



ANCHUN INTERNATIONAL HOLDINGS LTD.

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ANNUAL GENERAL MEETING TO BE HELD ON 26 APRIL 2023 RESPONSES TO SUBSTANTIAL QUESTIONS FROM SHAREHOLDERS

The Board of Directors ("**Board**") of Anchun International Holdings Ltd. ("**Company**", together with its subsidiary, "**Group**") refer to the Notice of Annual General Meeting dated 11 April 2023 relating to the Annual General Meeting ("**AGM**") of the Company to be held by way of electronic means on 26 April 2023 at 9:30 a.m. and would like to provide the responses to substantial questions raised by its shareholders as follows:

Question 1: How has the advancement in self-developed technologies and the award of patents over the years contributed to the top and bottom line, in quantifiable terms?

Response:

The achievements from self-developed technologies and the award of patents gives us a strong representation of competitiveness. The group's revenue streams and profits over the years have been derived from our core technological capabilities. We like to believe that in all our successful tenders, the customers selected Anchun because our core technological capabilities are better than our competitors and better able to meet the needs and demands of our customers.

Question 2: The company share price is trading at about 25% of NTA, and persistently way below net cash value. The company should seriously consider more aggressive share buy-backs, a higher dividend payout whenever possible, a disposal of non-core assets and other means to enhance shareholder value.

Response:

The Company has undertaken share buy-backs over the years and the Company has a resolution for renewal of share purchase mandate for shareholders' approval at the Annual General Meeting to be held on 26 April 2023.

The Covid pandemic has caused disruptions to businesses and the overall business environment. The Board will revisit this matter once there is clarity on the future business environment. Currently, the market condition is not conducive for asset disposal.

We will thoroughly review short-term and long-term financial impacts of all of our assets, taking in consideration of business development and local governmental city-planning measures and opportunities.

The Group's Net asset value per share at 31 December 2022 was RMB 6.43 and as highlighted by the question, the Group has strong and healthy balance sheet. The Group will continue to build value for shareholders and explore ways to reward our shareholders such as declaring dividend in a sustainable manner.

Question 3: Can the company elaborate on the business segments that are likely to provide future growth and sustainability in the years ahead, or will the business prospects continue to be lumpy and unpredictable?

Response:

Our core business segments are essential to food security and the foundation of chemical engineering, therefore will always have the stability advantage. With the accelerated pace of the energy transformation and shift in the energy consumption structure, green ammonia, green methanol and green hydrogen are set to become increasingly popular. We will continue to build upon our research and development ("R&D") efforts as we explore new areas of uses and applications for our various patented technologies to bring solutions that have increasing relevance in the world today. We believe that with the stabilisation of the COVID-19 situation in China and globally, our strong fundamentals, multi-pronged strategies, talent development planning and competitive edge will enable us to navigate through these challenges and deliver long-term value to our stakeholders.

Question 4: As of 31 December 2022, the Group's order book was approximately RMB136.3 million as compared to RMB223.6 million on 31 December 2021. Why was there such a significant drop in order book?

Response:

We posted a significant boost of 67.7% or RMB73.8 million in our revenue, from RMB109.0 million in FY2021 to RMB182.8 million in FY2022, converting our outstanding orders into revenue. The management team continues to work hard to build a strong orders book pipeline.

Question 5: The company's order book and earnings have been reasonably weak over the last decade despite sporadic increases. What factors would bring about a sustained upturn? (higher ammonia/methanol/petrochemical prices?)

Response:

Price increases in ammonia, methanol, hydrogen and fertilizer will be positive factors on the Group's order book and thereafter revenue. Environmental regulations and policies also impact the Group. In some cases the impact are positive for the Group. For example, we secured many oven-gas re-utilization projects in FY2021. And we have seen active market enquires on Green Ammonia and Green Hydrogen projects. In other cases, the impact has been negative. Some of the fertilizer plants were offline due to production capacity scale or municipal/industrial rezoning.

Question 6: In the near future, does management foresee the possibility of a much higher sustainable order book (i.e. consistently more than RMB 200m)?

Response:

Barring unforeseen circumstances, management is working hard to build on the Group's order book pipeline. The Group will continue to provide its order book number as part of its half-yearly and full year results announcements.

Question 7: Revenue and order book for fertiliser industry segment has declined to less than 20%. Is this trend likely to continue in the near future? The management had previously mentioned during FY2021 full year earnings commentary (28 Feb 2022) that the group is optimistic about the business outlook of the fertiliser segment. However, the optimism has not been reflected in both order book and revenue. Can management kindly provide more insights on this?

Response:

Ammonia is the intermediate product of fertilizer. Our classification of fertilizer or non-fertiliser is based on customer's disclosure of whether the ammonia is used for downstream fertilizer productions. There are however, cases where customers do not have downstream fertiliser production, but they sell ammonia to the market, which is thereafter used for fertiliser production. In addition, the project lead time and revenue recognition period may also skew the correlation.

Question 8: For FY2019, the company's net profit was RMB 11.6m and had cash and cash equivalents of RMB 107.5m as at 31 December 2019. In FY2022, the company's net profit was RMB 30.2m and had cash and cash equivalents of RMB 175.7m as at 31 December 2022. Given the much stronger earnings and financial position in 2022, why did the company not pay a higher dividend but kept it at the same level as FY2019 (i.e. RMB 0.12/share)?

Response:

The macro-economic environment, 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 price fluctuations of nitrogen fertilizer and basic chemicals, 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. Notwithstanding the economic and market challenges, its subsidiary, Hunan Anchun Advanced Technology Co., Ltd, has posted a significant boost of 67.7% or RMB73.8 million in our revenue, from RMB109.0 million in FY2021 to RMB182.8 million in FY2022, The Group's efforts to diversify into non-fertiliser industries have seen some successes resulting in revenue of RMB165.4 million in FY 2022 representing 90.5% of total revenue. The Group will continue this diversification efforts and wishes to reserve cash to support these efforts. The Group will continue to review its cash flow requirements keeping in view the macro-economic environment and where its operating cash flow position allows, consider making appropriate dividend distributions to its shareholders.

Question 9: The company's operating environment has been really difficult in the last decade and it doesn't look any easier in the coming years. What is management's medium to long term strategy for the company? Are there merger and acquisition opportunities that can be explored?

Response:

The management will continue to focus on delivering quality products and services to our customers and through the success of our products create more market awareness of Anchun's technologies and capability. We believe this will help in our marketing efforts and hopefully lead to orders for the Group. The Group is always exploring new opportunities include potential merger and acquisition as it seeks growth-oriented opportunities to build shareholders' value.

By Order of the Board

Zheng, ZhiZhong
Executive Director and Chief Executive Officer
21 April 2023