

**ANCHUN INTERNATIONAL HOLDINGS LTD.**

Co. Registration Number: 200920277C

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

Principal Office: 539 Lusong Road, Changsha Hi-tech Development Zone,  
Changsha, Hunan, China**Response to Queries from the SGX-ST regarding First Quarter Results (“1Q2017”) of Anchun International Holdings Ltd. (the “Company”)**

The Company has received the following queries on 29 May 2017 from the SGX-ST in relation to its “Unaudited Results for the First Quarter and Ended 31 March 2017” released on 12 May 2017 (the “**Announcement**”), and sets out its responses below.

**Question 1:** In the Company's Financial Results, the Company recorded an amount of RMB7.49 million under “Administrative Expenses” in 1QFY2017 which exceeds the Company's Gross Profit of RMB5.09 million for 1QFY2017. Kindly please provide a breakdown and provide explanations for the material administrative expenses that contributed to the Company's “Administrative Expenses” of RMB7.49 million.

Response:

Item by nature	1Q2017	Remarks
	RMB'000	
Unallocated manufacturing overhead allocated in administrative expenses	2,919	Allocation of manufacturing overhead is related to production. Allocation method is evaluated every two years based on production.
Salaries	1,791	Includes salaries of Executive Directors and Department Heads deployed in the administrative function, directors' fees and bonuses.
Professional fees	431	Includes audit fees, lawyer fees, patent fees incurred, ISO examination fees and ASM consulting fees.
Depreciation	416	Depreciation of non-production property and equipment.
Property tax	271	
Land use taxes	186	

Amortisation of Intangible asset and land use rights	176	
Staff welfare expenses	161	Staff welfare expenses incurred for administrative staff.
Social security insurance	128	Insurance of administrative staff.
Other expenses	1,007	Miscellaneous expenses of less than 0.1 million each, including facility security expenses, rental shuttle bus expenses and medical insurance.
<b>Total</b>	<b>7,486</b>	

**Question 2:** The Company recorded “Trades and Other Receivables” amounting to RMB71.07 million as at 31 March 2017 which also significantly exceeds the Company’s “Revenue” of RMB5.09 million for 1QFY2017. Please provide a breakdown and aging of the Company’s “Trade and Other Receivables” as well as disclose details of the underlying contracts and reasons for the material amount of receivables.

Response:

The breakdown and aging of the RMB71.07 million recorded under Trade and Other Receivables found at page 14 of the Announcement is replicated below for easy reference:

Item by nature	31/03/2017 RMB'000	6months RMB'000	6-12months RMB'000	1-2years RMB'000	>2years RMB'000
<b>Trade Receivables</b>					
Receivables from sales	69,284	35,757	11,395	16,019	6,113
<b>Other Receivables</b>					
A. Operation cash advances	543	543			
B. Bid bonds	1,194	1,194			
C. Rental deposit	29			29	
D. Singapore GST receivables	15	15			
<b>Total</b>	<b>71,065</b>	<b>37,509</b>	<b>11,395</b>	<b>16,048</b>	<b>6,113</b>

The details of the underlying contracts and reasons for the material amount of receivables are as follows:

1. Trade receivables mainly relate to receivables from chemical system and component business ("CSC Business"). For CSC Business, the Group enters into contracts with customers with specific terms and conditions. Amongst the terms and conditions are payment terms, with typical progress payment milestones as follows:
  - a) Upon contract initiation and/or material ordering;
  - b) Upon delivery of the chemical systems to customer;
  - c) Upon the acceptance of the chemical systems by customer;
  - d) Upon the successful commission of the chemical systems;
  - e) Upon expiry of the quality assurance warranty period which could be typically in 1 or 1.5 years after the successful commissioning of the chemical systems.

Revenue of standard equipment of CSC products is recognized upon delivery. Revenue of custom-made equipment of CSC products is recognized upon customer's acceptance. Billing is based on progressive payment schedule per contract milestones. Accordingly, the trade receivables as at the end of 1Q2017 not only include the receivables arising from the billings in 1Q2017, but also include the receivables attributable to billings of prior periods.

2. As the Group's customers are primarily in the People's Republic of China, the slowdown of the China economy results in more payment delays. However, the management conducts monthly cross-functional meetings to monitor outstanding debts closely and assess the needs to make any provision for doubtful debts.
3. Other Receivables consist of:
  - a) Operation cash advances, rendered based on operational needs so that the Group's employees do not need to bear too much expenses until a reimbursement cycle completes;
  - b) Bid bonds, which are deposits relating to contracts biddings;
  - c) Rental deposit for the Singapore office; and
  - d) Singapore GST receivables.

**Question 3:** In the Company's Financial Statements, we note that the Company recorded an increase of RMB4.8 million for Prepayments in its Statement of Cash Flows for Operating Activities. Please provide details for the underlying new sales and contract as well as quantify the Company's order book.

Response:

The details of the underlying new sales are as follows:

Item by nature	FY2016	1Q2017	1Q17 vs FY16
	RMB'000	RMB'000	RMB'000
Prepayments (Trade) <sup>①</sup>	7,271	10,872	3,601
Other Prepayments <sup>②</sup>	1,210	2,424	1,214
<b>Total</b>	<b>8,481</b>	<b>13,296</b>	<b>4,815</b>

- ① The increase was mainly due to the prepayment for purchase of steel materials to be used for productions in respect of two CSC contracts with Jiangsu Huachan (江苏华昌) and Jinmei Tianxi (晋煤天溪) with total contract values of RMB18.28 million, representing approximately 16.5% of the order book as at 31 March 2017. The Group's order book as at 31 March 2017 amounted to approximately RMB110.6 million.
- ② The increase of other prepayments was mainly due to increase in prepayment for transportation cost for heavy equipment with tight delivery schedule and application prepayment for ASME (American Society of Mechanical Engineering) Certification.

**By Order of the Board**

Xie Ming  
Executive Director and CEO  
2 June 2017