 10 (2018: 10) major customers located in the People's Republic of China.

Financial assets that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are with creditworthy debtors with good payment record with the Group. Cash and cash equivalents and financial assets (current) that are neither past due nor impaired are placed with or entered into with reputable financial institutions.

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 22 (Trade and other receivables).

(e) *Foreign currency risk*

The Group has exposure to foreign currency risk as a result of transactions denominated in foreign currencies, arising from the normal conduct of operations. The currency giving rise to this risk is primarily the Singapore Dollars ("SGD").

The Group's currency exposure to SGD is as follows:

	2019	2018
	RMB'000	RMB'000
<i>Financial assets</i>		
Cash and cash equivalents	4,036	3,297
Trade and other receivables	55	65
<i>Financial liability</i>		
Other liabilities	(745)	(679)
Currency exposure	3,346	2,683

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(e) Foreign currency risk (cont'd)

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Group's profit before tax to a reasonably possible change in the respective foreign currency against the functional currency of the Group, with all other variables held constant.

	Group	
	(Increase)/decrease	
	Profit before tax	
	2019	2018
	RMB'000	RMB'000
RMB against SGD		
– strengthened 5% (2018: 5%)	(167)	(134)
– weakened 5% (2018: 5%)	167	134

34. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2019 and 31 December 2018.

As disclosed in Note 29, the Company's PRC subsidiary is required by the relevant laws and regulations of the PRC to contribute to and maintain non-distributable statutory reserve funds whose utilisation is subject to approval by the relevant PRC authorities. This externally imposed capital requirement has been complied with by the subsidiary for the financial years ended 31 December 2019 and 2018.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, trade and other payables and other liabilities, less cash and cash equivalents. Capital consists of equity attributable to owners of the Company less the above mentioned reserve fund.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

34. CAPITAL MANAGEMENT (CONT'D)

	Group	
	2019 RMB'000	2018 RMB'000
Trade and other payables (Note 25)	40,211	30,973
Other liabilities (Note 26)	19,188	16,478
Lease liabilities (Note 17)	179	–
Less:		
Investment (Note 23)	–	(20,000)
Cash and cash equivalents (Note 24)	(107,592)	(114,518)
Net surplus	(48,014)	(87,067)
Equity attributable to owners of the Company	294,388	284,596
Less:		
Statutory reserve fund (Note 29)	(40,807)	(39,230)
Statutory reserve fund – safety production expenditure (Note 29)	(5,710)	(5,941)
Staff welfare payable	(53)	(18)
Total capital	247,818	239,407
Gearing ratio	NA*	NA*

* Not applicable as the Group is in a net cash position.

35. DISTRIBUTIONS MADE AND PROPOSED

	2019 RMB'000
Proposed but not recognised as liability as at 31 December:	
– Dividends on ordinary shares, subject to shareholders' approval at the Annual General Meeting:	
– Final dividend for 2019: RMB0.12 per share	6,421

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

36. EVENTS AFTER REPORTING PERIOD

The products and services the Group provides are mostly related to capital intensive engineering projects in China. The macro-economic environment in China, particularly government policies in relation to the issue of credit and provision of utility subsidies to the industry, have a large impact on the Group's customers buying and investing decisions. This coupled with nitrogen fertilizer and urea prices remaining low, the Group expects the next 12 months to continue to be challenging for the Nitrogen Fertilizer Industry and the majority of basic chemical producers in PRC. In view of the current outbreak of the 2019 Novel Coronavirus ("Covid-19") has delayed the re-commencement of operations at the Group's production facilities in the Changsha after the Lunar New Year holidays as directed by the relevant Chinese authorities. The Group is closely monitoring the situation for any impact on the financial results of the Group for FY2020. As the situation is still evolving, the full effect of the outbreak is subject to uncertainty and could not be ascertained yet.

37. AUTHORISATION OF FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the directors on 31 March 2020.

STATISTICS OF SHAREHOLDINGS

AS AT 25 MARCH 2020

Class of Shares	:	Ordinary Share
Number of Issued Shares (excluding treasury shares and subsidiary holdings)	:	48,690,900
Issued and fully paid-up capital	:	S\$45,449,200
Voting Rights	:	One vote per ordinary share
Number of Treasury Shares and Percentage	:	1,809,100 (3.58%)
Number of Subsidiary Holdings and Percentage	:	Nil

PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

Based on the information available to the Company as at 25 March 2020, approximately 30.77% of the issued ordinary shares of the Company are held in the hands of public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the SGX-ST which requires that at least 10% of the issued ordinary shares (excluding preference shares, convertible equity securities and treasury shares) of the Company in a class that is listed is at all times held in the hands of the public.

DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 – 99	5	0.46	340	0.00
100 – 1,000	428	39.63	223,155	0.46
1,001 – 10,000	470	43.52	1,996,855	4.10
10,001 – 1,000,000	169	15.65	10,567,860	21.70
1,000,001 AND ABOVE	8	0.74	35,902,690	73.74
TOTAL	1,080	100.00	48,690,900	100.00

TWENTY LARGEST SHAREHOLDERS

NO.	NAME	NO. OF SHARES	%
1.	ACE SENSE HOLDINGS LIMITED	10,800,000	22.18
2.	ORIENTAL EAGLE HOLDINGS LIMITED	5,110,000	10.49
3.	GIANT YIELD GLOBAL LIMITED	4,371,900	8.98
4.	DAWN VITALITY INTERNATIONAL LIMITED	4,252,200	8.73
5.	INVENTIVE RESULT ENTERPRISES LIMITED	4,089,400	8.40
6.	PHILLIP SECURITIES PTE LTD	3,719,190	7.64
7.	CHINA XLX FERTILISER LTD	1,960,000	4.03
8.	ANDREW BEK	1,600,000	3.29
9.	HSBC (SINGAPORE) NOMINEES PTE LTD	507,600	1.04
10.	MAYBANK KIM ENG SECURITIES PTE. LTD.	492,100	1.01
11.	LIM POH CHOON	405,600	0.83
12.	GO POWER INVESTMENTS LIMITED	390,000	0.80
13.	BAO CHEN	360,000	0.74
14.	ENG KOON HOCK	338,000	0.69
15.	DBS NOMINEES (PRIVATE) LIMITED	322,890	0.66
16.	ABN AMRO CLEARING BANK N.V.	300,000	0.62
17.	LIU DAN	272,100	0.56
18.	OCBC SECURITIES PRIVATE LIMITED	270,530	0.56
19.	OCBC NOMINEES SINGAPORE PRIVATE LIMITED	240,800	0.49
20.	ZHANG GUOWEI	224,200	0.46
TOTAL		40,026,510	82.20

STATISTICS OF SHAREHOLDINGS

AS AT 25 MARCH 2020

SUBSTANTIAL SHAREHOLDERS AS AT 25 MARCH 2020

(As recorded in the Register of Substantial Shareholders)

NO.	NAME	DIRECT INTERESTS		DEEMED INTERESTS	
		NO. OF SHARES HELD	%	NO. OF SHARES HELD	%
1.	Xie Ming ⁽²⁾	–	–	10,800,000	22.18
2.	Xie Xing ⁽³⁾	–	–	10,800,000	22.18
3.	Li Chun Yang ⁽⁴⁾	–	–	5,217,500	10.72
4.	Liang Gong Zeng ⁽⁵⁾	–	–	4,371,900	8.98
5.	Dai Feng Yu ⁽⁶⁾	–	–	4,082,200	8.38
6.	Li Bin ⁽⁷⁾	–	–	4,089,400	8.40
7.	Ma Ong Kee ⁽⁸⁾	–	–	3,255,400	6.69
8.	Ace Sense Holdings Limited	10,800,000	22.18	–	–
9.	Oriental Eagle Holdings Limited	5,110,000	10.49	–	–
10.	Giant Yield Global Limited	4,371,900	8.98	–	–
11.	Dawn Vitality International Limited	4,252,200	8.73	–	–
12.	Inventive Result Enterprises Limited	4,089,400	8.40	–	–

Notes:-

- (1) Percentage calculated based on 48,690,900 voting shares (excluding treasury shares and subsidiary holdings) of the Company as at 25 March 2020.
- (2) Xie Ming is deemed to be interested in 10,800,000 Shares held by Ace Sense Holdings Limited.
- (3) Xie Xing is deemed to be interested in 10,800,000 Shares held by Ace Sense Holdings Limited.
- (4) Li Chun Yang is deemed to be interested in 5,110,000 Shares held by Oriental Eagle Holdings Limited and 107,500 Shares held in the name of a nominee account.
- (5) Liang Gong Zeng is deemed to be interested in 4,371,900 Shares held by Giant Yield Global Limited.
- (6) Dai Feng Yu is deemed to be interested in 4,082,200 Shares held by Dawn Vitality International Limited.
- (7) Li Bin is deemed to be interested in 4,089,400 Shares held by Inventive Result Enterprises Limited.
- (8) Ma Ong Kee is deemed to be interested in 3,255,400 Shares held in a nominee account.
- (9) Of the 4,252,200 shares that Dawn Vitality International Limited holds, 170,000 shares are held on trust for certain employees who are participants of the Anchun Performance Share Plan 2014.

CORPORATE INFORMATION

BOARD OF DIRECTORS:

Xie Ming (Executive Chairman)
Zheng Zhi Zhong (Executive Director and CEO)
Dai Feng Yu (Executive Director)
Xie Ding Zhong (Non-Executive Director)
Lee Gee Aik (Lead Independent Director)
Tan Min-Li (Independent Director)
Yang Chun Sheng (Independent Director)
Andrew Bek (Independent Director)
He Ming Yang (Independent Director)

COMPANY SECRETARY:

Thum Sook Fun

REGISTERED OFFICE:

81 Anson Road
Suite 8.20
Singapore 079908
Telephone: (65) 6500 6276

PRINCIPAL OFFICE AND CONTACT DETAILS:

No. 539, Lusong Road
Changsha National Hi-tech Industrial Development Zone
Changsha City, Hunan Province, PRC 410205
Telephone: 0731-88958633, 88958632
Facsimile: 0731-88958611

IR CONTACT:

Website Address: <http://www.anchun.com>

SHARE REGISTRAR:

Boardroom Corporate & Advisory Services Pte. Ltd.
50 Raffles Place
#32-01 Singapore Land Tower
Singapore 048623

AUDITOR:

Ernst & Young LLP
One Raffles Quay
North Tower, Level 18
Singapore 048583
Partner-in-charge: Tan Soon Seng
(Date of appointment: since financial year ended
31 December 2016)

PRINCIPAL BANKERS:

China Construction Bank
China Merchants Bank
DBS Bank Limited
Industrial and Commercial Bank of China
Overseas Chinese Banking Corporation Limited





**ANCHUN INTERNATIONAL
HOLDINGS LTD.**

ANCHUN INTERNATIONAL HOLDINGS LTD.

Principal place of business:
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