

**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 Second Quarter Results (“2Q2016”) of Anchun International Holdings Ltd. (the “Company”)**

We refer to the “Unaudited Results for the Second Quarter and Half Year Ended 30 June 2016” (the “Announcement”) by Anchun International Holdings Ltd. (the “Company”) on 10 August 2016.

Please provide further information on the following in an announcement to be released via SGXNET by 22 August 2016. In your announcement, please disclose our questions and your corresponding answers to enable investors to understand the matters raised by the Exchange.

Question 1: In the “Unaudited Results for the Second Quarter and Half Year Ended 30 June 2016” (the “Announcement”) announced by the Company, the Company disclosed that trade and other receivables amounted to RMB68.9 million. Please disclose why trade and other receivables of RMB68.9 million is significantly higher than 2Q2016 revenue of RMB16.15 million. Please provide a breakdown and aging schedule and for material items under other receivables, to disclose the nature of underlying contracts and details of the relevant transactions.

Response:

- i) Reasons why trade and other receivables of RMB68.9 million is significantly higher than 2Q2016 revenue of RMB16.15 million.

For the chemical system and component business (“CSC Business”), the Group has entered into contracts with customers where the terms and conditions are spelled out. Amongst the terms and conditions are payment terms. Typical progress payment milestones are 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 in 1 or 1.5 years after the successful commissioning of the chemical systems.

Considering the above, the trade receivables as at the end of 2Q2016 not only include the receivables arising from the sales in 2Q2016, but also include the receivables attributable to sales of prior periods.

- ii) The breakdown of trade and other receivables as follows:

Item by nature	31/06/2016 RMB'000	6months RMB'000	6- 12months RMB'000	1-2years RMB'000	>2years RMB'000
A. receivables from sales	67,193	32,693	24,824	7,157	2,519
B. operation cash advances	368	368	-	-	-

C. bid bonds	1,287	1,287	-	-	-
D. rental deposit	54	-	54	-	-
Total	68,902	34,348	24,878	7,157	2,519

iii) Elaborations on the nature of each of the items:

- A. Receivables from sales of goods and services from our three business segments.
- B. Cash advances are rendered based on operational needs so that the Group's employees do not need to bear too much expenses until a reimbursement cycle completes.
- C. Most of bidding activities require the advance payment of bid bonds.
- D. Singapore office rental deposit.

Question 2: In the Announcement, the Company announced that "The Group's revenue decreased by RMB13.8 million or 46% from RMB 30.0 million in 2Q2015 to RMB16.2 million in 2Q2016. This was mainly due to the decrease in our engineering services and CSC sales of RMB2.4 million and RMB16.6 million respectively, partially offset by the increase in catalyst sales of RMB5.2 million in 2Q2016 compared to 2Q2015".

Please provide further elaboration on the above to enable investors to have a reasonable understanding of the factors which caused the results above including following:

- a. Why the Company was unable to obtain contracts in the engineering services and CSC sales; and
- b. Who are the end customers for the engineering services and CSC sales and their business sectors.

Response:

- a. In view of the on-going macro-economic structure reform in PRC coupled with worldwide low oil and gas prices and basic chemical prices including methanol and urea, some of the Group's customers have postponed their capital expenditure investment plan in FY2016. As the Group's CSC and engineering business are in the capital goods market, the above market factors have resulted in decline in demand for the Group and intensive market competition. Furthermore, the Group has been careful in its evaluation of each opportunity in view of the higher degree of uncertainty surrounding the macro-economic environment as part of its credit-risk management.
- b. The end customers for the engineering services and CSC sales are mainly producers of urea and/or chemicals with ammonia and/or methanol being the intermediate or end products in the chemical product industry.

Question 3: In the Announcement, the Company announced that "The gross profit of our Catalyst business increased by RMB1.4 million from RMB3.5 million in 1H2015 to RMB4.9 million in 1H2016. The increase of gross profit was attributable to the increase in sales revenue". Please explain why did the Company have more deliveries in the Catalyst business and factors which caused the increase in demand. Who are the customers who are increasing orders with the Company.

Response:

- i) The reason why the company had more deliveries in the Catalyst business is that the company obtained more catalyst contracts in FY2016 due to present chemical producers demand more catalysts which are consumables needed to aid chemical reaction in the production process of our customers to maintain the production productivity. The factors which caused the increase in demand are as the following: 1) as producers can't sell products at good prices, they often postpone capital expenditure decisions. Replacing the catalyst more frequently is a less costly alternative to keep the production without investing in equipment replacement. 2) With the new production capacity on stream in FY2015 and new development of shift reaction catalyst, the company can meet the higher demands of customers at a specified period and provide new type of catalyst for the shift reaction chemical system.
- ii) Furthermore, there are fluctuations of the total value of the catalyst orders we obtain, quarter to quarter and year to year.

Question 4: In the Announcement, the Company announced that “The gross profit of CSC business decreased by RMB7.3 million from RMB7.6 million in 2Q2016 to RMB0.3 million in 2Q2016, this was mainly attributable to low margin resale of some finished goods due to previously cancelled contracts which had a lower selling price due to market conditions and higher material cost in 2Q2016”.

Please disclose why and how much did material cost increase in 2Q2016 in an environment when selling price was decreasing. Please also disclose what these raw materials are.

Response:

- i) The elaborations of reason why the material cost increased in 2Q2016 in an environment when selling price was decreasing:
There was the resale of some finished goods due to previously cancelled contracts which had a lower selling price due to current market conditions and higher material cost. The higher material cost is due to the fact that the finished goods were manufactured in FY2013 and the purchase price of materials in FY2013 was much higher than present. The material cost based on the purchase price in FY2013 of the resale of finished goods in 2Q2016 increased by RMB1.0 million compared to purchase price based on 2Q2016.
- ii) These raw materials mainly consist of steel plate, steel tube, steel forging and standard components.

Question 5: With regards to the “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”, please provide specific information on the demand for the Catalyst Business, the Engineering Services and CSC Business. Please also disclose whether this will result in further increase or cancellations in the order book.

Response:

China Nitrogen Fertilizer Industry Association (CNFA 中国氮肥工业协会) disclosed industry data in the 1H2016 China Nitrogen Fertilizer Industry Operation Meeting. The industry revenue in 1H2016 decreased 10.6% comparing with that in 1H2015. The industry remains in a net loss position for 1H2016. The urea price of 1H2016 decreased 19.9% than that in 1H2015. CNFA

expects the prospects in 2H2016 continues to be more challenging for the Nitrogen Fertilizer Industry and the majority of basic chemical producers in China.

- i) The specific information on the demand for the Catalyst Business:
The demand for the Catalyst Business depends on the customers' catalyst replacement frequencies and reload quantities in the chemical system to maintain the production. Barring unforeseen circumstances, barring unforeseen circumstances, the Group expects the revenue and profit of catalyst segment in FY2016 to be comparable to FY2015.
- ii) The demand for the Engineering Services and CSC Business depends on the new manufacturing investment projects commencement of customers in chemical industry. Due to on-going macro-economic structure reform in PRC and the worldwide low basic chemical prices including methanol and urea, some of the Group's customers postponed new investment projects in FY2016. The future contracts obtaining depends on the development conditions of new investment projects. The Group expects the revenue and profit of Engineering and CSC segment in FY2016 to be considerably lower than in FY2015.

By Order of the Board
Anchun International Holdings Ltd.

Xie Ming
Executive Director and CEO
22 August 2016