



**ANCHUN INTERNATIONAL HOLDINGS LTD.**

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**Response to Queries from the SGX-ST regarding First Quarter Results (“1Q2019”) of Anchun International Holdings Ltd. (the “Company”)**

The Company has received the following queries on 16 May 2019 from the SGX-ST in relation to its “Unaudited Results for the First Quarter Ended 31 March 2019” released on 13 May 2019 (the “Announcement”), and sets out its responses below.

**Question 1: Please provide a breakdown of Research expenses for 3 months ended 31 March 2019 against the corresponding period and explain for the variance.**

Response:

The research activities are depending on market research and progress schedule, the research expenses vary from quarter to quarter. The breakdown of Research expenses are as follows:

Item by nature	3M2019	3M2018	3M2019 vs.3M2018 (Change)	
	RMB'000	RMB'000	RMB'000	%
Pressure drop test of gas distribution of catalyst basket in reactor 反应器布孔阻力系数测试	868	497	371	75
General design 通用设计研究	159	399	(240)	(60)
New isothermal shift reactor 新型变换炉 (See Question 2 for further details)	2,022	-	2,022	N.M.
Propionaldehyde reactor 丙醛反应器 (See Questions 2 for further details)	879	-	879	N.M.
Waste heat boiler 废热锅炉	4	-	4	N.M.
Catalyst process improvement efforts 变换催化剂试生产装置改进	-	130	(130)	N.M.
Thermostatic methanol tower 新型恒温 甲醇塔	-	8	(8)	N.M.
<b>Total Research expenses</b>	<b>3,932</b>	<b>1,034</b>	<b>2,898</b>	<b>280</b>

**Question 2: Please elaborate on the improvement efforts made for the new isothermal shift reactor and propionaldehyde reactor.**

Response:

The new isothermal shift reactor is to research the structure adaptability of our isothermal reactor to higher pressure.

The propionaldehyde reactor is to develop a new field of our isothermal reactor for highly exothermic process, which provides a more efficient, safer and higher performance way for propionaldehyde production.

The details of research expenses for the new isothermal shift reactor and propionaldehyde reactor are as follows:

Item by nature	New isothermal shift reactor 新型变换炉	Propionaldehyde reactor 丙醛反应器	Total
	RMB'000	RMB'000	RMB'000
Raw materials and Trial production cost of work-in-progress 原材料及半成品试制费	1,390	630	2,020
Research department staff salaries 研究机构人员工资	165	65	230
Others 其他	467	184	651
<b>Total Research expenses</b>	<b>2,022</b>	<b>879</b>	<b>2,901</b>

**Question 3: Please provide a breakdown of Inventories as at 31 March 2019 into the respective core business segments – Engineering Services, CSC Business and Catalyst Business, and explain for the variance against the corresponding period.**

Response:

The breakdown and variance of Inventories as at 31 March 2019 and 31 December 2018 are as follows:

Item by nature	31/03/2019			31/12/2018			31/03/2019 vs. 31/12/2018 (Change)		
	CSC Business	Catalyst Business	Subtotal	CSC Business	Catalyst Business	Subtotal	CSC Business	Catalyst Business	Subtotal
	RMB'000								
Raw materials	31,444	690	32,134	17,401	831	18,232	14,043	(141)	13,902
Works-in-progress	2,188	1,213	3,401	2,078	149	2,227	110	1,064	1,174
Finished goods	-	6,532	6,532	-	6,859	6,859	-	(327)	(327)
Supplementary material	1,875	35	1,910	1,721	24	1,745	154	11	165
Less: Provision for Inventory	(391)	-	(391)	(391)	-	(391)	-	-	-
<b>Total</b>	<b>35,116</b>	<b>8,470</b>	<b>43,586</b>	<b>20,809</b>	<b>7,863</b>	<b>28,672</b>	<b>14,307</b>	<b>607</b>	<b>14,914</b>

The increase in inventories of RMB14.3 million in the CSC Business was mainly raw materials purchased to meet the production requirements in respect of sale contracts totalled RMB126.3 million having commenced the design phase of production by 31 March 2019.

**Question 4: Please provide a breakdown of other expenses (Administrative expenses) for 3 months ended 31 March 2019 amounting to RMB2.26 million against the corresponding period and explain for the variance.**

Response:

Item by nature	1Q2019	1Q2018	1Q2019 vs.1Q2018 (Change)		Comments
	RMB'000	RMB'000	RMB'000	%	
Directors' fee	396	335	61	18	Increase due a newly appointed independent director
Maintenance expenses	33	108	(75)	(69)	Repair and maintenance cost incurred for factory.
Depreciation	341	386	(45)	(12)	Decrease due to fully depreciated fixed assets and disposals in 1Q2019.
Old-age insurance	160	146	14	10	Increase due to variance of staffs.
Property lease fees	136	111	25	23	Increase an equipment lease for printing design paper in 1Q2019.
Amortisation expense	111	173	(62)	(36)	Decrease due to fully depreciated intangible assets and disposals in 1Q2019.
Depreciation of investment property	125	44	81	184	Reclassification of property, plant and equipment to investment property due to a change in use to a rental plant.
The company's Administration	130	67	63	94	Increase service fee for Sustainability Report in 1Q2019.
Other expenses	827	674	153	23	Other expenses are an aggregation of expenses of less than RMB0.01 million each. It includes service charge, medical insurance, etc.
<b>Total</b>	<b>2,259</b>	<b>2,044</b>	<b>215</b>	<b>10</b>	

**Question 5: In relation to the Investment of RMB45.0 million as at 31 March 2019, please disclose and rationale for the investment.**

Response:

The investment products of RMB45.0 million as at 31 March 2019 were obtained from China Construction Bank of RMB25.0 million and Industrial and Commercial Bank of China of RMB20.0 million. These investment products are “Principal Guaranteed Investment Products 保本型理财产品”. Management focus on higher interest yield investment products and only invested in China stated owned financial institution/banks to manage the yield and risk.

**Question 6: In relation to the breakdown and aging of trade receivables within 6 months at RMB25.3 million:-**

**a. Please explain why the Company had failed to collect any sale proceeds for 1Q2019 which revenue recorded RMB21.1 million; and**

Response:

The Group adopted SFRS(I) 15 Revenue from Contracts with Customers when it becomes effective from 1 January 2018 and aligned the Group's revenue policy accordingly. As disclosed in Note 2.22 – Revenue of the Group's 2018 Annual Report, revenue is recognised over time, based on the actual costs incurred to date as a proportion of the estimated total costs to be incurred. A contract asset is recognised when the Group has performed under the contract but has not yet billed the customer. Contract assets are transferred to receivables when the rights to consideration become unconditional. 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 liabilities are recognised as revenue as the Group performs under the contract.

The revenue of RMB21.1 million recorded in 1Q2019 represents revenue recognised under the Group's revenue recognition policy in accordance with SFRS(I) 15. It consists of RMB19.1 million recognised from contract liabilities and RMB2 million from contract assets as the Group has performed under the contracts.

Customer are billed based on the contractual payment schedule which are typically triggered upon achievement of specified milestones. Trade receivables are unsecured, non-interest bearing and are normally settled between 90 to 180 days terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

**b. Please disclose the identities of these customers and elaborate on the Company's credit policy.**

Response:

The customers and aging of trade receivables within 6 months are as follows:

Number	Customer Name	1Q2019 Outstanding Balance(Trade receivables) within 6 months
		RMB'000
1	山西金象煤化工有限责任公司	7,314
2	贵州开磷息烽合成氨有限责任公司	2,148
3	宜昌江峡船用机械有限责任公司	1,680
4	内蒙古伊品生物科技有限公司	1,632
5	鄂尔多斯市瀚博科技有限公司	1,135
6	湖北潜江金华润化肥有限公司	1,068
7	江苏华昌化工股份有限公司	1,065
8	上虞催化剂有限责任公司	1,013
9	曲靖越聚化工有限公司	985
10	山东钢铁集团日照有限公司	982
11	滨州市北海汇宏新材料有限公司	789
12	韩城市新丰清洁能源科技有限公司	670
13	河南金大地化工有限责任公司	630
14	河北临港化工有限公司	629
15	山西天泽煤化工集团股份公司	574
16	河南晋开化工投资控股集团有限责任公司	510
17	中盐安徽红四方股份有限公司	506
Sub-total of Others (Eleven Customers each with trade receivables less than absolute RMB500k)		1,981
<b>Total</b>		<b>25,311</b>

The Group endeavors to trade with recognised and creditworthy third parties as part of its efforts to mitigate credit risk while continue to seek revenue growth. The Group conducts monthly reviews of its outstanding trade receivables with senior management, accounting, sale and business segment personnel to consider the probability of default of trade receivables.

**By Order of the Board**

Xie Ming  
Executive Chairman  
21 May 2019