



Anchun International Holdings Ltd.

(Incorporated in Singapore)

(Company registration number: 200920277C)

Unaudited Results for the Second Quarter and Half Year Ended 30 June 2017

INTRODUCTION

Anchun International Holdings Ltd. ("Anchun") is a leading integrated EPC provider of process technology, design, manufacturing and engineering services to the PRC environmental protection industry, and petrochemical and chemical industries, in particular, ammonia and methanol industries.

Anchun's integrated business model is anchored on strong R&D capabilities and registered patents for our key technologies, and allows us to capture value across the value chain from system design, system manufacturing and project management, and after-sales. Based on core principles of production efficiency, energy saving and environmental protection, our range of integrated chemical systems engineering and technology solutions can be broadly categorised as follows:-

- (i) Chemical systems engineering and technology design services (**Engineering Services**);
- (ii) Chemical systems and components, including reactors applicable in a wide range of various reactions, pressure vessels and other auxiliary equipment; along with chemical process technologies such as alcohol-hydrocarbon reactor technology, ammonia synthesis reactor technology and methanol synthesis reactor technology, gasification technology and CO shift technology ("**CSC Business**"); and
- (iii) Catalysts and pre-reduced catalysts and other products ("**Catalysts Business**")

Anchun's chemical systems are generally used by our customers to produce ammonia and methanol, which are subsequently used as crucial feedstock in our customers' production system to produce other downstream products such as urea, compound fertiliser, methanol fuel, formaldehyde, dimethyl ether and explosives.

Anchun has received several enterprise awards and accolades, including status of designated company for technological support for China Petroleum & Chemical Industry in Environmental Protection and Green Production (中国石油和化工行业环境保护与清洁生产重点支撑技术单位) and 2013 outstanding technological advancement award (工业科技进步奖) conferred by both China Fertilizer Industry Association (中国氮肥工业协会) and China Petroleum and Chemical Industries Association (中国石油和化学工业联合会).

PART I - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3), HALF-YEAR AND FULL YEAR RESULTS

1(a)(i) An income statement and statement of comprehensive income or a statement of comprehensive income (for the Group) together with a comparative statements for the corresponding period of the immediately preceding financial year.

The Group's operations are principally conducted in the People's Republic of China ("PRC"). Accordingly, the consolidated financial statements have been prepared in Chinese Renminbi ("RMB"), being the functional currency of the Company and its subsidiary.

	<u>Group</u>			<u>Group</u>		
	<u>Unaudited</u>	<u>Unaudited</u>	Change	<u>Unaudited</u>	<u>Unaudited</u>	Change
	3 months ended			6 months ended		
	30/06/2017	30/06/2016	%	30/06/2017	30/06/2016	%
	RMB'000	RMB'000		RMB'000	RMB'000	
Revenue	11,750	16,152	-27%	32,792	35,539	-8%
Cost of sales	(8,149)	(12,307)	-34%	(24,098)	(26,618)	-9%
Gross Profit	3,601	3,845	-6%	8,694	8,921	-3%
Other item of income						
Finance and other income	1,408	836	68%	2,104	2,175	-3%
Other items of expenses						
Marketing and distribution expenses	(1,167)	(1,232)	-5%	(1,819)	(2,234)	-19%
Administrative expenses	(4,964)	(8,406)	-41%	(12,450)	(18,538)	-33%
Research expenses	(498)	(685)	-27%	(1,458)	(1,435)	2%
Finance costs	(113)	(141)	-20%	(227)	(283)	-20%
Loss before tax	(1,733)	(5,783)	-70%	(5,156)	(11,394)	-55%
Income taxation	-	54	-100%	-	54	-100%
Loss from operation, net of tax, representing total comprehensive loss for the period attributable to owners of the Company	(1,733)	(5,729)	-70%	(5,156)	(11,340)	-55%

1(a)(ii) The following items (with appropriate breakdowns and explanations), if significant, must either be included in the income statement or in the notes to the income statement for the current financial period reported on and the corresponding period of the immediately preceding financial year.

Loss before tax is arrived at after charging/(crediting) the following:

	Group			Group		
	Unaudited	Unaudited	Change	Unaudited	Unaudited	Change
	3 months ended			6 months ended		
	30/06/2017	30/06/2016		30/06/2017	30/06/2016	
RMB'000	RMB'000	%	RMB'000	RMB'000	%	
Depreciation of property, plant and equipment	3,297	3,632	-9%	6,642	7,266	-9%
Depreciation of investment property	44	44	0%	88	88	0%
Amortisation of land use rights	91	92	-1%	183	183	0%
Amortisation of intangible assets	84	84	0%	168	166	1%
Write-back for inventory obsolescence	–	(36)	-100%	(98)	(36)	172%
Gain on disposal of property, plant and equipment	–	(25)	-100%	–	(25)	-100%
Write-off of property, plant and equipment	43	–	N.M.	51	–	N.M.
Exchange loss/(gain)	2	26	-92%	(51)	(182)	-72%
Finance income	(976)	(537)	82%	(1,572)	(1,171)	34%
Finance costs	113	142	-20%	227	283	-20%
Performance share plan expenses	45	44	2%	90	88	2%

N.M. - not meaningful

1(b)(i) Statement of financial position (for company and group), together with comparatives as at the end of the immediately preceding financial year.

	Group		Company	
	Unaudited 30/06/2017 RMB'000	Audited 31/12/2016 RMB'000	Unaudited 30/06/2017 RMB'000	Audited 31/12/2016 RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment	93,752	100,222	–	–
Intangible assets	430	598	–	–
Land use rights	13,892	14,075	–	–
Investment in a subsidiary	–	–	75,442	75,353
Investment property	524	612	–	–
Prepayments	85	–	–	–
	<u>108,683</u>	<u>115,507</u>	<u>75,442</u>	<u>75,353</u>
Current assets				
Inventories	53,174	50,566	–	–
Trade and other receivables	65,768	67,767	35,797	35,788
Bills receivable	16,880	16,371	–	–
Prepayments	9,613	8,481	60	82
Cash and cash equivalents	148,624	148,697	23,608	24,576
	<u>294,059</u>	<u>291,882</u>	<u>59,465</u>	<u>60,446</u>
Total assets	<u>402,742</u>	<u>407,389</u>	<u>134,907</u>	<u>135,799</u>
EQUITY AND LIABILITIES				
Current liabilities				
Trade and other payables	40,439	42,719	11,345	11,252
Advances from customers	41,674	34,564	–	–
Other liabilities	10,004	14,415	1,102	1,035
Income tax payable	6,560	6,560	–	–
	<u>98,677</u>	<u>98,258</u>	<u>12,447</u>	<u>12,287</u>
Net current assets	<u>195,382</u>	<u>193,624</u>	<u>47,018</u>	<u>48,159</u>
Non-current liability				
Deferred tax liabilities	100	100	–	–
	<u>100</u>	<u>100</u>	<u>–</u>	<u>–</u>
Total liabilities	<u>98,777</u>	<u>98,358</u>	<u>12,447</u>	<u>12,287</u>
Net assets	<u>303,965</u>	<u>309,031</u>	<u>122,460</u>	<u>123,512</u>
Equity attributable to owners of the Company				
Share capital	149,278	149,278	149,278	149,278
Employee benefit trust shares	(430)	(430)	(430)	(430)
Other reserves	120,876	120,388	439	349
Accumulated profits/(losses)	34,241	39,795	(26,827)	(25,685)
Total equity	<u>303,965</u>	<u>309,031</u>	<u>122,460</u>	<u>123,512</u>
Total equity and liabilities	<u>402,742</u>	<u>407,389</u>	<u>134,907</u>	<u>135,799</u>

1(b)(ii) Aggregate amount of Group's borrowings and debt securities.

The Group has loans from former shareholders of our subsidiary amounting to RMB18.0 million (31 December 2016: RMB18.0 million) as at 30 June 2017 with an interest rate of 2.5% per annum and which are unsecured with no fixed term of repayment.

1(c) A statement of cash flows (for the Group), together with a comprehensive statement for the corresponding period of the immediately preceding financial year.

	Group Unaudited 3 months ended		Group Unaudited 6 months ended	
	30/06/2017	30/06/2016	30/06/2017	30/06/2016
Note	RMB'000	RMB'000	RMB'000	RMB'000
Operating activities				
Loss before tax	(1,733)	(5,783)	(5,156)	(11,394)
<u>Adjustment for:</u>				
Depreciation of property, plant and equipment	3,297	3,632	6,642	7,266
Depreciation of investment property	44	44	88	88
Amortisation of intangible assets	84	84	168	166
Amortisation of land use rights	91	92	183	183
Gain on disposal of property, plant and equipment	–	(25)	–	(25)
Write-off of property, plant and equipment	43	–	51	–
Write-back for inventory obsolescence	–	(36)	(98)	(36)
Performance share plan expense	45	44	90	88
Net foreign exchange loss/(gain)	2	26	(51)	(182)
Finance costs	113	142	227	283
Finance income	(976)	(537)	(1,572)	(1,171)
Operating cash flows before changes in working capital	1,010	(2,317)	572	(4,734)
<u>Changes in working capital</u>				
Decrease/(increase) in:				
Inventories	(10,737)	1,037	(2,510)	7,157
Trade and other receivables	5,297	(286)	1,999	(4,672)
Bills receivable	(5,900)	16,759	(509)	17,142
Prepayments	3,683	499	(1,132)	497
(Decrease)/increase in:				
Trade and other payables	260	(527)	(2,027)	(6,286)
Advances from customers	4,973	(626)	7,110	(1,809)
Other liabilities	(1,167)	306	(4,636)	(5,846)
Total changes in working capital	(3,591)	17,162	(1,705)	6,183
Cash flows (used in)/generated from operations	(2,581)	14,845	(1,133)	1,449
Interest received	976	537	1,572	1,171
Interest paid	–	(1)	(2)	(844)
Income tax refund	–	54	–	54
Net cash (used in)/generated from operating activities	(1,605)	15,435	437	1,830

1(c) A statement of cash flows (for the Group), together with a comprehensive statement for the corresponding period of the immediately preceding financial year. (cont'd)

	Group Unaudited 3 months ended		Group Unaudited 6 months ended	
	30/06/2017	30/06/2016	30/06/2017	30/06/2016
	RMB'000	RMB'000	RMB'000	RMB'000
Investing activities				
Proceed from sale of property, plant and equipment	7	42	7	42
Purchase of Intangible assets - software	–	–	–	(638)
Purchase of property, plant and equipment	(264)	(398)	(568)	(1,154)
Net cash used in investing activities	(257)	(356)	(561)	(1,750)
Net (decrease)/increase in cash and cash equivalents	(1,862)	15,079	(124)	80
Cash and cash equivalents at beginning of period	150,488	140,572	148,697	155,363
Effect of exchange rate changes on cash and cash equivalents	(2)	(26)	51	182
Cash and cash equivalents at end of period	148,624	155,625	148,624	155,625

A

Note A:

Purchase of property, plant and equipment

	Group Unaudited 3 months ended		Group Unaudited 6 months ended	
	30/06/2017	30/06/2016	30/06/2017	30/06/2016
	RMB'000	RMB'000	RMB'000	RMB'000
Current period additions to property, plant and equipment	167	(42)	230	(1)
Less: Payable to creditors for current period purchases	(100)	375	(106)	(1,407)
Prepayment made in prior period	–	–	–	(8)
Add: Payments for prior period purchase	112	–	359	2,570
Prepayments made in current period	85	65	85	–
Net cash outflow for purchase of property, plant and equipment	264	398	568	1,154

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

Statement of Changes in Equity

Attributable to owners of the Company

	Share Capital	Employee benefit trust Shares	Performance share plan reserve	Contribution from shareholder	Statutory reserve fund	Statutory reserve fund - safety production reserve	Merger reserve	Accumulated profits	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Group Unaudited									
Balance at 1 January 2016	149,278	(430)	168	1,725	38,329	4,177	75,000	59,370	327,617
Loss for the period, representing total comprehensive loss for the period	-	-	-	-	-	-	-	(11,340)	(11,340)
Others									
Grant of equity-settled performance shares to employees	-	-	88	-	-	-	-	-	88
Transfer to statutory reserve – safety production reserve	-	-	-	-	-	504	-	(504)	-
Total others	-	-	88	-	-	504	-	(504)	88
Balance at 30 June 2016	149,278	(430)	256	1,725	38,329	4,681	75,000	47,526	316,365
Group Unaudited									
Balance at 1 January 2017	149,278	(430)	349	1,725	38,329	4,985	75,000	39,795	309,031
Loss for the period, representing total comprehensive loss for the period	-	-	-	-	-	-	-	(5,156)	(5,156)
Others									
Grant of equity-settled performance shares to employees	-	-	90	-	-	-	-	-	90
Transfer to statutory reserve – safety production reserve	-	-	-	-	-	398	-	(398)	-
Total others	-	-	90	-	-	398	-	(398)	90
Balance at 30 June 2017	149,278	(430)	439	1,725	38,329	5,383	75,000	34,241	303,965

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

Statement of Changes in Equity (cont'd)

Attributable to owners of the Company

	Share Capital	Employee benefit trust Shares	Performance share plan reserve	Accumulated losses	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Company Unaudited					
Balance at 1 January 2016	149,278	(430)	168	(22,935)	126,081
Loss of the period, representing total comprehensive expense for the period	–	–	–	(1,461)	(1,461)
Grant of equity-settled performance shares to employees	–	–	88	–	88
Balance at 30 June 2016	149,278	(430)	256	(24,396)	124,708
Company Unaudited					
Balance at 1 January 2017	149,278	(430)	349	(25,684)	123,513
Loss of the period, representing total comprehensive loss for the period	–	–	–	(1,143)	(1,143)
Grant of equity-settled performance shares to employees	–	–	90	–	90
Balance at 30 June 2017	149,278	(430)	439	(26,827)	122,460

1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles, as well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares and subsidiary holdings of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year. State also the number of shares held as treasury shares and the number of subsidiary holdings, if any, and the percentage of the aggregate number of treasury shares and subsidiary holdings held against the total number of shares outstanding in a class that is listed as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

Ordinary shares

	Number of Shares	Amount RMB'000
Ordinary shares including employee benefit trust ("EBT") shares as at 30 June 2017 and 30 June 2016	50,500,000	149,278

Convertibles

The Company did not have outstanding options, convertibles or subsidiary holdings as at 30 June 2017 and 30 June 2016.

EBT shares

The Company had 170,000 EBT shares (approximately 0.337% of the total number of issued shares) as at 30 June 2017 and 30 June 2016.

1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.

	As at 30.06.17	As at 31.12.16
Total number of issued shares excluding EBT shares	50,330,000	50,330,000

1(d)(iv) A statement showing all sales, transfer, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

Not applicable. There were no sales, transfer, disposal, cancellation and/or use of treasury shares as at end of the current financial period reported on.

1(d)(v) A statement showing all sales, transfer, disposal, cancellation and/or use of subsidiary holdings as at the end of the current financial period reported on.

Not applicable. There were no sales, transfers, disposal, cancellation and/or use of subsidiary holdings as at the end of the current period reported on.

2) Whether the figures have been audited, or reviewed and in accordance with which standard or practices.

The figures have not been audited or reviewed by the Company's auditors.

- 3) **Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of matter)**

Not applicable.

- 4) **Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied**

Except for the adoption of the FRSs and Amendments to FRSs applicable for the financial period beginning on or after 1 January 2017, the same accounting policies and methods of computation have been applied. The adoption of new FRSs and Amendments to FRSs did not have any effect on the financial performance or position of the Group and the Company.

- 5) **If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.**

The Group and the Company have adopted all the new FRSs and Amendments to FRSs that are effective for the periods beginning on or after 1 January 2017. The adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group and the Company.

- 6) **Earnings per ordinary share of the group for the current period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends**

	Group			
	3 months ended 30/06/2017	3 months ended 30/06/2016	6 months ended 30/06/2017	6 months ended 30/06/2016
Loss net of tax attributable to owners of the Company (RMB '000)	(1,733)	(5,729)	(5,156)	(11,340)
Weighted average number of ordinary shares ('000) on issue applicable to basic and diluted EPS	50,330	50,330	50,330	50,330
Basic and diluted loss per share (RMB cents)	(3.44)	(11.38)	(10.24)	(22.53)

Basic loss per share for the 3 months ended 30 June 2017 and 30 June 2016 are computed by dividing the loss net of tax attributable to owners of the Company by the weighted average number of ordinary shares excluding EBT shares.

The diluted loss per share are the same as the basic loss per share as the Company does not have any dilutive potential ordinary shares for the financial years ended 30 June 2017 and 30 June 2016.

- 7) **Net asset value (for the issuer and group) per ordinary share based on issued share capital excluding treasury shares of the issuer at the end of the (a) current period reported on and (b) immediately preceding financial year.**

	Group		Company	
	30/06/2017	31/12/2016	30/06/2017	31/12/2016
Net asset value per share (RMB per share)	6.04	6.14	2.43	2.45

Net asset value per ordinary share as at 30 June 2017 and as at 31 December 2016 were calculated based on the existing number of shares in issue excluding EBT shares of 50,330,000 ordinary shares as at 30 June 2017 and 31 December 2016.

- 8) **A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. The review must discuss any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors. It must also discuss any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.**

A) Income Statements

Revenue

1H2017 VS 1H2016

Revenue decreased by RMB2.7 million or 8% from RMB35.5 million in 1H2016 to RMB32.8 million in 1H2017. The decrease was mainly due to the decrease of revenue from our catalyst business, partially offset by the increase of revenue from our CSC business and engineering services, further described as follows:

Revenue from our Catalyst Business

Revenue from our Catalyst Business decreased by RMB6.7 million or 54% from RMB12.5 million in 1H2016 to RMB5.8 million in 1H2017. This was mainly due to the absence of sales of hydrocarbon catalysts and pre-reduced catalysts which accounted for RMB6.2 million.

Revenue from our Engineering Services

Revenue from our Engineering Services increased by RMB0.5 million or 42% from RMB1.2 million in 1H2016 to RMB1.7 million in 1H2017. This was mainly due to the percentage of completion revenue recognised for a design contract valued at approximately RMB 2.3 million for a customer which was approximately 24% completed during 1H 2017.

Revenue from our CSC Business

Revenue from our CSC Business increased by RMB3.5 million or 16% from RMB21.8 million in 1H2016 to RMB25.3 million in 1H2017. This increase was mainly attributable to increase in sales of patented equipment (methanol reactor and isothermal shift reactor) amounting to RMB3.3 million.

2Q2017 VS 2Q2016

The Group's revenue decreased by RMB4.4 million or 27% from RMB16.2 million in 2Q2016 to RMB11.8 million in 2Q2017 attributable to the following:

- a) The revenue decrease of RMB7.5 million from Catalyst Business was mainly attributable to decrease in sales of hydrocarbon catalyst and ammonia catalyst. Revenue from the hydrocarbon catalyst decreased by RMB4.1 million or 100% with no sales in 2Q2017. Revenue from the ammonia catalyst decreased by RMB3.4million or 87% from RMB3.9million in 2Q2016 to RMB0.5 million in 2Q2017.
- b) The revenue increase of RMB2.8 million from our CSC Business was mainly attributable to increase in sales of patented equipment. Revenue from patented equipment (methanol reactor and isothermal shift reactor) increased by RMB7.9 million or 100% from nil in 2Q2016 to RMB7.9 million in 2Q2017. Revenue from the pressure vessel decreased by RMB3.3 million and the ammonia converter internals decreased by RMB1.7 million during the period.
- c) The revenue increase of RMB0.2 million from Engineering Services was due to completion percentages of different design contracts.

A) Income Statements (cont'd)

Gross profit and gross profit margin

1H2017 VS 1H2016

Our overall gross profit decreased by RMB0.2 million or 3% from RMB8.9 million in 1H2016 to RMB8.7 million in 1H2017 and our gross profit margin increased from 25% in 1H2016 to 27% in 1H2017.

The fluctuations in our overall gross profit were mainly due to the following:

- a) Gross profit of our Catalyst business decreased by RMB3.3 million from RMB4.8 million in 1H2016 to RMB1.5 million in 1H2017. The gross profit margin decrease by 12% from 38% in 1H2016 to 26% in 1H2017 was mainly attributable to the decrease in gross profit of RMB4.1 million from the hydrocarbon and pre-reduced catalysts which were supposed to have a higher margin offset by an increase of RMB0.78 million in sales of the ammonia synthesis catalysts and pre-reduced catalysts.
- b) Gross profit of our CSC business increased by RMB3.4 million from RMB3.9 million in 1H2016 to RMB7.3 million in 1H2017. This was mainly attributable to an increase in sales of the Group's patented equipments such as the methanol reactor and isothermal shift reactor which have larger contract values. Overall average gross profit margin achieved in 1H 2017 was 29% compared to 18% in 1H 2016. The increase in the gross profit margin achieved in 1H2017 over 1H2016 was principally due to higher margin of the Group's patented equipments.
- c) Gross profit of engineering design increased by RMB0.6 million from RMB 0.2 million in 1H2016 to RMB0.8 million in 1H2017. The gross profit increase was mainly attributable to the revenue increase in 1H2017. The overall average gross profit margin increased by 28% from 20% in 1H2016 to 48% in 1H2017. The gross profit margin increase was due to better price of some design contracts.

Property tax, land use tax and stamp duty totalling RMB0.94 million have been reclassified from Administrative expenses to cost of sales in 1H2017 in accordance with the circular on provisions on the accounting treatment for value added tax issued by the Ministry of Finance in PRC effective 2017.

2Q2017 VS 2Q2016

Our overall gross profit decreased by RMB0.2 million or 6% from RMB3.8 million in 2Q2016 to RMB3.6 million in 2Q2017 and our gross profit margin increased from 24% in 2Q2016 to 31% in 2Q2017.

- a) The gross profit of our Catalyst business decreased by RMB3.1 million from RMB3.3 million in 2Q2016 to RMB0.2 million 2Q2017. The gross profit margin decrease by 22% from 37% in 2Q2016 to 15% in 2Q2017 was mainly attributable to the decrease in gross profit of RMB3.0 million from the hydrocarbon catalyst which was supposed to have a higher margin.
- b) The gross profit of CSC business increase by RMB3.7 million from RMB0.3 million in 2Q2016 to RMB4.0 million in 2Q2017 and was mainly attributable to higher margin methanol synthesis reactor sale in 2Q2017 compared to 2Q2016. Overall average gross profit margin achieved in 2Q2017 was 41% compared to 4% in 2Q2016. The increase in the gross profit margin achieved in 2Q2017 over 2Q2016 was principally due to higher margin of the Group's patented equipments.
- c) The gross profit of engineering design increased by RMB0.05 million from RMB0.31 million in 2Q2016 to RMB0.36 million in 2Q2017. The overall average gross profit margin increased by 6% from 56% in 2Q2016 to 50% in 2Q2017.

Property tax, land use tax and stamp duty totalling RMB0.47 million have been reclassified from Administrative expenses to cost of sales in 2Q2017 in accordance with the circular on provisions on the accounting treatment for value added tax issued by the Ministry of Finance in PRC effective 2017.

A) Income Statements (cont'd)

Finance and other income

1H2017 VS 1H2016

Finance and other income decreased by RMB0.1 million or 3% from RMB2.2 million in 1H2016 to RMB2.1 million in 1H2017. The decrease was mainly due to the absence of government grants of RMB0.2 million and the decrease of contract penalties income of RMB0.2 million imposed on suppliers and exchange gain of RMB0.1 million offset by increase of RMB0.4 million of interest income resulted higher interest rate.

2Q2017 VS 2Q2016

Finance and other income increased significantly by RMB0.6 million or 68% from RMB0.8 million in 2Q2016 to RMB1.4 million in 2Q2017. The increase was mainly attributable to higher interest income of RMB0.44 million due to higher interest rate.

Marketing and distribution expenses

1H2017 VS 1H2016

Marketing and distribution expenses decreased by RMB0.4 million or 19% from RMB2.2 million in 1H2016 to RMB1.8 million in 1H2017. The decrease was mainly attributable to decrease of sales incentive bonus of RMB0.2 million and after-sales maintenance of RMB0.2 million.

2Q2017 VS 2Q2016

Marketing and distribution expenses decreased slightly by RMB0.1 million or 5% from RMB1.2 million in 2Q2016 to RMB1.1 million in 2Q2017 mainly due to a decrease of RMB0.129 million of salary expense offset by an increase of RMB0.11 million in project bidding fee.

Administrative expenses

1H2017 VS 1H2016

Administrative expenses decreased by RMB6.0 million or 33% from RMB18.5 million in 1H2016 to RMB12.5 million in 1H2017. The decrease was mainly due to lower unallocated manufacturing overheads of RMB2.4 million charged to profit or loss under administrative expenses, RMB0.8 million lesser for salaries, bonuses and fees and RMB0.8 million lesser of compensation expenses incurred for early terminations of staff contracts in 1H2017 VS 1H2016.

Item by nature	1H2016	1H2017	1H17 vs.1H16 (Change)		Comments
	RMB'000	RMB'000	RMB'000	%	
Unallocated manufacturing overheads allocated in administrative expenses	6,192	3,778	(2,414)	(39)	Allocation of manufacturing overheads. Allocation method is evaluated every two years based on production. Decrease due to overall decrease in manufacturing overheads principally due to lower manpower and its related costs in 1H 2017 over 1H 2016.
Salaries, bonuses and fees	3,955	3,103	(852)	(22)	Includes salaries of executive directors and heads of department deployed in administrative functions and director's fees. There was lower headcount in 1H2017 over 1H2016.

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Professional fees	952	764	(188)	(20)	Includes audit fees, legal fees, patent fees incurred, ISO examination fees and ASM consulting fees. Decrease due to decrease of RMB0.2 million from legal fees.
Depreciation	1,196	815	(381)	(32)	Decrease due to fully depreciated fixed assets and disposals in 1H2016.
Property tax, land use tax and stamp duty	937	–	(937)	(100)	Reclassification of Cost of Sales in accordance with the circular on provisions on the accounting treatment for value added tax issued by the Ministry of Finance in PRC effective 2017.
Staff welfare expenses	453	293	(160)	(35)	Staff welfare expenses incurred for administrative staff.
Staff compensation for early termination	903	91	(812)	(89)	Compensation expenses incurred for early terminations of staff contracts.
Other expenses	3949	3606	(343)	(8)	Miscellaneous expenses of less than RMB0.2 million each including facility security expenses, rental bus expenses travelling expenses, medical insurance expenses, litigation costs, etc.
Total	18,538	12,450	(6,088)	(33)	

2Q2017 VS 2Q2016

Administrative expenses decreased by RMB3.4 million or 41% from RMB8.4 million in 2Q2016 to RMB5.0 million in 2Q2017. The decrease was partly due to lower unallocated manufacturing overheads of RMB1.7 million charged to profit or loss under administrative expenses.

Item by nature	2Q2016	2Q2017	2Q17 vs.2Q16 Change		Comments
	RMB'000	RMB'000	RMB'000	%	
Unallocated manufacturing overheads allocated in administrative expenses	2,599	859	(1,740)	(67)	Allocation of manufacturing overheads. Allocation method is evaluated every two years based on production. Decrease due to overall decrease in manufacturing overheads principally due to lower manpower and its related costs in 1Q 2017 over 1Q 2016.
Salaries, bonuses and fees	1,777	1,412	(365)	(21)	Includes salaries of executive directors and heads of department deployed in administrative functions and director's fees. There was lower headcount.
Professional fees	557	333	(224)	(40)	Includes audit fees, legal fees, patent fees incurred, ISO examination fees and ASM consulting fees. Decrease due to decrease of RMB0.2 million from legal fees

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Depreciation	598	399	(199)	(33)	Decrease due to fully depreciated fixed assets and disposals in 2Q2016.
Property tax, land use tax and stamp duty	418	(466)	(884)	(211)	Reclassified to Cost of Sales in accordance with the circular on provisions on the accounting treatment for value added tax issued by the Ministry of Finance in PRC effective 2017.
Staff welfare expenses	160	132	(28)	(2)	Staff welfare expenses incurred for administrative staff.
Other expenses	2,297	2,295	(2)	(0.01)	Miscellaneous expenses of less than RMB0.1 million each including facility security expenses, rental bus expenses travelling expenses, medical insurance expenses, litigation costs, etc.
Total	8,406	4,964	(3,442)	(41)	

Research expenses

1H2017 VS 1H2016

Research expenses increased by RMB0.1 million or 2% from RMB1.4 million in 1H2016 to RMB1.5 million in 1H2017 mainly attributable to research and development activities to develop further improvements to the Group's the ammonia synthesis reactor technology of RMB0.7 million offset by RMB0.6 million incurred for catalyst process improvement efforts in 1H2017.

2Q2017 VS 2Q2016

Research expenses decreased by RMB0.2 million or 27% from RMB0.7 million in 2Q2016 to RMB0.5 million in 2Q2017 and was mainly attributable to lower expenses incurred for catalyst process improvement efforts in 2Q2017 compared to 2Q2016.

Finance costs

1H2017 VS 1H2016

Finance costs decreased by RMB0.1 million or 20% from RMB0.3 million in 1H2016 to RMB0.2 million in 1H2017. The decrease was mainly due to the decrease in interest expenses as a result of the partial repayment of the loan from the former shareholders of our subsidiary in the prior year.

2Q2017 VS 2Q2016

Finance costs decreased by RMB0.03 million or 20% from RMB0.14 million in 2Q2016 to RMB0.11 million in 2Q2017. The decrease was mainly due to the decrease in interest expenses as a result of the partial repayment of the loan from the former shareholders of our subsidiary in the prior year.

Income taxation

1H2017 VS 1H2016

Income taxation decreased by RMB0.1 million from negative RMB0.1 million in 1H2016 to nil in 1H2017. There was no income tax expense in 1H2017 due to the losses incurred by the Group's subsidiary.

2Q2017 VS 2Q2016

Income taxation decreased by RMB0.1 million from negative RMB0.1 million in 2Q2016 to nil balance in 2Q2017. There was no income tax expense in 2Q2017 due to the losses incurred by the Group's subsidiary.

Net loss attributable to owners of the Company

1H2017 VS 1H2016

The net loss attributable to owners of the Company decreased by RMB6.1 million or 55% from a loss of RMB11.3 million in 1H2016 to a loss of RMB5.2 million in 1H2017 as explained above.

A) Income Statements (cont'd)

Net loss attributable to owners of the Company (cont'd)

2Q2017 VS 2Q2016

The net loss attributable to owners of the Company has decreased by RMB4.0 million or 70% from a loss of RMB5.7 million in 2Q2016 to a loss of RMB1.7 million in 2Q2017. The decrease was mainly due to the decrease of administrative expenses with details as explained above.

B) Balance Sheet Statements

Non-current assets

Non-current assets decreased by RMB6.8 million or 6.0% from RMB115.5 million as at 31 December 2016 to RMB108.7 million as at 30 June 2017. Non-current assets comprised property, plant and equipment, investment property, intangible assets, land use rights and prepayments for property, plant and equipment.

Property, plant and equipment decreased by RMB6.5 million or 6.5% from RMB100.2 million as at 31 December 2016 to RMB93.7 million as at 30 June 2017, mainly due to depreciation charges in 1H2017.

Current assets

Current assets increased by RMB2.2 million or 0.7% from RMB291.9 million as at 31 December 2016 to RMB294.1 million as at 30 June 2017. The increase was mainly due to the following:

- a) The increase in inventories of RMB 2.6 million was due to increase in raw materials and work-in-progress offset by decrease in finished goods and goods in transit.
- b) The increase in prepayments and bills receivable of RMB1.1 million was mainly due to payment before delivery.
- c) The decrease in trade and other receivables of RMB 2.0 million is due to billing based on progressive payment schedule per contract milestones and the balances varying between financial reporting periods. 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. Management conducts monthly cross-functional meetings to monitor outstanding debts closely and assess the needs to make any provision for doubtful debts.

The breakdown and aging of items of trade and other receivables as the follows:

Item by nature	30/06/2017 RMB'000	6months RMB'000	6-12months RMB'000	1-2years RMB'000	>2years RMB'000
Trade Receivables					
Receivables from sales	64,690	26,310	15,743	18,460	4,177
Other Receivables					
A. Operation cash advances	490	490			
B. Bid bonds	544	544			
C. Rental deposit	29			29	
D. GST receivables	15	15			
Total	65,768	27,359	15,743	18,489	4,177

B) Balance Sheet Statements (cont'd)

Current assets (cont'd)

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.

Other Receivables consist of:

- 1) 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;
- 2) Bid bonds, which are deposits relating to contracts biddings;
- 3) Rental deposit for the Singapore office; and
- 4) Singapore GST receivables.

Current liabilities

Current liabilities increased by RMB0.4 million or 0.4% from RMB98.3 million as at 31 December 2016 to RMB98.7 million as at 30 June 2017. The increase was mainly due to the following:

- a) The increase in advances from customers of RMB7.1 million was due to payment milestones defined in the contracts have been reached.
- b) The decrease in trade and other payables of RMB2.3 million was due to settlements with our suppliers
- c) The decrease in other liabilities of RMB 4.4 million was mainly due to a reduction in employee bonuses.

C) Cash Flow Statements

1H2017

Cash and cash equivalents decreased by RMB0.1 million in 1H2017, which was mainly attributed to cash used in investing activities. RMB0.4 million was generated from operating activities while RMB0.5 million was used in the purchase of property, plant and equipment.

2Q2017

Cash and cash equivalents decreased by RMB1.9 million in 2Q2017 which was mainly attributed to cash used in operating activities. RMB1.6 million was used in operating activities while RMB0.3 million was used in investing activities for the purchase of property, plant and equipment.

9) Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

The Company did not make any forecast and prospect statement in respect of its results for 30 June 2017.

10) A commentary at the date of the announcement of the competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

In view of the on-going macro-economic structural reform in PRC and the worldwide low basic chemical prices including methanol and urea, some of the Group's customers have postponed their new plant investment projects. The Group's ability to secure future contracts will largely depend on the macroeconomic conditions in PRC. With nitrogen fertilizer and urea prices remain 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.

As part of ongoing efforts to remain competitive, the Group will continue to enhance the operating efficiencies and manage costs, remain vigilant and respond prudently to any macroeconomic changes. The Group's order book as of 30 June 2017 was approximately RMB 106.5million (31 March 2017: RMB110.6 million).

11) Dividend

(a) Current financial period reported on

The Company does not recommend any dividend for the financial period ended 30 June 2017.

(b) Corresponding period of the immediately preceding financial year

The Company did not recommend or declare any dividend for the financial period ended 30 June 2016.

(c) Date payable

Not applicable.

(d) Books closure date

Not applicable.

12) If no dividend has been declared/recommended, a statement to that effect

The Company does not recommend any dividend for the financial period ended 30 June 2017.

13) If the Group has obtained a general mandate from shareholders for IPTs, the aggregate value of such transactions as required under Rule 920(1)(a)(ii). If no IPT mandate has been obtained, a statement to that effect.

The Group has not obtained a general mandate from shareholders for Interested Person Transactions.

14) Update on usage of IPO proceeds

As at 30 June 2017, the net proceeds from the Company's initial public offering have been utilized as follows:

Usage of IPO Proceeds	Amount allocated	Amount utilized	Balance
	RMB'000	RMB'000	RMB'000
(A) Expand our production facilities and capacities	95,936	18,465	77,471
(B) Enhance our R&D capabilities and widen our range of innovative and cost-effective solutions	15,479	3,682	11,797
(C) Working capital purposes	22,074	21,565	509
Total	133,489	43,712	89,777

The breakdown of working capital utilization is as follows:

Usage of IPO proceeds for working capital	Amount Utilized (RMB'000)
For CO shift catalyst unit and technology implementations	15,715
For expanding sales and marketing capabilities and initiatives	5,850
Total	21,565

15) Confirmation that the issuer has procured undertakings from all its directors and executive officers (in the format set out in Appendix 7.7) under Rule 720(1)

The Company has obtained undertakings from all its directors and executive officers (in the format set out in Appendix 7.7) under Rule 720(1).

CONFIRMATION BY THE BOARD

The Directors confirm that, to the best of their knowledge, nothing has come to the attention of the Board of Directors of the Company which may render the unaudited second quarter and half year financial results for the period ended 30 June 2017 to be false or misleading in any material respects.

By Order of the Board

Xie Ming
Executive Director and CEO
14 August 2017