



Anchun International Holdings Ltd.

(Incorporated in Singapore)
(Company registration number: 200920277C)

Unaudited Results for the First Quarter Period Ended 31 March 2018

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.

	Group		Change %
	Unaudited	Unaudited	
	3 months ended		
	31/3/2018	31/3/2017	
	RMB'000	RMB'000	
	(Restated)		
Revenue	17,315	10,353	67%
Cost of sales	(13,584)	(7,149)	90%
Gross Profit	3,731	3,204	16%
Other item of income			
Finance and other income	4,122	696	492%
Other items of expenses			
Marketing and distribution expenses	(827)	(652)	27%
Administrative expenses	(6,541)	(7,486)	-13%
Research expenses	(1,034)	(960)	8%
Other operating expenses	(19)	-	100%
Finance costs	(39)	(114)	-66%
Loss before tax	(607)	(5,312)	N.M
Income taxation	-	-	N.M.
Loss for the period, representing total comprehensive income for the period attributable to owners of the Company	(607)	(5,312)	N.M

N.M. - not meaningful

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		Change
	Unaudited	Unaudited	
	3 months ended		
	31/3/2018	31/3/2017	%
	RMB'000	RMB'000	
	(Restated)		
Depreciation of property, plant and equipment	3,056	3,345	-9%
Depreciation of investment property	44	44	0%
Amortisation of land use rights	91	92	-1%
Amortisation of intangible assets	82	84	-2%
Gain on disposal of PPE	(458)	–	N.M
Write-back of inventory obsolescence	–	(98)	-100%
Write-off of property, plant and equipment	–	8	-100%
Net foreign exchange loss/(gain)	19	(53)	N.M
Allowance for after-sale expenses	4	–	N.M
Finance income	(321)	(596)	-46%
Finance costs	39	114	-66%
Performance share plan expenses	2	45	-96%

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 31/3/2018 RMB'000	Restated 31/12/2017 ⁽¹⁾ RMB'000	Restated 1/1/2017 ⁽¹⁾ RMB'000	Unaudited 31/3/2018 RMB'000	Audited 31/12/2017 ⁽²⁾ RMB'000	Audited 1/1/2017 ⁽²⁾ RMB'000
ASSETS						
Non-current assets						
Property, plant and equipment	84,253	87,695	100,222	–	–	–
Intangible assets	302	264	598	–	–	–
Land use rights	13,618	13,709	14,075	–	–	–
Investment in a subsidiary	–	–	–	75,463	75,461	75,353
Investment property	392	436	612	–	–	–
Prepayments	40	35	–	–	–	–
	98,605	102,139	115,507	75,463	75,461	73,353
Current assets						
Inventories	25,701	23,521	23,902	–	–	–
Trade and other receivables	31,240	44,061	93,773	35,815	35,800	35,788
Contract assets	27,109	18,964	2,743	–	–	–
Bill receivables	33,667	33,742	16,371	–	–	–
Prepayments	9,764	6,583	8,481	125	95	82
Cash and cash equivalents	116,921	136,689	148,697	21,444	22,161	24,576
	244,402	263,560	293,967	57,384	58,056	60,446
Total assets	343,007	365,699	409,474	132,847	133,517	135,799
EQUITY AND LIABILITIES						
Current liabilities						
Trade and other payables	24,194	45,638	49,780	11,486	11,439	11,252
Contract liabilities	23,965	21,094	22,871	–	–	–
Other liabilities	10,848	14,362	14,415	941	996	1,035
Income tax payable	6,560	6,560	6,560	–	–	–
	65,567	87,654	93,626	12,427	12,435	12,287
Net current assets	178,835	175,906	200,341	44,957	45,621	48,159
Non-current liability						
Deferred tax liabilities	100	100	100	–	–	–
	100	100	100	–	–	–
Total liabilities	65,667	87,754	93,726	12,427	12,435	12,287
Net assets	277,340	277,945	315,748	120,420	121,082	123,512
Equity attributable to owners of the Company						
Share capital	149,278	149,278	149,278	149,278	149,278	149,278
Employee benefit trust shares	(66)	(66)	(430)	(66)	(66)	(430)
Treasury shares	(222)	(222)	–	(222)	(222)	–
Other reserves	121,332	121,001	120,388	66	64	349
Accumulated profits/(losses)	7,018	7,954	46,512	(28,636)	(27,972)	(25,685)
Total equity	277,340	277,945	315,748	120,420	121,082	123,512
Total equity and liabilities	343,007	365,699	409,474	132,847	133,517	135,799

Notes:

- (1) The Group adopted the new standard FRS 115 Revenue from Contracts with Customers, which is effective on 1 January 2018, using the full retrospective approach. Under the full retrospective approach, the comparative figures of the financial statements for the end of the preceding period and the beginning of the preceding period have been restated.
- (2) The comparative figures of the Company are not restated as revenue is generated only from a subsidiary.

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

The Group has no loans from former shareholders of our subsidiary (31 December 2017: RMB18.0 million) as at 31 March 2018. The interest rate of the loan as at 31 December 2017 is 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	
	31/3/2018	31/3/2017
Note	RMB'000	RMB'000
		(Restated)
Operating activities		
Loss before tax	(607)	(5,312)
<u>Adjustment for:</u>		
Depreciation of property, plant and equipment	3,056	3,345
Depreciation of investment property	44	44
Amortisation of intangible assets	82	84
Amortisation of land use rights	91	92
Write-back of inventory to net realisable value	–	(98)
Allowance for after-sale services	4	–
Gain on disposal of property, plant and equipment	(458)	–
Write-off of property, plant and equipment	–	8
Performance share plan expense	2	45
Net foreign exchange loss/(gain)	19	(53)
Finance costs	39	114
Finance income	(321)	(596)
Operating cash flows before changes in working capital	1,951	(2,327)
<u>Changes in working capital</u>		
Decrease/(increase) in:		
Inventories	(2,180)	(354)
Trade and other receivables	12,821	11,450
Contract assets	(8,145)	(91)
Bill receivables	75	5,391
Prepayments	(3,181)	(4,815)
(Decrease)/increase in:		
Trade and other payables	(3,369)	(4,323)
Advances from customers	(21,094)	(22,871)
Contract liabilities	23,965	22,857
Other liabilities	(3,551)	(3,469)
Total changes in working capital	(4,659)	3,775
Cash flows (used in)/generated from operations	(2,708)	1,448
Interest received	321	596
Interest paid	(2)	(2)
Net cash (used in)/generated from operating activities	(2,389)	2,042

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	
	31/3/2018	31/3/2017
	RMB'000	RMB'000
		(Restated)
Investing activities		
Proceeds from sale of property, plant and equipment	921	–
Purchase of Intangible assets - software	(120)	–
Purchase of property, plant and equipment	(171)	(304)
Net cash generated from/(used in) investing activities	630	(304)
Financing activity		
Repayment of loans from former shareholders of a subsidiary	(17,990)	–
Net cash used in financing activity	(17,990)	–
Net (decrease)/increase in cash and cash equivalents	(19,749)	1,738
Cash and cash equivalents at beginning of year	136,689	148,697
Effect of exchange rate changes on cash and cash equivalents	(19)	53
Cash and cash equivalents at end of period	116,921	150,488

Note A:

Purchase of property, plant and equipment

	Group Unaudited	
	3 months ended	
	31/3/2018	31/3/2017
	RMB'000	RMB'000
		(Restated)
Current period additions to property, plant and equipment	77	63
Less: Payable to creditors for current period purchases	(17)	(6)
Prepayment made in prior period	(18)	–
Add: Payments for prior period purchase	106	247
Prepayments made in current period	23	–
Net cash outflow for purchase of property, plant and equipment	171	304

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	Gain on reissuance of EBT shares	Treasury shares	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	RMB'000	RMB'000
Group Unaudited											
Balance at 1 January 2017	149,278	(430)	349	–	–	1,725	38,329	4,985	75,000	39,795	309,031
Impact of adoption of FRS 115	–	–	–	–	–	–	–	–	–	6,717	6,517
Balance at 1 January 2017 (Restated)	149,278	(430)	349	–	–	1,725	38,329	4,985	75,000	46,512	315,748
Loss for the year, representing total comprehensive income (Restated)	–	–	–	–	–	–	–	–	–	(5,312)	(5,312)
<u>Contributions by and distribution to owners</u>											
Grant of equity-settled performance shares to employees	–	–	45	–	–	–	–	–	–	–	45
<u>Others</u>											
Transfer to statutory reserve – safety production reserve	–	–	–	–	–	–	–	269	–	(269)	–
Balance at 31 March 2017 (Restated)	149,278	(430)	394	–	–	1,725	38,329	5,254	75,000	40,931	310,481
Group Unaudited											
Balance at 1 January 2018	149,278	(66)	–	64	(222)	1,725	38,691	5,521	75,000	5,680	275,671
Impact of adoption of FRS 115	–	–	–	–	–	–	–	–	–	2,274	2,274
Balance at 1 January 2018 (Restated)	149,278	(66)	–	64	(222)	1,725	38,691	5,521	75,000	7,954	277,945
Loss for the year, representing total comprehensive income	–	–	–	–	–	–	–	–	–	(607)	(607)
<u>Contributions by and distribution to owners</u>											
Grant of equity-settled performance shares to employees	–	–	2	–	–	–	–	–	–	–	2
<u>Others</u>											
Transfer to statutory reserve	–	–	–	–	–	–	–	329	–	(329)	–
Balance at 31 March 2018	149,278	(66)	2	64	(222)	1,725	38,691	5,850	75,000	7,018	277,340

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						Total equity
	Share Capital	Employee benefit trust shares	Performance share plan reserve	Gain on reissuance of EBT shares	Treasury shares	Accumulated losses	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Company Audited							
Balance at 1 January 2017	149,278	(430)	349	–	–	(25,685)	123,512
Loss for the year, representing total comprehensive loss for the year	–	–	–	–	–	(481)	(481)
<u>Contributions by and distribution to owners</u>							
Grant of equity-settled performance shares to employees	–	–	45	–	–	–	45
Balance at 31 March 2017	149,278	(430)	394	–	–	(26,166)	123,076
Company Unaudited							
Balance at 1 January 2018	149,278	(66)	–	64	(222)	(27,972)	121,082
Loss for the year, representing total comprehensive loss for the year	–	–	–	–	–	(664)	(664)
<u>Contributions by and distribution to owners</u>							
Grant of equity-settled performance shares to employees	–	–	2	–	–	–	2
Balance at 31 March 2018	149,278	(66)	2	64	(222)	(28,636)	120,420

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 the number of shares that may be issued on conversion of all the outstanding convertibles, 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 & treasury shares as at 31 March 2018 and 31 March 2017	50,500,000	149,278

Convertibles

The Company did not have outstanding options, convertibles or subsidiary holdings as at 31 March 2018 and 31 March 2017.

EBT shares

The Company had 26,000 EBT shares (approximately 0.051% of the total number of issued shares) as at 31 March 2018 and 170,000 EBT shares (approximately 0.337% of the total number of issued shares) as at 31 March 2017.

Of the aforesaid 26,000 EBT shares, a balance of 9,000 EBT shares (approximately 0.018% of the total number of issued shares) remain available for allocation (31 March 2017: 144,000) as at 31 March 2018.

Treasury shares

The Company had 160,000 treasury shares (approximately 0.317% of the total number of issued shares) (31 March 2017: nil) as at 31 March 2018.

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 31.3.18	As at 31.12.17
Total number of issued shares excluding EBT shares	50,314,000	50,314,000

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 2018, the same accounting policies and methods of computation have been applied. A summary of the effect on the financial performance or position of the Group and the Company on adoption of FRSs beginning on or after 1 January 2018 is disclosed in Note 5 below.

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 has not adopted any other mandatory standards, amendments and interpretations to existing standards that have been published but are only effective for the Group's accounting periods beginning or after 1 January 2018 except for FRS 115 Revenue from Contracts with Customers as disclosed below.

FRS 115 Revenue with Contracts with Customers ("FRS 115")

The Group adopted FRS 115 on its effective date, being 1 January 2018. Under FRS 115, revenue is recognised at an amount that reflects the consideration which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group is in the business of providing integrated chemical systems engineering and technology solutions to the petrochemical and chemical industries. The key impact of the changes in accounting policy is detailed below:

Sale of chemical systems and components ("CSC") equipment

The Group previously recognised revenue from the sale of CSC equipment using the completed contract method. Under FRS 115, for most of the contracts with customers, performance obligations from the sale of CSC equipment are satisfied over time where the performance does not create an asset with an alternative use, and the Group has an enforceable right to payment for performance completed to date.

The Group adopted the input method to measure the progress towards complete satisfaction of a performance obligation satisfied over time. Under the input method, revenue is recognised over time, based on the actual costs incurred to date as a proportion of the estimated total costs to be incurred.

Progress billings to the customer are based on a payment schedule in the contract and are typically triggered upon achievement of specified 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 payment 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.

- 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. (cont'd)

Transitional provisions

The Group has elected to apply the full retrospective transition approach to each prior reporting period presented. Under the full retrospective approach, the Group adjusted the opening balance of each affected component of equity for the earliest prior period presented and other comparative amounts disclosed for each prior period presented as if the new accounting policy has always been applied.

The effects of applying FRS 115 on the financial statements as compared to that under the previous revenue standards are as follows:

(i) Consolidated income statement

	Group
	3 months
	ended
	31/3/2017
	RMB'000
Increase/(decrease) in:	
Revenue	(10,689)
Cost of sales	(8,800)
Loss for the period, presenting total comprehensive income the period attributable to owners of the Company	<u>1,889</u>

(ii) Consolidated balance sheet

	Group	
	31/12/2017	1/1/2017
	RMB'000	RMB'000
Increase/(decrease) in:		
Inventories	(36,304)	(26,664)
Trade and other receivables	1,733	26,006
Contract assets	18,964	2,743
(Increase)/decrease in:		
Trade and other payables	(8,070)	(7,061)
Advances from customers	47,045	34,564
Contract liabilities	(21,094)	(22,871)
Accumulated losses	<u>2,274</u>	<u>6,717</u>

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. (cont'd)

(iii) Consolidated cash flow statement

	Group
	3 months ended
	31/3/2017
	RMB'000
Increase/(decrease) in:	
Loss before tax	1,889
<u>Changes in working capital</u>	<i>Cash generated from / (used in)</i>
Inventories	(8,581)
Trade and other receivables	14,748
Contract assets	(91)
Trade and other payables	(2,036)
Advances from customers	(25,008)
Contract liabilities	<u>22,857</u>

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	3 months ended
	31/3/2018	31/3/2017
Loss net of tax attributable to owners of the Company (RMB '000)	<u>(607)</u>	<u>(5,312)</u>
Weighted average number of ordinary shares ('000) on issue applicable to basic and diluted EPS	<u>50,314</u>	<u>50,330</u>
Diluted and diluted loss per share (RMB cents)	<u>(1.21)</u>	<u>(10.55)</u>

Basic loss per share for the 3 months ended 31 March 2018 and 31 March 2017 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.

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 period ended 31 March 2018 and 31 March 2017.

- 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.**

	<u>Group</u>		<u>Company</u>	
	<u>31/3/2018</u>	<u>31/12/2017</u>	<u>31/0/2018</u>	<u>31/12/2017</u>
Net asset value per share (RMB per share)	5.51	5.52	2.39	2.41

Net asset value per ordinary share as at 31 March 2018 and as at 31 December 2017 were calculated based on the existing number of shares in issue excluding EBT shares of 50,314,000 ordinary shares as at 31 March 2018 and 31 December 2017.

- 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

1Q2018 vs 1Q2017

Revenue increased by RMB7.0 million or 67% from RMB10.3 million in 1Q2017 to RMB17.3 million in 1Q2018. The increase was mainly due to the increase of revenue from CSC business and Engineering Services, partially offset by the decrease of revenue from Catalyst business, further described as follows:

Revenue from our Catalyst Business

Revenue from our Catalyst Business decreased by RMB3.3 million or 73% from RMB4.5 million in 1Q2017 to RMB1.2 million in 1Q2018. This was mainly due to the absence of sales of hydrocarbon catalysts and ammonia synthesis catalyst.

Revenue from our Engineering Services

Revenue from our Engineering Services increased by RMB0.02 million or 2% from RMB0.96 million in 1Q2017 to RMB0.98 million in 1Q2018. This was mainly due to higher percentage of completion for service contracts during the period of 1Q2018.

Revenue from our CSC Business

Revenue from our CSC Business increased by RMB10.2 million or 208% from RMB4.9 million in 1Q2017 to RMB15.1 million in 1Q2018. The increase was due to higher percentage of completion for CSC contracts during the period of 1Q2018.

Gross profit and gross profit margin

1Q2018 vs 1Q2017

Our overall gross profit increased by RMB0.5 million or 16% from RMB3.2 million in 1Q2017 to RMB3.7 million in 1Q2018 and our gross profit margin decreased from 31% in 1Q2017 to 22% in 1Q2018.

A) Income Statements (cont'd)

Gross profit and gross profit margin (cont'd)

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

- 1) Gross profit of Catalyst business decreased by RMB0.9 million from RMB1.2 million in 1Q2017 to RMB0.3 million in 1Q2018. The gross profit margin decreased by 2% from 27% in 1Q2017 to 25% in 1Q2018, mainly attributable to the absence of revenue from hydrocarbon catalysts which contributed higher gross margin.
- 2) Gross profit of engineering design remained at RMB0.5 million for both 1Q2017 and 1Q2018. The gross profit margin was decreased slightly by 1% from 52% in 1Q2017 to 51% in 1Q2018 was mainly attributable to the environmental protection engineering services completed in the current quarter which contributed lower gross margin.
- 3) Gross profit of our CSC business increased by RMB1.4 million from RMB1.5 million in 1Q2017 to RMB2.9 million in 1Q2018 was mainly attributable to higher percentage of completion for CSC contracts during the period of 1Q2018. The gross profit margin was decreased by 12% from 31% in 1Q2017 to 19% in 1Q2018 due to increase in the cost of sales of additional tax amounting to RMB 0.5 million from the reclassification mentioned below and two contracts in the current quarter which contributed lower gross margin. The Group negotiated these two contracts based on considerations of market presence and pricing strategy.
- 4) Property tax, land use tax and stamp duty totalling RMB0.5 million have been reclassified from administrative expenses to cost of sales in 1Q2018 in accordance to the circular on provisions on the accounting treatment for value added tax issued by Ministry of Finance in PRC effective 2Q2017.

Finance and other income

1Q2018 vs 1Q2017

Finance and other income increased by RMB3.4 million or 492% from RMB0.7 million in 1Q2017 to RMB4.1 million in 1Q2018. The increase was mainly due to the increase of government grants of RMB1.5 million and the increase of sales of scrap metal of RMB1.9 million.

Marketing and distribution expenses

1Q2018 vs 1Q2017

Marketing and distribution expenses increased by RMB0.18 million or 27% from RMB0.65 million in 1Q2017 to RMB0.83 million in 1Q2018. The increase was mainly attributable to increase of after-sales maintenance of RMB0.2 million.

A) Income Statements (cont'd)

Administrative expenses

1Q2018 vs 1Q2017

Administrative expenses decreased by RMB1.0 million or 13% from RMB7.5million in 1Q2017 to RMB6.5 million in 1Q2018. The decrease was partly due to lower unallocated manufacturing overheads of RMB1.0 million charged to profit or loss under administrative expenses .

Item by nature	1Q2017	1Q2018	1Q2018 vs.1Q2017 (Change)		Comments
	RMB'000	RMB'000	RMB'000	%	
Unallocated manufacturing overheads allocated in administrative expenses	2,919	1,835	(1,084)	(37)	Allocation of manufacturing overheads relates to production. 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 1Q2018 over 1Q2017.
Land rights taxes, land use taxes, stamp duty	466	–	(466)	(100)	Reclassified to Cost of Sales in accordance with the circular on provisions on the accounting treatment for value added tax issued by Ministry of Finance in PRC effective 2017.
Depreciation	416	386	(30)	(7)	Decrease due to fully depreciated fixed assets and disposals in 1Q2018.
Salaries, bonuses and fees	1,691	1,440	(251)	(15)	Include salaries of executive directors and heads of department deployed in administrative functions and director's fees.
Professional fees	431	1,048	617	1.43	Increase due to the renewal fees for engineering design qualifications which are renewable every three years.
Other expenses	1,563	1,832	269	17	Other expenses are an aggregation of expenses of less than RMB0.2 million each. It includes maintenance expenses, litigation costs, etc. Increase is principally due to reduce staff expenses in 1Q2018 compared to 1Q2017.
Total	7,486	6,541	(945)	(13)	

A) Income Statements (cont'd)

Research expenses

1Q2018 vs 1Q2017

Research expenses increased by RMB0.07 million or 8% from RMB0.96 million in 1Q2017 to RMB1.03 million in 1Q2018. This was mainly attributable to more research and development expenses incurred in 1Q2018.

Finance costs

1Q2018 vs 1Q2017

Finance costs decreased by RMB0.07 million or 66% from RMB0.11 million in 1Q2017 to RMB0.04 million in 1Q2018. The decrease was mainly due to the decrease in interest expenses as a result of the repayment of the loan from the former shareholders of our subsidiary 1Q2018.

Income tax expenses

1Q2018 vs 1Q2017

There was no income tax expense in 1Q2018 due to the losses incurred by the Group's subsidiary in 1Q2018.

Net loss attributable to owners of the Company

1Q2018 vs 1Q2017

The net loss attributable to owners of the Company increased by RMB4.7 million from RMB5.3 million in 1Q2017 to RMB0.6 million in 1Q2018 as explained above.

B) Balance Sheet Statements

Non-current assets

Non-current assets decreased by RMB3.5 million or 3.4% from RMB102.1 million as at 31 December 2017 to RMB98.6 million as at 31 March 2018. Non-current assets comprised of property, plant and equipment, investment property, intangible assets, land use rights, deferred tax assets and prepayments for property, plant and equipment.

Property, plant and equipment decreased by RMB3.4 million or 3.9% from RMB87.7 million as at 31 December 2017 to RMB84.3 million as at 31 March 2018, mainly due to depreciation charges in 1Q2018. The decrease was partially offset by additions during the period.

Current assets

Current assets decreased by RMB19.2 million or 7.3% from RMB263.6 million as at 31 December 2017 to RMB244.4 million as at 31 March 2018. The decrease was mainly due to the following:

- a) The increase in prepayments of RMB3.2 million was mainly due to the purchase of new sales contract materials.
- b) The increase in inventories of RMB2.2 million was mainly due to materials purchased for contract orders from 江苏海力 and 永安智胜.

B) Balance Sheet Statements (cont'd)

Current assets (cont'd)

- c) The decrease in cash and cash equivalents of RMB19.8 million was due to repayment of the loan from the former shareholders of our subsidiary of RMB18.0 million.
- d) The decrease in trade and other receivables of RMB12.8 million is due to settlement of the trade receivables of RMB11.0 million.
- e) The increase in contract assets of RMB8.1 million is due to the completion for CSC contracts during the period of 1Q2018

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

Item by nature	31/3/2018 RMB'000	< 6 months RMB'000	6-12 months RMB'000	1-2years RMB'000	>2years RMB'000
Trade Receivables					
Receivables from sales	69,257	21,903	3,552	14,926	28,876
Less: Provision for doubtful debts	(39,805)		(785)	(10,144)	(28,876)
Sub-total	29,452	21,903	2,767	4,782	-
Other Receivables					
A. Operation cash advances	174	174			
B. Bid bonds	1,561	1,561			
C. Rental deposit	29			29	
D. VAT receivables	24	24			
Total	31,240	23,662	2,767	4,811	

Current liabilities

Current liabilities decreased by RMB22.1 million or 25% from RMB87.7 million as at 31 December 2017 to RMB65.6 million as at 31 March 2018.

- a) The increase in contract liabilities of RMB2.9 million due to more amounts received from customers according to the progressive payment terms contracted while revenue is recognized according to the Group's revenue recognition policy.
- b) The decrease in trade and other payables of RMB21.5 million was due to settlements with our suppliers.
- c) The decrease in other liabilities of RMB3.5 million were mainly due to a reduction in employee bonuses.

C) Cash Flow Statements

1Q2018 vs 1Q2017

Cash and cash equivalents decreased by RMB19.7 million in 1Q2018, which was mainly attributed to cash used in financing activities of RMB18.0 million for repayment of the loan from the former shareholders of our subsidiary.

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 31 March 2018.

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.

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

The Group has accordingly been making efforts to diversify into non-fertiliser industries, which has resulted in revenue of RMB5.08 million for the FY1Q2018 representing 30% of total revenue.

The Group will continue to remain vigilant over its costs structure and continue its research efforts to enhance and improve its portfolio of patented products and further build its technical competency so as to be more competitive in the market and be better positioned to take advantage of opportunities when they arise.

The Group's order book as of 31 March 2018 was approximately RMB95.4 million (31 December 2017: RMB86.6 million) out of which of RMB22.8 million is from non-fertiliser industries. We are cautiously optimistic that we will be able to make further inroads in this direction.

11) Dividend

(a) Current financial period reported on

The Company does not recommend any dividend for the financial period ended 31 March 2018

(b) Corresponding period of the immediately preceding financial year

The Company did not recommend or declare any dividend for the financial period ended 31 March 2017.

(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 31 March 2018.

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 31 March 2018, 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	22,074	0
Total	133,489	44,221	89,268

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	(15,868)
For expanding sales and marketing capabilities and initiatives	(6,206)
Total	(22,074)

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 first quarter 2018 financial results to be false or misleading in any material respects.

By Order of the Board

Xie Ming
 Executive Director and CEO
 11 May 2018