ANCHUN INTERNATIONAL HOLDINGS LTD.

Diversifying our Strengths

ANNUAL REPORT 2018

Contents

Corporate Profile

Anchun specialises in integrated chemical systems engineering and technology solutions that are environmentally friendly and energy-saving to the PRC petrochemical and chemical industry, primarily for manufacturers of ammonia and methanol-based products. We are a one-stop solutions provider offering a full scope of services ranging from design and manufacturing to system production and project management for our customers.

Led by our senior management, with in-depth technological, marketing and management experiences, Anchun has a professional and dedicated team of senior and national registered engineers with strong R&D capabilities. Anchored on a highly efficient integrated business model, Anchun's wide range of services gives us a unique competitive edge as one of the leading solutions providers in China in our field.

We have been awarded thirty-eight national, four US and one Canadian patents. Our technological breakthroughs in engineering and environmental designs have earned us National Scientific and Technological Progress and provincial-level awards, making Anchun rise above other companies in terms of competitiveness and innovation. Located at the Changsha National Hi-Tech Industrial Development Zone in Hunan province, Anchun has one of the largest equipment and technology manufacturing bases for ammonia and methanol-related equipment in China with a total area of 95,000 square meters.

Anchun was listed in the Singapore Exchange Mainboard on 25 October 2010.

Our Core Competence

With a key focus on sustainable development and stability, Anchun has recorded steady and continuous performance in chemical engineering industry over the past two decades based on our successful and proven business model.

- Specialises in integrated chemical systems engineering and technology solutions
- Recognized intellectual property
- Well-qualified and experienced management and working teams
- Most well represented ammonia and methanol technology provider with established track record of accountability and agility

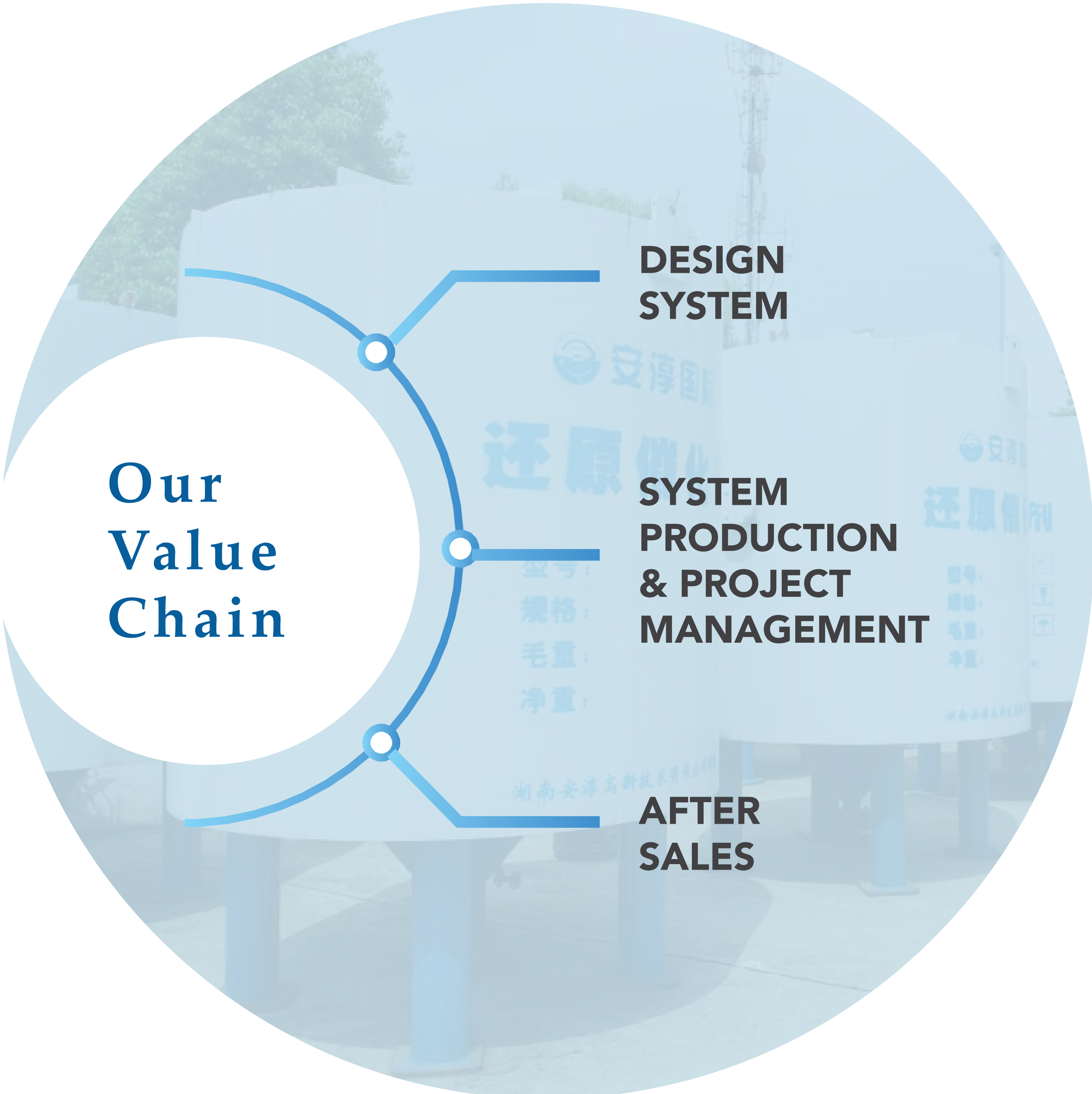
Market Opportunities

Emphasis by the Chinese government for pro-environmental policies will pave the way for demand of systems and solutions that reduce carbon emissions, energy consumption and air pollution. This impacts industries such as oil and petrochemical, electric power, iron and steel, nonferrous metals, coal, building materials, chemicals and transportation, as well as state-owned enterprises that need to achieve reductions in their chemical oxygen demand and emissions of carbon dioxide, sulphur dioxide, ammonia, nitrogen oxides and other major pollutants to the national average levels.

As a major technology developer and reactor manufacturer in China, Anchun is well positioned to take advantage of the shift to more efficient and more environmentally-friendly engineering systems and solutions.

What We Offer

From System Design To Production and Project Management, we provide Integrated Chemical Systems Engineering and Technology Solutions for our clients.



GAS PREPARATION

GAS PURIFICATION

AMMONIA
Urea and compound fertilisers

METHANOL
Methanol fuel and other related products for energy uses

AMMONIA/ METHANOL SYNTHESIS

Chairman's Message

"In FY2018, we achieved a 70% surge in our revenue to approximately RMB111.2 million, as compared to approximately RMB65.4 million in FY2017."

XIE MING
Executive Chairman

DEAR SHAREHOLDERS,

On behalf of the Board of Directors, I am pleased to present to you my inaugural Annual Report as the Executive Chairman for Anchun International Holdings Ltd. ("**Anchun**" or the "**Group**") for the financial year ended 31 December 2018 ("**FY2018**").

In FY2018, the Chinese government's ongoing anti-pollution measures had caused many chemical fertiliser plants to temporarily idle production or even shutdown. It has compelled these companies to undergo a transformation as they switched to more environmentally-friendly solutions for their businesses.

As a provider of integrated chemical systems engineering and technology solutions that can reduce carbon emissions, energy consumption and air pollution, these measures had brought about many opportunities for the Group. Internally, we continued to focus on the development of our patented technology, stepped up our sales and marketing efforts and increased our production to drive our revenue growth.

These strategies have propelled us to achieve a 70% surge in our revenue to approximately RMB111.2 million, as compared to approximately RMB65.4 million in FY2017. Coupled with effective cost controls as well as aggressive debt collections during the year, we managed to achieve a turnaround in our profitability, recording approximately RMB10.5 million in net profit attributable to owners of the Company as compared to a net loss of approximately RMB38.1 million in FY2017.

BACKED BY INNOVATION & PATENTED TECHNOLOGIES

During the year, through strategic marketing of our patented technologies, we saw a significant rise in our sales contracts. Notably, under our Chemical Systems and Components ("**CSC**") business and engineering services segments, we completed the engineering design and manufacture of Fujian Zhisheng Chemical Plant with a production capacity of 200,000 tonnes/a of ammonia plant, and the of Hubei Qianqiang and Hubei Yingcheng Chemical Plants with combined production capacity of 540,000 tonnes/a ammonia plant. These contracts contributed close to 30% of total revenue.

On top of this, we also secured numerous new projects amounting to RMB113 million for our patented technologies, including seven new orders for our isothermal CO shift technology, four new orders for our low-pressure methanol technology, and four new orders for our ammonia synthesis technology. As at 31 December 2018, our order book stood at approximately RMB150.8 million. We believe that we can continue to optimise our production capacity to position ourselves for future growth.

During the year, we continued to achieve technological breakthroughs, especially in our proprietary Isothermal reactor design as we developed propionaldehyde reactor system and ethylene glycol reactor system. This provides us with competitive advantage to explore greater market opportunities ahead.

STRENGTHENING MARKET PRESENCE

Furthermore, we built on our core fundamentals to further strengthen our market foothold. Our comprehensive strengths and integrated solutions were increasingly recognised by market leaders such as China's state-owned mega-conglomerate China Petrochemical Corporation (Sinopec Group). We successfully became their certified supplier for their chemical systems, paving the path for greater growth for our core equipment manufacturing, engineering design and catalyst business segments.

To reduce our reliance on one single industry, we made further inroads into non-fertiliser industries during the year, forging close collaborations with companies from various industries including the power industry (such as Shandong Weiqiao), metallurgical industry (such as Inner Mongolia Electric Metallurgical Group, Inner Mongolia Ruizhi Group, Inner Mongolia Xufeng Group etc), new materials industries (such as Jiangxi Yue'an, Zhejiang Yangu, Zhejiang Juhua), petrochemical industry (such as Ningbo Petrochemical) and others in the environmental protection arena.

MOVING FORWARD

With agriculture being a vital industry in China, we believe that the demand for more eco-friendly fertilisers and chemical systems will still remain strong. Currently, China is still the largest producer and consumer of fertilisers, consuming more than a third of the world's fertilisers. Being a one-stop solution provider offering a full suite of services ranging from design, manufacture to project management, we believe that we are well-placed for sustainable growth.

However, with implementation of fertiliser capacity policy and with eco-friendly governance in force, the structural modification of the industry will further compel the industry to consolidate and reshuffle. In light of this new trend, the Group will continue to focus on our core business strategies and ride on our positive results derived from our innovative research and development of ammonia, methanol and related technologies that promote environmental protection and energy conservation. We will work closely with our customers to upgrade their facilities that adhere to the new guidelines, while exploring new opportunities to diversify, and continuously improve our integrated competitiveness.

As the most well-represented ammonia and methanol technology provider of China, we have demonstrated 25 years of track record of reliability and agility since the establishment of Hunan Anchun. To strengthen our brand name, we strive to operate more efficiently in China, one of the most influential economies in the world. We have also put effort in developing global business in the past 5 years. Our management and technical team have visited US, Ethiopia, Parkistan and Egypt for potential projects. Our market presence and proprietary technologies have caught the attention of international brand names and freelance consultants from US, UK, Saudi Arabia, Netherlands, Australia and many businessman in other countries in this field. Keeping in mind that great geopolitical challenges and great business opportunities are both there in front of us, we continue to attract, develop and retain valuable personnel and skillful craftsman to build a team to execute better.

Against the backdrop of global and domestic uncertainties, the Board has stayed committed to establish an effective enterprise risk management framework to protect shareholders' interest and the sustainability of the Group. We established a safety production committee to ensure workplace safety, and we are pleased to announce that we have achieved zero accident occurrence over the past two years. We also constantly provide skills training and educational workshops for our employees to inculcate a culture that everyone has a part to play in quality control and service excellence.

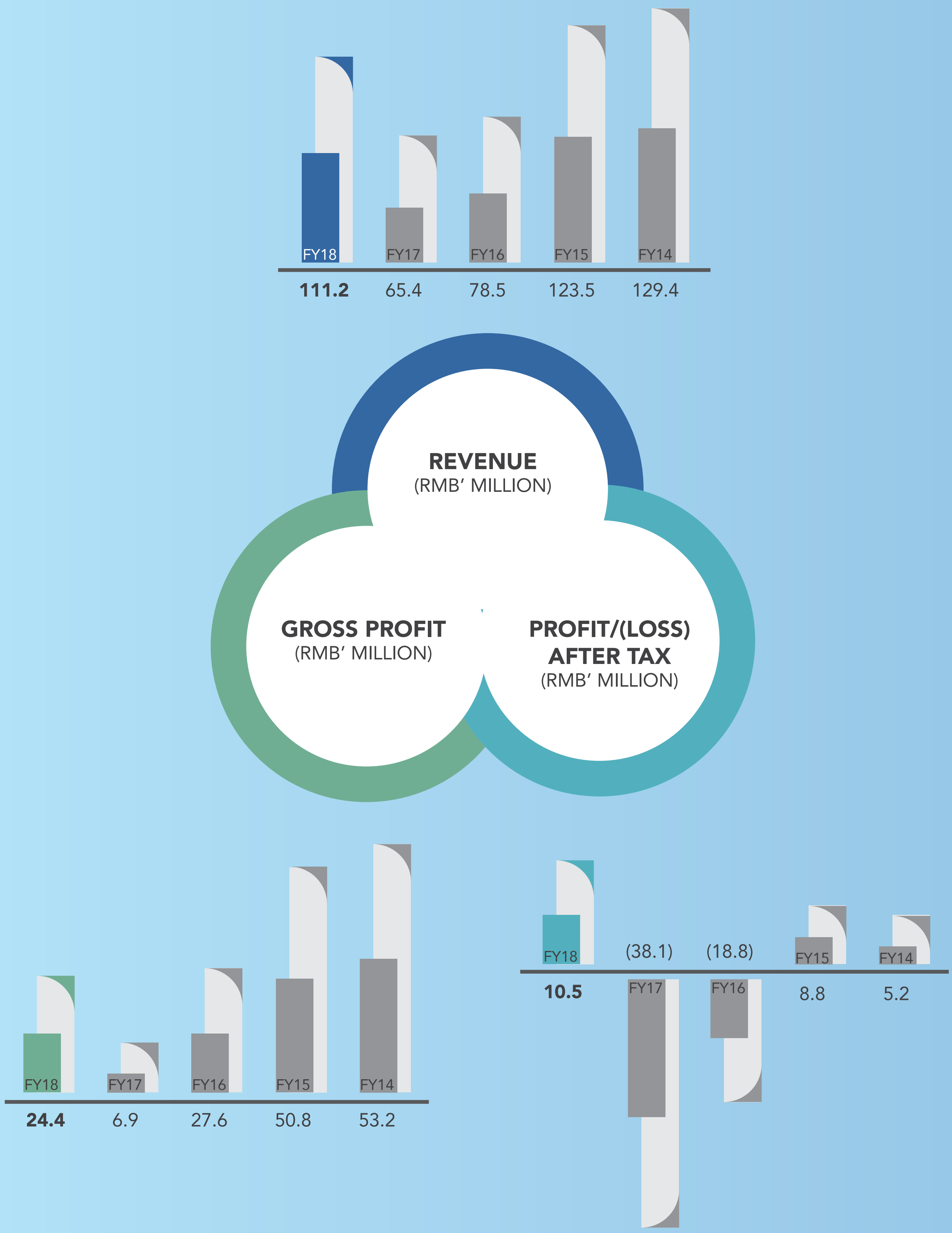
A NOTE OF APPRECIATION

At this juncture, I like to take this opportunity to welcome Professor He Mingyang to the Board as an independent director. I believe that Professor He's wealth of experience and knowledge will further strengthen the Board as a whole. I would also like to thank all our valued shareholders for your faith and trust in the Group over the years, and express my appreciation to our customers, business associates and dedicated staff for their unwavering support.

I believe that with the acumen and guidance of our Board of Directors, as well as the commitment and synergy of our key management and staff, we are well-poised to capitalise on new opportunities and tackle any challenges that may come our way.

MS XIE MING
Executive Chairman

Financial Highlights



Operations and Financial Review

YEAR IN REVIEW

FY2018 was another challenging year for many chemical companies in China as the Chinese government continued its sweeping crackdown against polluting companies in its push for environmental protection. As a provider of environmentally-friendly chemical system engineering and technology solutions, Anchun was able to capitalise on this structural reform.

During the year in review, the Group managed to get out of the red, achieving a net profit attributable to owners of the Company of RMB10.5 million from a net loss of RMB38.1 million in FY2017. This was on the back of strong revenue growth of RMB45.8 million or 70% from RMB65.4 million in FY2017 to RMB111.2 million in FY2018.

REVENUE FROM CATALYST BUSINESS SEGMENT

Revenue from our Catalyst Business fell by RMB6.8 million or 51% from RMB13.3 million in FY2017 to RMB6.5 million in FY2018.This was mainly due to weaker demand for ammonia catalyst and pre-reduced catalysts, and partially offset by stronger sales from our hydrocarbon catalysts and catalyst processing business.

REVENUE FROM ENGINEERING SERVICES SEGMENT

Revenue from our Engineering Services leaped by RMB4.1 million or 76% from RMB5.4 million in FY2017 to RMB9.5 million in FY2018.

REVENUE FROM CSC BUSINESS SEGMENT

Revenue from our CSC Business surged by RMB48.4 million or 103% from RMB46.8 million in FY2017 to RMB95.2 million in FY2018.

GROSS PROFIT

Our overall gross profit increased by RMB17.5 million or 253% from RMB6.9 million in FY2017 to RMB24.4 million in FY2018 and our gross profit margin increased from 11% in FY2017 to 22% in FY2018.

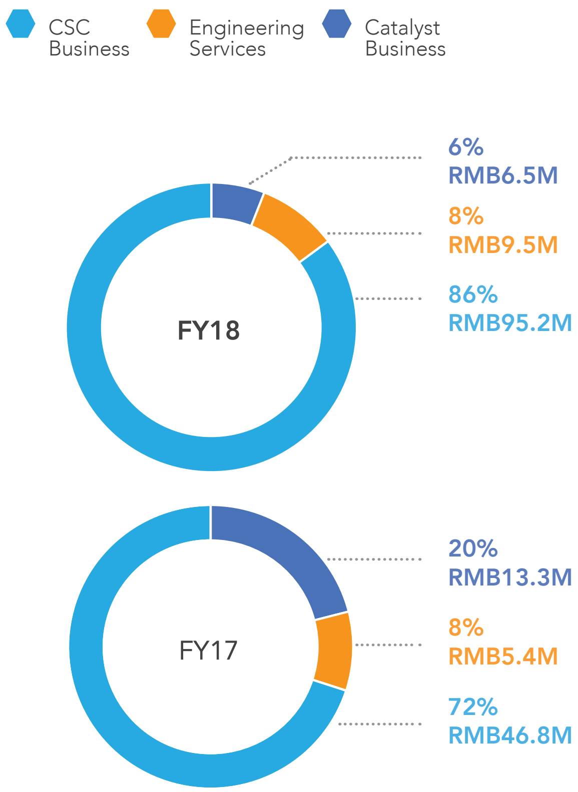
The gross profit of our CSC business increased by RMB13.0 million from RMB1.6 million in FY2017 to RMB14.6 million in FY2018 mainly due to strong revenue growth. The gross profit margin increased from 3% in FY2017 to 15% in FY2018 mainly due to lower manufacturing overhead allocated to each unit sales due to higher revenue in FY2018 over FY2017.

The gross profit of our engineering design increased by RMB4.1 million from RMB2.5 million in FY2017 to RMB6.6 million in FY2018. The gross profit increase was mainly attributable to revenue increase in FY2018. The gross profit margin increased from 46% in FY2017 to 70% in FY2018 due to increase of revenue from environmental protection engineering services which contributed higher gross margin.

OTHER INCOME & OPERATING EXPENSES

During the year, besides improved sales, the Group continued our intensive collection efforts to recover our debts, and this has resulted in a write-back of impairment on trade receivables of RMB11.2 million. Finance and other income grew by RMB6.5 million or 107% from RMB6.1 million in FY2017 to RMB12.6 million in FY2018. This was mainly contributed by the increase of sales of scrap metal of RMB1.1 million, government grants of RMB1.6 million, property rental income of RMB2.1 million and research income of RMB1.5 million.

REVENUE BY BUSINESS SEGMENT



Operations and Financial Review

Gross Profit (RMB'000)	FY2018	FY2017	Chg (%)
CSC Business	14,606	1,571	830
Engineering Services	6,644	2,517	164
Catalyst Business	3,170	2,831	13
Total	**24,420**	**6,919**	**253**

Gross Profit Margin (%)	FY2018	FY2017	Chg (%)
CSC Business	15	3	12
Engineering Services	70	46	24
Catalyst Business	49	21	28
Total	**22**	**11**	**11**

With improved sales performance, marketing staff's bonus increased by RMB0.8 million, which triggered marketing and distribution expenses to rise by RMB1.1 million or 23% from RMB4.7 million in FY2017 to RMB5.8 million in FY2018.

Administrative expenses increased by RMB1.3 million or 5% from RMB24.7 million in FY2017 to RMB26.0 million in FY2018 mainly due to increase in salaries, bonuses, fees and staff welfare expenses by RMB1.9 million or 24% from RMB7.8 million in FY2017 to RMB9.7 million in FY2018, and partially offset by a fall in manufacturing overheads allocated in administrative expenses by RMB1.1 million from RMB6.3 million in FY2017 to RMB5.2 million in FY2018.

With more research and development conducted during the year, research expenses increased by RMB2.0 million or 45% from RMB4.4 million in FY2017 to RMB6.4 million in FY2018.

Conversely, finance costs declined by RMB0.42 million or 91% from RMB0.46 million in FY2017 to RMB0.04 million in FY2018, which was mainly contributed by the decrease in interest expenses as a result of repayment of the loan from the former shareholders of our subsidiary in the first quarter of FY2018.

Income tax expenses reduced by RMB0.6 million from nil in FY2017 to negative RMB0.6 million in FY2018. This decrease was due to deferred tax asset recognised on unused tax losses arising from a subsidiary of RMB0.6 million in FY2018.

FINANCIAL POSITION

As at 31 December 2018, the Group remained in a financially strong position with no bank loan and cash and cash equivalents amounting to RMB114.5 million. The liquidity position of the Group remained constant in FY2018 with current ratio of 3.0 times which is the same as the corresponding period last year. Meanwhile, shareholders' equity remained robust at RMB284.6 million as at 31 December 2018.

The Group's non-current assets stood at RMB90.6 million, a drop by RMB11.5 million or 11.3% from RMB102.1 million as at 31 December 2017. This was mainly due to a fall in property, plant and equipment contributed by depreciation charges of RMB11.7 million.

Current assets increased by RMB35.7 million or 13.8% from RMB257.2 million as at 31 December 2017 to RMB292.9 million as at 31 December 2018. The increase was mainly due to increase in prepayments of RMB9.6 million, increase in inventories of RMB8.4 million mainly due to raw materials purchased for increased CSC business contract orders, increase in contract assets of RMB41.6 million, increase in investments of RMB20.0 million which is partially offset by a decrease in cash and cash equivalents of RMB22.2 million, a decrease in trade and other receivables of RMB10.3 million, and a decrease in bills receivable of RMB11.5 million.

长治久安，
蕴百年大业

上下合淳，
养敦庞之师

Current liabilities increased by RMB14.1 million or 16.6% from RMB84.8 million as at 31 December 2017 to RMB98.9 million as at 31 December 2018. This was mainly due to an increase in contract liabilities of RMB27.3 million, an increase in other liabilities of RMB2.2 million mainly due to increase of 1.4 million in payable items to transportation companies and sub-contractors, partially offset by a decrease in trade and other payables of RMB15.5 million.

CASH FLOW STATEMENTS

Cash and cash equivalents decreased by RMB22.2 million in FY2018, which was mainly attributed to cash used in investing activities of RMB0.09 million and financing activities of RMB38.3 million, mainly for purchase of investment managed by a fund manager of RMB20.0 million and repayment of the loan from the former shareholders of our subsidiary of RMB18.0 million. The decrease was partially offset by net cash generated from operating activities of RMB16.1 million.

DRIVING AN INNOVATIVE & SUSTAINABLE FUTURE

During the year in review, the Group continued its efforts to focus on the research and development of our patented technologies, especially in the applications of the isothermal technology. In all, the Group was awarded cvv more than 18 patents during the year in review, including one from the United States. We believe that our drive for innovation will continue to propel us forward.

With our unique and eco-friendly solutions, we made our first foray into the metallurgic industry in the Inner Mongolia region during the year. Our strong manufacturing quality and capability also won the approval of state-owned mega-conglomerate China Petrochemical Corporation (Sinopec Group), as we inked equipment contracts to undertake the manufacture of their large pressure vessels.

We believe that we are on a growth track and we will continue to build on our strengths in the three core business segments namely the Catalyst Business segment, the Engineering Services segment and the CSC business segment. We will strive to achieve more breakthroughs in our patented technologies, to achieve a greener and sustainable future for all stakeholders.

Update on use of IPO Proceeds (RMB'000)

Usage as at 31 December 2018	Amount Allocated	Amount Utilised	Balance
Expand production facilities and capacities	95,936	18,465	77,471
Enhance our R&D capabilities and widen our range of innovative and cost effective solutions	15,479	10,122	5,357
Working capital purposes	22,074		-
- For CO shift catalyst unit and technology implementations		15,868	
- For expanding sales and marketing capabilities and initiatives		6,206	
Total	**133,489**	**50,661**	**82,828**

Board of Directors

XIE MING
Executive Chairman
Appointed on 2 November 2009

Xie Ming is our Executive Chairman and was last re-elected as a Director on 29 April 2016. She was re-designated from Executive Director and CEO to Executive Chairman on 1 June 2018. She worked for specialty chemical companies and a research institute in the USA for 13 years prior to joining Anchun, first as an analytical chemist in the Health & Science Center of Louisiana State University, the research laboratory of INVISTA and then as a Sr. Chemist for Champion Technologies.

Xie Ming earned her EMBA from Rice University, USA in May 2013. She holds a Bachelor's degree in Specialty Chemical Engineering from Jiangsu Institute of Petrochemical and Chemical Engineering, China and a Master degree in Science from Department of Chemistry, University of Louisiana at Monroe, USA.

ZHENG ZHI ZHONG
Executive Director and CEO
Appointed on 1 June 2014

Zheng Zhi Zhong is our Executive Director and Chief Executive Officer ("CEO") and was last re-elected as a Director on 28 April 2017. He was re-designated from Executive Director and Chief Operating Officer to Executive Director and CEO on 1 June 2018. He is currently the Legal Representative of Hunan Anchun. He has more than 20 years of extensive experience working in the industry and gained expertise in the areas of chemical engineering process design and programming, instrumentation and control system, information management, project management, reactor manufacture, marketing and sales.

Zheng Zhi Zhong started his career with Hunan Anchun in 1993 as a Process Technology Programmer. Leveraging on his computer science knowledge, he worked closely with chemical engineers to develop the first generation computation software for Anchun's key technologies. His main contribution includes the process design and programming of "IIIJ D Type Adiabatic Inner-cooling Split-flow Internals of Ammonia Synthesis Reactor" and "Process and Application of Syn-gas Purification Alcohol-Hydrocarbon Technology", which won the National Scientific and Technological Progress Award (2nd-highest honours). Zheng Zhi Zhong is a certified Senior Engineer. He assumed the roles of IT Manager, Project Manager, Assistant General Manager and Deputy Manager in the past 20 years with Hunan Anchun. Zheng Zhi Zhong holds a Bachelor's degree in Computer Science and Technology from Shenyang Industrial University.

DAI FENG YU

Executive Director
Appointed on 9 September 2010

Dai Feng Yu is our Executive Director and was last re-elected on 26 April 2018. She is responsible for overall R&D including provision of basic supporting technologies, initiating new R&D projects and management of the company's proprietary intellectual property rights. Dai Feng Yu has more than 20 years of experience in the chemical industry. Between 1988 and 1993, she was a R&D staff in Changsha Chromic Salts Factory responsible for catalysts quality improvement and new product development.

Between 1993 and 1998, she was head of the laboratory of Anchun Energy Saving and was responsible for the research and development of catalysts as well as the introduction of catalysts to the market. In 1998, when operations of Anchun Energy Saving ceased and Hunan Anchun was established, she remained head of the laboratory of Hunan Anchun and was subsequently promoted to deputy general manager to be in charge of the overall R&D matters and management of Hunan Anchun's proprietary intellectual property rights in 2002. Dai Feng Yu holds a Bachelor's degree in industrial catalyst from East China University of Science and Technology (formerly known as the East China Institute of Chemical Technology). She was qualified as a registered senior engineer in 2001. The significant awards that Dai Feng Yu has won include the 2003 National Scientific and Technological Progress Award (2nd-highest honours) by the State Council in 2004, the Excellent Engineering Consultancy Award (2nd-highest honours) by the China Petroleum and Chemical Engineering Survey and Design Association in 2006 and the Outstanding Individual of Hunan Province contributed to scientific and technological progress by the Economic Committee of Hunan Province in 2008.

XIE DING ZHONG

Non-Executive Director
Appointed on 2 November 2009

Xie Ding Zhong is our Founder, Non-Executive Director, and member of the Remuneration Committee & Nominating Committee, and was last re-elected as a Director on 26 April 2018. He was re-designated from Non-Executive Chairman to Non-Executive Director on 1 June 2018. He has accumulated more than 40 years of experience in the chemical industry. Between 1961 and 1974, Xie Ding Zhong was a lecturer in the chemical engineering faculty of Hunan University. From 1975 to 1976, he was an technician in Dongting Nitrogen Fertiliser Factory.

Between 1976 and 1993, he was the chief engineer in Fertiliser Industry Company of Hunan Province, where he took charge of the production, R&D and system design of the small-sized nitrogen fertiliser manufacturers and provided solutions to technological problems as well as promoted technical innovation in Hunan Province. Between 1993 and 1998, he was the legal representative and general manager cum general engineer of Anchun Energy Saving in charge of the overall operations and management. In 1998, when operations of Anchun Energy Saving ceased, he set up Hunan Anchun with our founding management team and then employees to carry on the business, and he has since then been the legal representative and general manager cum general engineer responsible for directing the strategic directions and growth of Hunan Anchun. Xie Ding Zhong graduated with a Bachelor's degree in Chemical Engineering from Hunan University in 1961. In November 1999, he was qualified as a registered senior engineer (research fellow), which is the highest rank of engineers in the PRC. He is a committee member of various national specialist committees in the chemical industry, such as China Nitrogen Fertiliser Industry Association and China Petroleum and Chemical Engineering Survey and Design Association, etc. He has won numerous awards at the national, provincial and city levels in recognition of his achievements and contribution to the chemical industry. The significant awards that Xie Ding Zhong had won include the National Scientific and Technological Progress Award (2nd-highest honours) by the National Science and Technology Committee of PRC in 1995, and the 2003 National Scientific and Technological Progress Award (2nd-highest honours) by the State Council in 2004, which is regarded as one of the most prestigious awards in the PRC in recognition of achievement and contribution to scientific and technological progress. In addition, in recognition of his contributions towards the development of engineering technology in the PRC, he has been entitled to a special subsidy granted by the State Council since 1991.

Board of Directors

LEE GEE AIK
Lead Independent Director
Appointed on 9 September 2010

Lee Gee Aik is our Lead Independent Director, Chairman of the Audit Committee, and member of the Nominating Committee. He was last re-elected on 28 April 2017. He is a practising accountant who started his career as an auditor with KPMG Singapore in 1979. Mr Lee was seconded to KPMG USA Executive Office located in Manhattan, New York between 1986 to 1988. He was the regional controller of Omni Marco Polo Hotels, Singapore from 1993 to 1998. Mr Lee has over 38 years of extensive and varied experience in accounting, tax and financial matters.

Mr Lee is a Fellow of the Association of Chartered Certified Accountants, United Kingdom, and the Institute of Certified Public Accountants of Singapore. He also obtained a Master of Business Administration from The Henley Management College, United Kingdom. He has been appointed by the Minister of Health to serve as Lay Person member of the Complaints Panel of the Singapore Pharmacy Council. He is currently an Independent Director of Astaka Holdings Limited, SHS Holdings Limited and Uni-Asia Holdings Limited. He formerly served on the board of Ley Choon Group Holdings Limited, Leader Environmental Technologies Limited, LHN Limited and International Healthway Corporation Limited.

TAN MIN-LI
Independent Director
Appointed on 9 September 2010

Tan Min-Li is our Independent Director, Chairman of the Remuneration Committee and member of the Nominating Committee & Audit Committee, and was last re-elected as a Director on 29 April 2016. She is currently a partner at Colin Ng & Partners LLP, a firm of advocates and solicitors in Singapore, and has over 15 years of experience in the legal profession. Tan Min-Li has considerable experience in the areas of initial public offerings, regional investments, corporate restructuring, cross border joint ventures and mergers and acquisitions in the region. She regularly advises on Singapore Exchange compliance and corporate governance issues.

Tan Min-Li heads the Corporate Finance Practice Group, Greater China Practice Group and Japan Focus Group at Colin Ng & Partners LLP. Her principal areas of practice are in corporate and financial services with particular emphasis on corporate finance and mergers and acquisitions in Singapore and the region. Prior to joining Colin Ng & Partners LLP in 2003, she was a partner with KhattarWong, a firm of advocates and solicitors in Singapore, and had also held other positions at other law firms since graduation. She graduated with a Bachelor of Laws (Honours) from the National University of Singapore and a Master of Laws from University College London, University of London, and was admitted as an Advocate and Solicitor of the Supreme Court of Singapore in 1992. She currently also serves as Independent Director of Union Steel Holdings Limited and Ocean Sky International Limited.

YANG CHUN SHENG

Independent Director
Appointed on 9 September 2010

Yang Chun Sheng is our Independent Director, Chairman of the Nominating Committee & member of the Remuneration Committee, and was last re-elected as a Director on 26 April 2018. Mr Yang is a Registered Senior Engineer (Research Fellow) - the highest rank of engineers in the PRC. He is currently the consultant of the China Nitrogen Fertiliser Industry Association and the President of Shandong Chemical Fertiliser Industry Association.

He was previously the President of Shandong Province Chemical Planning & Design Institute, Deputy Chief Engineer of Shandong Province Petrochemical Industry Department, Chief Engineer of Shandong Province Chemical Fertiliser Industry Company and General Manager of Shandong Province Chemical Fertiliser Industry Corporation.

As part of his role in the industry associations, Yang Chun Sheng proactively guides fertiliser enterprises on industrial upgrading and technological innovation activities, as well as hastens science and technology development in domestic coal gasification and the promotion and application of its related technologies. He led and also participated in the planning, standards drafting, policy review for the fertiliser industry, as well as provide advice on how to better develop the industry.

Yang Chun Sheng was awarded the National Scientific and Technological Progress Award (2nd-highest honours) in December 1998 and the Scientific and Technological Progress Award (3rd-highest honours) by the China Petroleum and Chemical Industry Federation in October 2011. He regularly contributes professional articles relating to fertiliser industrial policies, technical progress and business management on national newspapers, periodicals and business networks.

ANDREW BEK

Independent Director
Appointed on 1 March 2014

Andrew Bek is our Independent Director, and member of the Audit Committee, and was last re-elected on 28 April 2017. Andrew Bek started his career in Arthur Andersen & Co and was there from 1988 to 1997.

He was later attached to a manufacturing company from 1997 to 1998 overseeing the accounts and finance department. He then joined Ernst & Young from 1999 to 2007. He is an Investment Director at OneEquity SG Private Limited since 2007. He was formerly an Executive Director of China Environment Ltd.

HE MING YANG

Independent Director
Appointed on 1 January 2019

He Ming Yang is our Independent Director, and was appointed to our Group on 1 January 2019. He is the Professor of the School of Petrochemical Engineering at Changzhou University from July 2006 to present, Dean of the School of Petrochemical Engineering at Changzhou University from March 2010 to April 2017 and Deputy Director of Jiangsu Key Laboratory of Advanced Catalytic Materials and Technology from July 2013 to present.

Mr He researched on Synthesis, structure, properties and application of ion exchange polymer catalyses, Fine chemicals cleaning production processes and technologies and Clean environment and energy-related metal-organic framework material (MOF). The project Mr He Ming Yang researched was awarded the National Scientific and Technological Progress Award (2nd-highest honors) in 2006.And he has been entitled to a special subsidy granted by the State Council since 2008. He regularly contributes professional articles on national newspapers, periodicals and publications. He has also gotten many patents.

Key Executives

LI CHUN YANG
Head of Sales and Marketing Department

Li Chun Yang was our Head of Sales and Marketing Department responsible for our Group's sales and marketing and maintenance of customer relationships. Li Chun Yang has almost 40 years of experience in the chemical industry. Between 1970 and 1972, he worked in Hunan Hengnan County Nitrogen Fertiliser Factory.

After which, he pursued his Bachelor's degree in Hunan University and graduated in 1975. Thereafter, he was engineer and head of workshop of Hunan Hengnan County Nitrogen Fertiliser Factory between 1975 and 1984 and later held the same position in Hunan Hengyang City Nitrogen Fertiliser Factory between 1984 and 1987, where he was responsible for the overall production activities. Between 1987 and 1993, he worked in Hunan Fertiliser Industry Company, a state-owned company which was delegated to manage the provincial fertiliser industry and he was responsible for provision of management advice and technical support to laggard fertiliser companies in Hunan Province. In 1993, he was the deputy general manager of Anchun Energy Saving responsible for sales and marketing, customer services and maintenance of customer relationships. In 1998, when operations of Anchun Energy Saving ceased and Hunan Anchun was established, he joined Hunan Anchun and has since then focused on the sales and marketing, maintenance of customer relationships and human resources of Hunan Anchun.

Li Chun Yang holds a Bachelor's degree in Inorganic Chemistry from Hunan University. He was qualified as a registered senior engineer in 1994 and a certified chemical engineer in 2004. The significant awards that Li Chun Yang has won include the National Scientific and Technological Progress Award (2nd-highest honours) by the National Science and Technology Committee of PRC in 1995 and 2003 National Scientific and technological Progress Award (2nd-highest honours) by the State Council in 2004, the outstanding Individual contributing to Nitrogen Fertiliser Industry in 1998 by the Ministry of Chemical Industry of the PRC, and the Scientific and Technological Progress Award (2nd-highest honours) by China Petroleum and Chemical Industries Association in 2002. Li Chun Yang resigned as Head of Sales and Marketing Department with effect from 20 March 2019.

HE ZU BING
Chief Financial Officer

He Zu Bing is our Chief Financial Officer and was appointed to our Group on 20 March 2019. He is responsible for our Group overall finance and accounting functions. He has over 12 years of finance management experience. He worked as the Cost Accountant, General Ledger Accountant, Purchaser Member of Production Group and Deputy Financial Controller in Hunan Anchun Advanced Technology Co., Ltd since July 2010. He worked as the Accounting Manager in Hunan Guoda Investment Co., Ltd for more than 4 years since 2006. He has experience in enterprise finance management, accounting, tax, investment and finance management and internal control. He Zu Bing holds a China Certified Public Accountant certificate, and also posses the intermediate Accountants Certificate.

LI JUAN
Finance Controller

Li Juan is our Financial Controller and was appointed to our Group on 16 May 2017. She is responsible for our Group overall finance management. She has over 7 years of finance experience. She worked as the GL Supervisor in corporations for more than 3 years since 2014. She has experience in accounting, tax, financing management and internal control.

Li Juan holds a China Certified Public Accountant certificate, and also US Certified Management Accountant certificate.

Sustainability Report

1. BOARD STATEMENT

We are pleased to present our second annual Sustainability Report of Anchun International Holdings Limited ("Anchun", the "Company", and together with its subsidiaries, the "Group") for our financial year ended 31 December 2018 ("FY2018"). This report is prepared in compliance with the requirements of Singapore Exchange Securities Trading Limited ("SGX-ST") Listing Rules 711A and 711B, and references the Global Reporting Initiative ("GRI") Standards, Core option. This report highlights the key economic, environmental, social and governance ("EESG") related initiatives carried throughout a 12-month period, from 1 January to 31 December 2018.

Sustainability is a part of the Group's wider strategy to create long-term value for all its stakeholders. As such, the key material EESG factors for the Group have been identified and cautiously reviewed by the management. The data and information provided have not been verified by an independent third party. We have relied on internal data monitoring and verification to ensure accuracy of data and information. The board of directors of the Group (the "Board") oversees the management and monitoring of these factors and takes them into consideration in the determination of the Group's strategic direction and policies.

We welcome feedback from our stakeholders with regards to our sustainability efforts as this enables us to consistently improve our policies, systems and results. Please send your comments and suggestions to info@anchun.com.

29 March 2019

Sustainability Report

2. SUSTAINABILITY APPROACH

OUR SUSTAINABILITY METHODOLOGY STAKEHOLDERS ENGAGEMENT

An important starting point in our sustainability journey is to identify our stakeholders and material factors relevant to our business. The interests and requirements of key stakeholders are also taken into account when formulating corporate strategies. These key stakeholders include, but are not limited to shareholders, employees, customers, supplies, contractors and authorities. We adopt both formal and informal channels of communication to understand the needs of key stakeholders, and incorporate these into our corporate strategies to achieve mutually beneficial relationships.

Stakeholders	Engagement Platforms	Frequency of Engagement	Key concerns raised
Employees and Trade Unions	Townhall sessions Open dialogues among teams Intranet portal	Annually Monthly Ad-hoc	Remuneration Health and Safety Training
Customers and Consumers	Hotline Email queries Customer visit Onsite audit Customer survey	Ad-hoc Ad-hoc Quarterly Annually Annually	Product Safety Health and Safety Customer Service
Suppliers and Service Providers	Face-to-face meetings Annual review and feedback sessions	Weekly Annually	Positive relationship Payment
Investors/Shareholders	Group Annual Report Annual General Meeting Quarterly result briefings Informal discussion	Annually Annually Quarterly Ad-hoc	Business growth Business performance
Local communities	Face-to-face meetings Various social events	Ad-hoc Quarterly	Impact to community
Media	Media releases Quarterly result briefings	Quarterly Quarterly	Transparency
Government and Regulators	Face-to-face meetings Regular reports Participation in discussions	Ad-hoc Quarterly Quarterly	Compliance with regulations
Trade associations	Engagements through business partnerships Leading working groups in industry associations	Quarterly Annually	Contribution

Sustainability Report

MATERIALITY ASSESSMENT

Our sustainability process begins with the identification of relevant factors. Relevant factors are then prioritised to identify material factors which are subject to validation. The end result of this process is a list of material factors disclosed in the Sustainability Report. Process of which are as shown below:

INDENTIFICATION

PRIORITISATION

VALIDATION

REVIEW

The Group has conducted a materiality assessment during the year with the help of an external consultant. We engaged our employees from different departments, seeking our internal stakeholders' feedback for prioritisation of these topics. Going forward, materiality review will be conducted every year, incorporating inputs gathered from stakeholders' engagements.

In order to determine if a factor is material, we assessed its potential impact on the economy, environment and society and its influence on the stakeholders. Applying the guidance from GRI, we have identified the following as our material factors:

ECONOMIC

- Economic Performance
- Anti-Corruption

ENVIRONMENTAL

- Energy
- Environmental Compliance

SOCIAL

- Occupational Health and Safety
- Diversity and Equal Opportunity
- Socioeconomic compliance

GOVERNANCE

- Corporate Governance
- Risk Management

3. ECONOMIC

ECONOMIC PERFORMANCE

Anchun is committed to grow our customers and exceed our customers' expectations and providing them with competitive edge products by enhancing operational efficiency by incorporating effective use of technology, develop performance measures, communicate outcomes and results and implement necessary changes to provide fast and high quality services at low transactional costs.

We have 28 main suppliers located in China that provides steel for the engineering and manufacturing of our chemical systems, components, reactors, pressure vessels and other auxiliary equipment. The raw material procurement order fee from our labour intensive supply chain for FY2017 is approximately RMB50 million while it was RMB117million in FY2018.

For detailed financial results, please refer to the following sections in our Annual Report 2018:

- Financial Highlights, page 6
- Operations & Financial Review, pages 7 to 9
- Financial Statements, pages 56 to 124.

ANTI-CORRUPTION

Anchun does not tolerate corruption in any form. We communicated this externally with our customers and suppliers and internally with our employees.

We have established anti-corruption policy. We prohibit corruption in all forms, including extortion and bribery. As set out in our whistle-blowing policy, all complaints shall be reported to the Audit Committee Chairman of the Company either in person or via an email that is only accessible by the Audit Committee Chairman. Similar to FY2017, there were no reported incidents of corruption during FY2018.

Target: To maintain zero incidents of corruption.

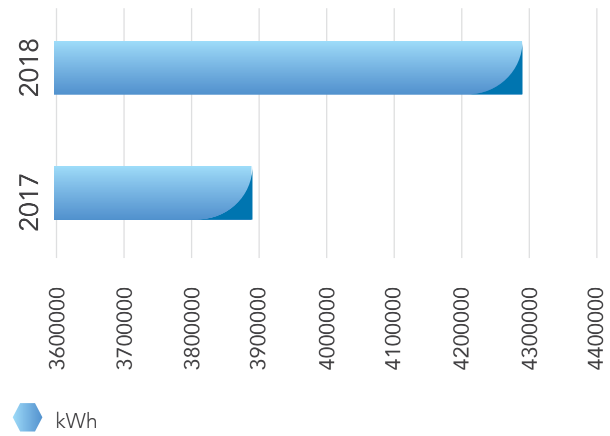
Sustainability Report

4. ENVIRONMENTAL

ENERGY

The Group is fully aware of its responsibility for nurturing the environment and lessening negative environmental consequences at our worksites and the environment where we operate. We monitor our energy at our work places to ensure that we use our resources economically, meaningfully and responsibly.

ELECTRICITY CONSUMPTION



Our electricity consumption has increased in line with the increase in our revenue in FY2018.

Target: Based on our projected production in FY2019, our target energy consumption is 6.05 million kWh.

ENVIRONMENTAL COMPLIANCE

China's rapid economic expansion and past relaxed environmental oversight have caused a number of ecological problems. With increasing public and global pressure, the national government has set in place a number of measures to curb pollution in the country and improve the China's environmental situation.

Environmental policy is set by the National People's Congress and managed by the Ministry of Environmental Protection (MEP) of the People's Republic of China. Under MEP, the Department of Policies, Laws and Regulations is in charge of establishing and strengthening environmental laws, administrative policies and economical regulations. It is also responsible for the development of national environmental protection policy and macro strategy.

At Anchun, we have been adhering to local and international environmental guidelines. Our production facilities and processes are awarded for engineering design with focus on the environment.

- Class A Engineering Design (Ministry of Housing and Urban-Rural Construction, PRC)
- Class A Environmental Design (Ministry of Housing and Urban-Rural Construction, PRC)
- Pressure Pipeline Design (General Administration of Quality Supervision, Inspection and Quarantine, PRC)

HELPING CUSTOMERS ACHIEVE ENERGY-SAVING RESULTS

In 2012, the first CO isothermal conversion technology provided by our company was applied to the production of 50,000 tonnes of ethylene glycol from the tail gas of 30,500 Nm3/h calcium carbide furnace in Tianye, Xinjiang. A DN2200 isothermal converter converted CO from 78% to 16%, which reduced resistance by 0.3 MPaG, saved power by 202.5 kWh per hour, increased steam by 0.42 t per hour, saved 854.4 t of standard coal per year and reduced CO2 emissions by 2255.62 t per year compared with the traditional converter system.

In 2015, the CO isothermal conversion technology provided by our company was successfully applied to HT-L pulverized coal pressurized gasification to produce 300,000 tonnes/year synthetic ammonia in Zhongneng Wanyuan Chemical Industry, Xinjiang. Compared with the traditional conversion process, the system resistance decreased by 0.3 MPaG, achieved power saving of 1012.5 kWh per hour, steam increased by 2.1 t per hour, a total of 4272 tonnes of standard coal saved annually, and CO2 emissions reduced by 11278 tonnes per year.

In FY2018, the National Energy Conservation Center issued to our company a Certificate of Typical Cases of Key Energy Conservation Technology Application in recognition of our role in helping our customers save energy.

Sustainability Report

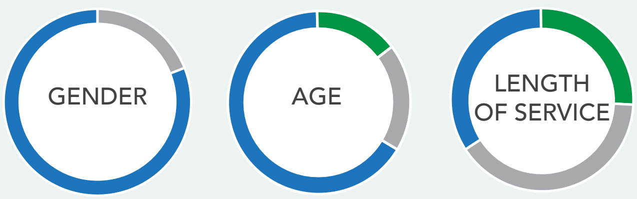
- A1 / A2 / D1 / D2 Pressure Vessel Design (General Administration of Quality Supervision, Inspection and Quarantine, PRC)
- Pressure Vessel Manufacture (General Administration of Quality Supervision, Inspection and Quarantine, PRC)
- ASME U Mark Certificate Pressure Vessel Manufacture (The American Society of Mechanical Engineers).

We are also ISO 9001 'Quality Management System' certified, an international guideline that ensures we meet the statutory and regulatory requirements while delivering high quality products and services to our customers.

There were also no incidence of non-compliance with laws and regulations resulting in significant fines or sanctions in FY2018.

Target: To maintain zero incidents of non-compliance.

EMPLOYEE DISTRIBUTION IN 2018

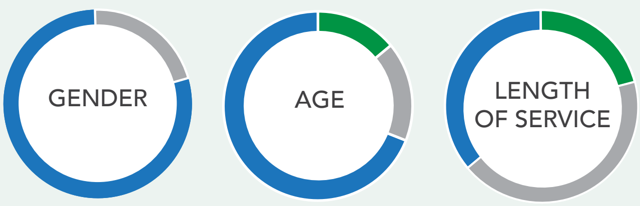


MALE: 81%
FEMALE: 19%

30-50 YEARS: 66%
>50 YEARS: 19%
<30 YEARS: 15%

5 -10 YEARS: 33%
> 10 YEARS: 40%
<5 YEARS: 27%

EMPLOYEE DISTRIBUTION IN 2017



MALE: 79%
FEMALE: 21%

30-50 YEARS: 69%
>50 YEARS: 17%
<30 YEARS: 14%

5 -10 YEARS: 36%
> 10 YEARS: 43%
<5 YEARS: 21%

5. SOCIAL

OCCUPATIONAL HEALTH AND SAFETY

Our employees' safety and health at the workplace is one of our top priorities, and our ultimate goal is to have a zero accident workplace. We are committed to managing and reducing safety and health risks through effective risk management. We have established Management System of Occupational Hazard Protection Equipment and Facilities policy to protect our employees.

We are pleased to confirm that zero fatal accidents were reported in 2017 and 2018.

Target: To maintain zero incidents of work place injury.

DIVERSITY AND EQUAL OPPORTUNITY

Although the group's staff strength is very small, Anchun ensures compliance with labour and employment laws, including working hours. Furthermore, we ensure that no colleagues should be discriminated against because of age, gender, national origin, disability, religion, sexual orientation, marital or maternity status, union membership or political opinion, among others. Non-compliance in relation to discrimination is reportable through our whistleblowing system. Our Group's staff diversity is illustrated via the charts on the left. Our headcount increased from 277 in 2017 to 285 in 2018. Due to the nature of the work, most of our employees are male.

Target: Zero complaints on discrimination

SOCIOECONOMIC COMPLIANCE

Anchun was not subject to any substantiated complaints or incidences of corruption, bribery, anti-competitive behaviour, data loss or privacy breaches in 2017 and 2018. There were no incidences of material penalties in relation to the sale of banned products, non-compliance with marketing and labelling regulations, Product Health and Safety, Occupational Health and Safety or environmental laws and regulations.

We abide by the listing rules as stated in the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST") on corporate governance and believe in the honesty, integrity and vigilance of our management and employees.

Target: To maintain zero incidents of non-compliance.

Sustainability Report

MEMBERSHIP

Anchun's contribution to the industry and Hunan province is clearly marked by our management positions in key associations and professional organizations.

- Director Unit of China Petroleum & Chemical Engineering Survey And Design Association
- Standing Member of China Nitrogen Fertilizer Industry Association
- Standing Member of China Chemical Industry Environmental Protection Association
- Director Unit of China Petroleum Chemical Industry Federation
- Member Unit of China Chemical Industry Equipment Association
- Standing Member of Hunan Society of Chemical and Chemical Engineering
- Director Unit of Hunan Survey and Design Association
- Director Unit of Hunan Provincial Association of Engineering Consultants
- Vice President Unit of Hunan Petroleum Chemical Industry Association
- Member Unit of Chemical Catalyst Division Technical Committee of National Standardization Technical Committee of Chemical
- Standing Member of Hunan Petroleum Society

6. GOVERNANCE

CORPORATE GOVERNANCE

The Board and the Management of Anchun are committed to the best practices in corporate governance to ensure sustainability of the Group's operations. We believe that our constant drive for corporate excellence will allow us to establish a more transparent, accountable and equitable system, thereby increasing the value of the Company and its value to our shareholders. Please refer to the Annual Report 2018 pages 24 to 47 for details of the Group's Corporate Governance Report.

RISK MANAGEMENT

The Board is committed to ensuring that the Group has an effective and practical enterprise risk management framework in place to safeguard Shareholders' interests, and the sustainability of the Group as well as provide a basis to make informed decisions having regard to the risk exposure and risk appetite of the Group. For detailed disclosure on our risk management, please refer to pages 35 to 36 of our Annual Report 2018.

7. GRI STANDARDS CONTENT INDEX

GRI Standard	Disclosure		Reference / Description
GRI 101: Foundation 2016			
GENERAL DISCLOSURE			
GRI 102: General Disclosures	102-1	Name of the organization	Anchun International Holdings Ltd.
	102-2	Activities, brands, products and services	pages 1 to 3
	102-3	Location of headquarters	China
	102-4	Location of operations	China
	102-5	Ownership and legal form	page 1
	102-6	Markets served	page 1
	102-7	Scale of the organization	page 19
	102-8	Information on employees and other workers	page 19
	102-9	Supply chain	page 17
	102-10	Significant changes to the organization's size, structure, ownership, or supply chain	None
	102-11	Precautionary Principle or approach	Anchun does not specifically address the precautionary approach.
	102-12	External initiatives	Member Unit of Chemical Catalyst Division Technical Committee of National Standardization Technical Committee of Chemical.
	102-13	Membership of associations	page 20
	102-14	Statement from senior decision maker	page 15
	102-16	Values, principles, standards and norms of behaviour	page 1, 20
	102-18	Governance structure	page 20, 24 to 27
	102-40	List of stakeholder groups	page 16
	102-41	Collective bargaining agreements	None
	102-42	Identifying and selecting stakeholders	page 16
	102-43	Approach to stakeholder engagement	page 16
	102-44	Key topics and concerns raised	page 16
	102-45	Entities included in the consolidated financial statements	page 93
	102-46	Defining report content and topic Boundaries	page 15
	102-47	List of material topics	page 17
	102-48	Restatements of information	None
	102-49	Changes in reporting	None
	102-50	Reporting period	1 Jan 2018 to 31 Dec 2018
	102-51	Date of most recent previous report	2017 Annual Report
	102-52	Reporting cycle	Annually
	102-53	Contact point for questions about the report	Liu Dan
	102-54	Claims if reporting in accordance with the GRI Standards	page 15
	102-55	GRI content index	pages 21 to 22
	102-56	External Assurance	We may seek external assurance in the future.

Sustainability Report

GRI Standard	Disclosure		Reference / Description
MATERIAL TOPICS			
GRI 201: Economic performance	201-1	Direct economic value generated and distributed	page 17
GRI 205: Anti-corruption	205-1	Operations assessed for risks related to corruption	page 17
GRI 302: Energy	302-1	Energy consumption within the organization	page 18
GRI 307: Environmental Compliance	307-1	Non-compliance with environmental laws and regulations	page 18
GRI 403: Occupational Health and Safety	403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	page 19
GRI 405: Diversity and equal opportunity	405-1	Diversity of governance bodies and employees	page 19
GRI 419: Socioeconomic Compliance	419-1	Non-compliance with laws and regulations in the social and economic area	page 19

Financial Contents

Corporate Governance Report

The listing rules as stated in the Listing Manual of the Singapore Exchange Securities Trading Limited ("**SGX-ST**") require an issuer which holds its Annual General Meeting ("**AGM**") to describe its corporate governance policies in its annual report.

The Company has, since its listing on the SGX-ST on 25 October 2010, put in place various policies and practices that will safeguard the interests of shareholders and enhance shareholders' value as part of its effort to maintain high standards of corporate governance. This section outlines the main corporate governance practices and procedures adopted by the Company with specific reference made to the principles and guidelines as set out in the revised Code of Corporate Governance 2012 (the "**Code**"). Where there are deviations from the Code, appropriate explanations will be provided.

Principle 1:
The Board's Conduct of its Affairs

Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the long-term success of the company. The Board works with Management to achieve this objective and Management remains accountable to the Board.

The Board is entrusted with the responsibility for the overall management of the business and corporate affairs of the Group. Guideline 1.1

Matters which specifically require the Board's decision or approval are those involving:

- corporate strategy and business plans;
- investment and divestment proposals;
- funding decisions of the Group;
- nominations of Directors for appointment to the Board and appointment of key personnel;
- announcement of quarterly, half-year and full-year results, the annual report and accounts; and
- all matters of strategic importance

All Directors, in the course of carrying out his or her duties, exercise due diligence and independent judgement, and act in good faith and in the best interests of the Group. Guideline 1.2

To facilitate effective management, certain matters are delegated to committees whose actions are monitored by the Board. These committees include the Audit Committee ("**AC**"), the Nominating Committee ("**NC**") and the Remuneration Committee ("**RC**"), all of which are chaired by independent Directors and operate within clearly defined terms of reference and functional procedures. Guideline 1.3

The Board has adopted a set of internal guidelines setting forth matters that requires its approval. Matters which are specifically reserved to the Board for approval include but not limited to the following: Guideline 1.5

(i) any proposed acquisitions and disposal of assets;

(ii) any proposed changes in the capital of the Company;

(iii) any interested person transaction (as defined under Chapter 9 of the Listing Manual);

(iv) dividends and other returns to shareholders; and

(v) capital expenditure.

Newly-appointed Directors undergo an orientation program with materials provided to help them get familiarised with the business and organisation structure of the Group. To get a better understanding of the Group's business, the newly-appointed Directors will also be briefed on their duties and obligations as directors. They are also given the opportunity to visit the Group's operational facilities and meet with the Management. The Directors are also provided with updates on the relevant new laws and regulations related to the Group's operating environment through emails and regular briefings by the Company Secretary (or her representatives) and Ernst & Young LLP ("**External Auditors**"). Guidelines 1.6, 1.7 and 12.8

Newly appointed Directors, if any, will be issued a letter of appointment or service contract setting out their duties and obligations when they are appointed.

The Board meets at least once every quarter. It also holds ad-hoc meetings as and when circumstances require. Telephonic and video conference attendance at Board's meetings is allowed under the Company's Constitution. The Board and Board committees may also make decisions by way of circulating resolutions. Guideline 1.4

During FY2018, the number of Board meetings held and attended by each member of the Board is as follows:

Name of Director	Number of Meetings held	Attendance
Ms Xie Ming#	4	4
Mr Zheng Zhi Zhong^	4	3
Ms Dai Feng Yu	4	4
Mr Xie Ding Zhong*	4	4
Mr Lee Gee Aik	4	4
Ms Tan Min-Li	4	4
Mr Andrew Bek	4	4
Mr Yang Chun Sheng	4	4
Professor He Mingyang@	–	–

Ms Xie Ming was re-designated from Executive Director and CEO to Executive Chairman of the Board on 1 June 2018.

^ Mr Zheng Zhi Zhong was re-designated from Executive Director and Chief Operating Officer to Executive Director and CEO on 1 June 2018.

* Mr Xie Ding Zhong was re-designated from Non-Executive Chairman to Non-Executive Director on 1 June 2018.

@ Professor He Mingyang was appointed as Independent Director on 1 January 2019.

Corporate Governance Report

Principle 2:
Board Composition and Balance

There should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently, in particular, from Management and 10% shareholders. No individual or small group of individuals should be allowed to dominate the Board's decision making.

As at the end of FY2018, the Board consisted of three Executive Directors (one of which is also our Executive Chairman), one Non-Executive Director and four Independent Directors. The Board is able to exercise objective judgement independently from Management on corporate affairs of the Group as Independent Directors constitute 50% of the Board. As such, no individual or small group of individuals dominate the decisions of the Board.

Guidelines 1.1, 1.2, 2.1 and 2.2

The Board currently comprises:

Executive Directors
Ms Xie Ming[1]
Mr Zheng Zhi Zhong[2]
Ms Dai Feng Yu

Non-Executive Director
Mr Xie Ding Zhong[3]

Independent Directors
Mr Lee Gee Aik
Ms Tan Min-Li
Mr Andrew Bek
Mr Yang Chun Sheng
Professor He Mingyang[4]

Notes:

1. Ms Xie Ming was re-designated as Executive Chairman of the Company on 1 June 2018.
2. Mr Zheng Zhi Zhong was re-designated as Executive Director and CEO of the Company on 1 June 2018.
3. Mr Xie Ding Zhong was re-designated as Non-Executive Director of the Company on 1 June 2018.
4. Professor He Mingyang was appointed as Independent Director of the Company on 1 January 2019.

The independence of each Director is reviewed annually by the NC. During FY2018, the NC adopts the definition in the Code as to what constitutes an Independent Director in its review. In addition, the NC also reviews the composition of the Board annually to ensure that the Board consists of persons who, together, contribute an appropriate balance and diversity of skills to provide core competencies necessary to meet the Company's objectives.

Guidelines 2.3 and 2.6

Based on the confirmation of independence and self-declaration submitted by the Independent Directors, the NC is of the view for FY2018, Mr Lee Gee Aik, Ms Tan Min-Li, Mr Andrew Bek and Mr Yang Chun Sheng are independent in accordance with the Code and satisfied that the Independent Directors are able to act with independent judgment.

Corporate Governance Report

During FY2018, none of the Independent Directors has a relationship with the Company or its related corporations, its major shareholders (holding 10% or more of its shares) or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgement.

As at 31 December 2018, none of the Independent Directors have served on the Board beyond 9 years from the date of his / her initial appointment. Guideline 2.4

The Board and the NC has examined the size of the Board and is of the view that it is an appropriate size for effective decision-making, taking into account the scope and nature of the operations of the Company. In addition, the Board and the NC has taken into account, *inter alia*, the Directors' contributions, scope of work and the wide spectrum of skill and knowledge and are satisfied that the current Board's composition is appropriate for the Group. Guideline 2.5

The NC and the Board recognise the importance of an appropriate balance and diversity of industry knowledge, skills, backgrounds, experience and professional qualifications in building an effective Board. For this reason, the NC periodically reviews the existing attributes and competencies of the Board and is satisfied that the Directors as a group have the appropriate mix of expertise to lead and govern the Group effectively. The diversity of the directors' expertise and experience allows for the useful exchange of ideas and views providing a balance of views at Board and Board Committee meetings. The Board currently comprises 3 female and 6 male directors who, as a whole have relevant competence, in accounting, finance, legal, business and management and strategic planning. Guideline 2.6

Details of the Directors' academic and professional qualifications and other appointments are set out on page 44 to page 47 of this Annual Report.

The Independent Directors and the Non-Executive Director together confer regularly with the Executive Directors and Management to constructively challenge and help to develop proposals on strategy, review the performance of the management in meeting agreed goals and objectives, and monitor the reporting of performance. Where warranted, the Independent Directors and Non-Executive Director have conference calls and / or meetings regularly without the presence of Management or the Executive Directors to review any matters that must be raised privately. Guidelines 2.7 and 2.8

Principle 3:
Chairman and Chief Executive Officer

There should be a clear division of responsibilities between the leadership of the Board and the executives responsible for managing the company's business. No one individual should represent a considerable concentration of power.

The Chairman and CEO of the Company are separate persons. On 1 June 2018, Mr Xie Ding Zhong was re-designated from Non-Executive Chairman to Non-Executive Director of the Company and his daughter, Ms Xie Ming was re-designated from Executive Director and CEO to Executive Chairman of the Board and Mr Zheng Zhi Zhong was re-designated from Executive Director and Chief Operating Officer to Executive Director and CEO. Following the aforesaid re-designations, the Executive Chairman and the CEO are not related and the roles of the Chairman and CEO are kept separate to ensure an appropriate balance of power, greater capacity of independent Board decision making and increased accountability. Guideline 3.1

Corporate Governance Report

The Executive Chairman plays a key role in promoting high standards of corporate governance, ensures that board meetings are held when necessary and sets the board meeting agenda (with the assistance of the Company Secretary and in consultation with the CEO) and ensures that the Board reviews the Group's strategic direction, expansion plans and business development formulated by the CEO. The Executive Chairman also participates in communicating with key stakeholders, including shareholders and Management. Guideline 3.2

The CEO's responsibilities, in addition to setting the strategic direction, expansion plans and business development, include managing the day-to-day business activities of the Group, executing the strategies and policies approved by the Board, reporting to the Board on the performance of the Group, providing guidance to the Group's employees, and encouraging constructive relations between the Management and the Board.

To promote a high standard of corporate governance, Mr Lee Gee Aik, an Independent Director, has been appointed as the Lead Independent Director as well as the Chairman of the AC. In accordance with the Code, Mr Lee Gee Aik is available to shareholders when they have concerns where contact through the normal channels of the Chairman and CEO has failed to resolve the same, or for which such contact is inappropriate. Guideline 3.3

Where warranted, the Lead Independent Director meets with the other Independent Directors and Non-Executive Director without the presence of Management or the Executive Directors to review any matters that must be raised privately before providing feedback to the Chairman of the Board after such meetings. Guideline 3.4

Principle 4:
Board Membership

There should be a formal and transparent process for the appointment and re-appointment of Directors to the Board.

Currently, the NC comprises three Independent Directors, Mr Yang Chun Sheng, Ms Tan Min-Li and Mr Lee Gee Aik and one Non-Executive Director, Mr Xie Ding Zhong. The Chairman of the NC is Mr Yang Chun Sheng. The NC has written terms of reference that describe the responsibilities of its members. Guideline 4.1

The principal functions of the NC are as follows: Guideline 4.2

- to review and recommend the nomination or re-nomination of directors having regard to the director's contribution and performance
- to determine on an annual basis whether or not a director is independent, guided by the guidelines contained in the Code regarding independence;
- to decide whether a Director is able to and has been adequately carrying out his duties as a Director of the Company, particularly when the Director has multiple board representations;
- to evaluate the Board, based on objective performance criteria;
- to assess the effectiveness of the Board as a whole and the contribution of each Director to the effectiveness of the Board; and
- to determine the appropriate training and professional development programs for the Board.

The number of NC meetings held and the attendance thereat during the financial year is as follows:

Name of Director	Appointment	Number of Meetings held	Attendance
Mr Yang Chun Sheng	Chairman	1	1
Ms Tan Min-Li	Member	1	1
Mr Lee Gee Aik	Member	1	1
Mr Xie Ding Zhong	Member	1	1

A Director who has no relationship with the Company, its related corporation, its 10% shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgement, is considered independent. Guideline 4.3

The NC has reviewed the Directors' independence based on the guidelines set out in the Code and the confirmations provided by the Independent Directors, and was satisfied with the independence of the Independent Directors as mentioned in relation to Guidelines 2.3 and 2.4 above.

Notwithstanding that some of the Directors have multiple board representations, the NC and the Board are satisfied that each Director is able to and has been adequately carrying out his duty as a Director of the Company. In arriving at the aforesaid conclusion, the NC had taken into account, inter alia, the contributions by the Directors during the meetings and attendance at such meetings. Guideline 4.4

The NC and the Board are of the view that the assessment of whether each Director is able to devote sufficient time to discharge his or her duties should not be restricted to the number of board representations as it is for each Director to assess his / her own capacity and ability to undertake other obligations or commitments together with serving on the Board effectively. The NC, with the concurrence of the Board, has decided not to fix a limit on the number of board representations of each director as it considers that the board representations presently held by its directors do not impede the performance of their duties to the Company.

Currently, the Company does not have alternate Directors. Guideline 4.5

In selecting and appointing a new Director, the NC will have regard to the desired competencies of the new Director so that he may complement the skills and competencies of the existing Board. Candidates may be suggested by Directors or Management or sourced from external sources. Guidelines 4.2 and 4.6

The NC, after completing its assessment of the potential candidates, meets with the short-listed candidates to assess their suitability, before submitting the appropriate recommendations to the Board.

The Company's Constitution provides that one-third of the Directors shall retire from office at each AGM of the Company and, all Directors shall retire from office at least once every three years. The Directors to retire in every year shall be those who have been longest in office since their last election. A retiring Director is eligible for re-election by shareholders at the AGM. The NC has recommended the re-election of the four Directors, namely Ms Xie Ming, Mr Lee Gee Aik, Ms Tan Min-Li and Professor He Mingyang, retiring under Regulations 88 and 89 of

Corporate Governance Report

the Company's Constitution, respectively, and be eligible for re-election at the forthcoming annual general meeting of the Company. Key information on the Directors seeking re-election pursuant to Rule 720(6) of the Listing Manual of the SGX-ST is set out in this Annual Report at pages 44 to 47.

Each member of the NC has abstained from voting on any resolution in respect of the assessment of his or her performance or re-appointment as Director.

Key information regarding the Directors is set out under the "Board of Directors" Section of this Annual Report at pages 10 to 13. Guideline 4.7

Principle 5:
Board Performance

There should be a formal annual assessment of the effectiveness of the Board as a whole and its board committees and the contribution by each Director to the effectiveness of the Board.

The NC has adopted a formal process to annually asses the performance and effectiveness of the Board and its committees, as well as to evaluate the contribution of each Director to the effectiveness of the Board. The NC has adopted an assessment checklist, which includes various quantitative and qualitative evaluation factors, and disseminates the same to each Director for completion. The Board and the NC believe that the financial indicators are mainly used to measure the Executive Directors' and the Management's performance and hence are less applicable to the Independent Directors. Guideline 5.1

The summary of the assessment results are discussed at the NC meeting. No external facilitator was engaged by the Company in FY2018.

The NC had conducted the Board's performance evaluation as a whole, together with the performance evaluation of the Board Committees. The performance criteria, as determined by the NC, cover the following areas: Guideline 5.2

- Board Composition and Structure;
- Conduct of Meetings;
- Corporate Strategy and Planning;
- Risk Management and Internal Control;
- Measuring and Monitoring Performance;
- Training and Recruitment;
- Compensation;
- Financial Reporting;
- Chairman of the Board;
- Board Committees; and
- Communicating with Shareholders.

The above mentioned performance criteria do not change from year to year.

The assessment parameters for each Director include their knowledge and abilities, attendance records at the meetings of the Board and Board Committees, and the quality of participation at meetings. The NC and the Board have relied on the above-mentioned parameters to evaluate the Directors' contribution individually and have taken such evaluation into consideration for the re-nomination of the Directors. Guideline 5.3

The replacement of a Director, when it occurs, does not necessarily reflect the Director's performance, but may be driven by the need to align the Board with the needs of the Group.

Principle 6:
Access to Information

In order to fulfil their responsibilities, Directors should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis so as to enable them to make informed decisions to discharge their duties and responsibilities.

Directors are furnished with timely and adequate information from the Management to enable them to discharge their duties effectively. Directors have unrestricted access to the Company's Management, records and information, and all Board and Board committees' minutes. Directors are also provided with agenda and meeting materials in advance of meetings, which include quarterly management accounts and summary data. The Management provides detailed explanation of the meeting materials to the Board, and in respect of budgets and financial results, any material variance between the projections and actual results are disclosed and explained. Guidelines 6.1 and 6.2

The Company Secretary or her representatives attend all Board meetings. Together with members of the Company's Management, the Company Secretary is responsible for ensuring that appropriate procedures are followed and that the requirements of the Companies Act, Chapter 50 of Singapore (the "**Act**"), and the provisions in the Listing Manual of the SGX-ST are complied with. Each Director has separate and independent access to the Company Secretary at all times, and also has the right to seek independent legal and other professional advice, at the Company's expense, concerning any aspect of the Group's operations or undertakings in order to fulfil his duties and responsibilities as Director. Guidelines 6.3 and 6.5

The appointment and replacement of the Company Secretary is a matter for the Board. Guideline 6.4

Principle 7:
Procedures for Developing Remuneration Policies

There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his own remuneration.

The RC, which terms of reference are approved by the Board, currently comprises two Independent Directors, Ms Tan Min-Li and Mr Yang Chun Sheng and the Non-Executive Director, Mr Xie Ding Zhong. The Chairman of the RC is Ms Tan Min-Li. The RC's principal responsibilities include: Guidelines 7.1 and 7.2

- recommending to the Board a framework of remuneration for the directors and key management personnel;

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- reviewing and determining specific remuneration packages for each Executive Director and key management personnel; and

- reviewing all aspects of remuneration, including but not limited to Directors' fees, salaries, allowances, bonuses, options and benefits in kind.

The number of RC meetings held and the attendance thereat during the financial year is as follows:

Name of Director	Appointment	Number of Meetings held	Attendance
Ms Tan Min-Li	Chairman	1	1
Mr Xie Ding Zhong	Member	1	1
Mr Yang Chun Sheng	Member	1	1

The RC's recommendation for directors' fees had been endorsed by the entire Board, following which the recommendation is tabled for shareholders' approval at the Company's AGM. Each member of the RC or the Board abstains from voting on any resolution in respect of his or her remuneration package.

In addition, where employees related to the Substantial Shareholders and Directors are employed, the RC will perform an annual review of such employees to ensure that their remuneration packages are in line with the Company's staff remuneration guidelines and commensurate with their respective job scope and level of responsibilities.

No remuneration consultants were engaged by the Company during FY2018. The RC and the Board were of the view that the Company does not need to engage remuneration consultants as the remuneration for Executive Directors and the key management personnel are based on their respective existing service agreements. The RC has full authority to obtain any external professional advice on matters relating to remuneration as and when the need arises. Guideline 7.3

The RC has also reviewed the Company's obligations arising from the termination clauses and termination processes in relation to Executive Directors and key management personnel's contracts of service to ensure such clauses and processes are fair and reasonable. Guideline 7.4

Principle 8:
Level and Mix of Remuneration

The level and structure of remuneration should be aligned with the long-term interest and risk policies of the company, and should be appropriate to attract, retain and motivate (a) the Directors to provide good stewardship of the company, and (b) key management personnel to successfully manage the company. However, companies should avoid paying more for this purpose. A proportion of remuneration, especially those of Executive Directors, should be linked to performance.

In reviewing and determining the remuneration packages of the Executive Directors and the Group's key management personnel, the RC considers their responsibilities, skills, expertise and contribution to the Group's performance when designing their respective remuneration packages. An appropriate proportion of their remuneration is linked to individual and corporate performance and is aligned with the interests of Shareholders to promote the long-term success of the Company. Guideline 8.1

The Company has in 2014 adopted an employee share option scheme and performance share plan whereby employees and Directors (including Non-Executive and Independent Directors) of 21 years old and above, and who are not undischarged bankrupts or entered into compositions with their creditors are eligible to participate. Controlling Shareholders and Associates of Controlling Shareholders are not eligible to participate. The scheme and plan is intended to align the interests of the employees with that of the Company's shareholders. Guideline 8.2

The RC assesses whether Executive Directors and Management should be granted options or shares, and if so, the applicable vesting schedules.

The Independent Directors do not have service agreements with the Company. They are paid fixed Directors' fees, which are determined by the Board, appropriate to the level of their contribution, taking into account factors such as the effort and time spent and the responsibilities of the Independent Directors and Non-Executive Directors. The fees of Independent Directors are subject to approval by the shareholders at each AGM, thereby ensuring that their independence is not compromised. Guideline 8.3

Each member of the RC abstains from deliberating on or making recommendations in respect of any proposed Directors' fees to be paid by the Company to him / her.

The Company uses contractual provisions or other measures to reclaim the incentives or any related payments from the parties involved should there be any misstatements of financial results, or of misconduct resulting in financial loss to the Group. Guideline 8.4

Principle 9:
Disclosure on Remuneration

Each company should provide clear disclosure of its remuneration policy, level and mix of remuneration and the procedure for setting remuneration in the company's annual report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to Directors and key management personnel, and performance.

A breakdown, showing the level and mix of each individual Director's remuneration in FY2018 is as follows: Guidelines 9.1 and 9.3

Name of Director	Fee#	Salary	Bonus	Benefits	Total
S$0 to S$250,000	**%**	**%**	**%**	**%**	**%**
Ms Xie Ming	–	65	35	–	100
Mr Zheng Zhi Zhong	–	64	36	–	100
Ms Dai Feng Yu	–	65	35	–	100
Mr Xie Ding Zhong	100	–	–	–	100
Mr Lee Gee Aik	100	–	–	–	100
Ms Tan Min-Li	100	–	–	–	100
Mr Andrew Bek	100	–	–	–	100
Mr Yang Chun Sheng	100	–	–	–	100

Note:

These fees were approved by the shareholders at the AGM held on 26 April 2018

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A breakdown, showing the level and mix of top key executives in FY2018 is as follows:

Name of Executive#	Salary	Bonus	Benefits	Total
S$0 to S$250,000	**%**	**%**	**%**	**%**
Mr Li Chun Yang	66	34	–	100
Ms Li Juan	44	52	4	100

Note:

During the financial year under review, there were only two key executives.

The aggregate total remuneration paid to or accrued to key executives (who are not Directors or CEO) amounted to SGD105,584

The remuneration of each individual Director and key executive is not fully disclosed as the Company believes that disclosure may be prejudicial to its business interests given the highly competitive environment it is operating in. The RC has reviewed the practice of the industry in weighing the advantages and disadvantages of such disclosure. As a Company with a small and tightly-knit team, such disclosure may adversely affect the cohesion and spirit of team work prevailing amongst the employees of the Group. Guideline 9.2

Save that Mr Xie Ding Zhong, the Non-Executive Director, is the father of Ms Xie Ming, the Executive Chairman of the Board, there is no family relationship between any of the Directors and/or the key executive, or between any of the Directors, key executive and substantial shareholder. Guideline 9.4

In addition, there is no other employee who is an immediate family member of a Director or CEO, and whose remuneration exceeds S$50,000 during the financial year under review.

The Company has in 2014 adopted an employee share option scheme and performance share plan whereby employees and Directors (including Non-Executive and Independent Directors) of 21 years old and above, and who are not undischarged bankrupts or entered into compositions with their creditors are eligible to participate. Controlling Shareholders and Associates of Controlling Shareholders are not eligible to participate. The scheme and plan is intended to align the interests of the employees with that of the Company's shareholders. In FY2018, the Company had granted share awards comprising 160,000 treasury shares and 9,000 Employee Benefit Trust ("**EBT**") shares to eligible employees of the Group under the Anchun Performance Share Plan 2014. Guidelines 9.5 and 9.6

The Company has a remuneration policy, which comprises a fixed component and a variable component. The fixed and variable components are in the form of a base salary and a variable bonus, respectively, and take into account the performance of the Company and the performance of the individual Executive Director and key management personnel, to allow for the alignment of their interests with that of Shareholders. The Executive Directors do not receive additional Directors' fees.

The performance criteria used to assess the remuneration of Executive Directors and key management personnel is based on the revenue and profitability of the Group, and their individual leadership. There are currently no long term incentives for the Executive Directors and key management personnel in their service agreements. The Executive Directors' and key management personnel's short term incentives (namely the performance related variable component) are recommended by the RC and approved by the Board.

Principle 10:
Accountability

The Board should present a balanced and understandable assessment of the company's performance, position and prospects.

The Board provides a balanced and fair assessment of the Group's financial position, performance and prospects of the Group in its annual financial statements and quarterly results announcements. Information is presented to Shareholders on a timely basis in an understandable manner. Guideline 10.1

The Board reviews compliance issues, if any, with Management on a quarterly basis and as and when required, to ensure that a sound system of internal controls is maintained to safeguard the Shareholders' investment and the Group's assets. Guideline 10.2

The Management provides the Executive Directors with management accounts on a monthly basis and Independent Directors are updated on a quarterly basis. The Board is of the opinion that the Management provides relevant information on the quarterly financial statements and detailed analysis of the results in a timely manner to enable the Board to make a balanced and informed assessment of the Company's performance, position and prospects. Guideline 10.3

Principle 11:
Risk Management and Internal Controls

The Board is responsible for the governance of risk. The Board should ensure that Management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the Company's assets, and should determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.

The Company does not have a risk management committee. However, the Board and Management regularly reviews and improves the Group's business and operational activities to identify areas of significant risks, such as financial, operational, compliance and information technology risks as well as appropriate measures to control and mitigate such risks, based on the feedback of the Internal Auditors and External Auditors. The Management also reviews all significant control policies and procedures and highlights all significant matters to the Board and AC. Guidelines 11.1, 11.2 and 11.4

To ensure that internal controls and risk management processes are adequate and effective, the AC is assisted by various independent professional service providers. External auditors provide reasonable assurance on the true and fair presentation of the Group's financial statements. Internal auditors provide assurance that controls over the key risks of the Group is adequate and effective.

The External Auditors carry out statutory audits annually in accordance with their audit plan. Control observations noted during their audits and their recommendations thereto are reported to the AC. To enhance the Group's system of internal controls, the Board has appointed an external professional firm, namely Pan-China Certified Public Accountants ("Internal Auditors"), to review and recommend mitigating measures to the Group's internal control system, and to expand and enhance on its policies and procedures manual.

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Based on the internal controls established and maintained by the Group, work performed by External and Internal Auditors and the reviews by the Management and the various Board Committees, the AC and the Board are of the opinion, that the Group's internal controls, addressing financial, operational, compliance and information technology controls, and risk management systems are adequate and effective as at 31 December 2018. Guideline 11.3

The Board is responsible for ensuring that Management maintains a sound system of internal controls to safeguard shareholders' investments and the Group's assets. For FY2018, based on (i) the Group's framework of management control, (ii) the internal control policies and procedures established and maintained by the Group and (iii) regular audits and reviews performed by the internal and external auditors, the Board, with the concurrence of the AC, is of the opinion that the systems of internal controls and risk management within the Group are adequate and effective.

The Board acknowledges that it is responsible for the overall internal control framework, but recognizes that no cost effective internal control system will preclude all errors and irregularities, as a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss due to error, fraud or other irregularities.

Any material non-compliance and internal control weaknesses noted during the internal audit and the recommendations thereof are reported to the AC as part of the review of the Group's internal control system. The Board has also received assurance from the Chief Executive Officer and the Finance Controller that (i) the financial records have been properly maintained and the financial statements of the Group for FY2018 give a true and fair view of the Company's operations and finances and (ii) the Group's risk management and internal control systems in place are effective.

Principle 12:
Audit Committee

The Board should establish an Audit Committee ("AC") with written terms of reference which clearly sets out its authority and duties.

The AC comprises three Independent Directors, namely Mr Lee Gee Aik, Ms Tan Min-Li and Mr Andrew Bek, and has written terms of reference clearly setting out its authority and duties. The Chairman of the AC is Mr Lee Gee Aik. The Board is of the view that the AC has the necessary experience and expertise required to discharge its duties as the majority of its members are trained in accounting and financial management. Guidelines 12.1 and 12.2

The number of AC meetings held and the attendance thereat during the financial year are as follows:

Name of Director	Appointment	Number of Meetings held	Attendance
Mr Lee Gee Aik	Chairman	4	4
Ms Tan Min-Li	Member	4	4
Mr Andrew Bek	Member	4	4

The AC has explicit authority to investigate any matter within its terms of reference and has full access to and co-operation of the Management and full discretion to invite any Director or key management personnel to attend its meetings. The AC has reasonable resources to enable it to discharge its duties properly.

Guideline 12.3

The AC will meet quarterly to review, inter alia, the following:

Guidelines 12.4 and 12.8

- the audit plan and discuss with the External Auditors, their evaluation of the system of internal controls, their audit report, their management letter and the management's response;

- the internal audit plan and discuss with the Internal Auditors, their evaluation of the adequacy and effectiveness of the internal controls before submission of the results of such review to the Board for approval;

- the financial statements and quarterly results announcements before submission of the same to the Board for approval, focusing in particular, on changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit, the going concern statement, compliance with accounting standards as well as compliance with any stock exchange and statutory/regulatory requirements;

- the internal control and procedures and ensure co-ordination between the External and Internal Auditors and the Management, reviewing the assistance given by the Management to the External and Internal Auditors, and discuss problems and concerns, if any, arising from the interim and final audits, and any matters which the External or Internal Auditors may wish to discuss (in the absence of the Management where necessary);

- the Group's key risk areas, as identified by the External and Internal Auditors in the course of the audits;

- the independence and objectivity of the External Auditors;

- the terms of engagement, appointment or re-appointment of the External and Internal Auditors and matters relating to their resignation or dismissal;

- interested person transactions falling within the scope of Chapter 9 of the SGX-ST Listing Manual; and

- any potential conflicts of interest.

In the review of the Financial Statements for FY2018, the AC has discussed with Management the accounting practices adopted for the financial year, including accounting policies, accounting estimates and financial statements disclosures have been adopted. The AC has also reviewed the judgements made by Management and with the External Auditors which might affect the integrity of the financial statements.

Provided below is a high level overview of the matters which were identified as the Key Audit Matters ("**KAM**") in the Independent Auditor's Report on the consolidated financial statements of the Group for FY2018. These KAM were discussed with the Management and External Auditors and in the review carried out by the AC:

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Key Audit Matters	How the AC reviewed and responded to the KAM
Impairment of trade receivables and contract assets *Refer to pages 52 and 53 in the Independent Auditor's Report of this Annual Report*	The AC discussed with the Management the approach taken to determine the impairment for trade receivables and contract assets at 31 December 2018. The AC also reviewed the reasonableness of the basis of impairment and factors that influenced management's judgement. Impairment of trade receivables and contract assets was also an area of focus for the External Auditors. The External Auditors has included this item as a key audit matter in its audit report for FY2018.
Revenue from chemical systems and components ("CSC") business and chemical engineering and technology ("CET") engineering services *Refer to page 53 in the Independent Auditor's Report of this Annual Report*	The AC discussed with the Management the approach and methodology used to determine cost estimates and budgets used in their application to measure the progress towards completion of contract, for CSC revenue recognised over time. The AC also discussed and reviewed with the External Auditors on the adequacy for provision for onerous contracts at 31 December 2018. Revenue recognition from CSC business and CET engineering service was also an area of focus for the External Auditors. The External Auditors has included this item as a key audit matter in its audit report for FY2018.

As a result of the above review and discussion, the AC recommended to the Board for approval, the FY2018 Financial Statements.

Where the need arises, the AC will meet with the External and Internal Auditors, without the presence of the Management, at least once in every financial year to review any matters that may have arisen. The AC has met with the External Auditors once without the presence of Management in FY2018. Guideline 12.5

The aggregate amount of fees paid or payable to the External Auditors for the audit services for FY2018 amounted to S$189,000, with S$9,000 payable to the Peking Certified Public Accountants (Special General Partnership), Hunan Branch, for PRC Statutory reporting purpose. Other non-audit services fees for the provision of tax consultancy services, internal audit services, and other audit services fees for PRC Statutory reporting purpose by other third party service providers for FY2018 amount to S$69,000. Guideline 12.6

Ernst & Young LLP and its member firms are the auditors of the Company and its subsidiary. The Board and AC are of the view that Company is in compliance with Rules 712 and 715 of the SGX-ST Listing Manual in relation to its External Auditors.

The AC, has put in place a whistle-blowing arrangement whereby the staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters to the AC Chairman or the CEO, in good faith and confidence. There are arrangements in place for the independent investigation of such matters for appropriate follow-up actions to be taken. No whistle-blowing reports were received in FY2018. Guideline 12.7

The procedures for whistle-blowing are disseminated to new employees as part of their orientation training, with the contact information of the AC Chairman and the CEO provided therein. Whistle-blowers are assured that all actions in good faith will not affect them in their work and staff appraisals.

None of the members of the AC were former partners or directors of the Company's External or Internal Auditors within the previous 12 months and none of the AC members hold any financial interest in the above-mentioned auditing firms. Guideline 12.9

Principle 13:
Internal Audit

The company should establish an effective internal audit function that is adequately resourced and independent of the activities it audits.

The AC, in consultation with the Management, approves the hiring, removal, evaluation and the fees of the Internal Auditors. The Internal Auditors have unfettered access to all the Group's documents, records, personnel and the AC. Guideline 13.1

The Company has outsourced its internal audit function to Pan-China Certified Accountants LLP. The Internal Auditors' primary line of reporting is to the Chairman of the AC.

The role of the Internal Auditors is to assist the AC in ensuring that the internal controls of the Group are adequate, effective and functioning as intended, to undertake investigations as directed by the AC and to conduct regular in-depth audits of high-risk areas. The AC is satisfied that the Internal Auditors are adequately resourced and have the appropriate standing to perform its function effectively. The AC is also satisfied that the Internal Auditors are suitably qualified and experienced professionals. Guidelines 13.2 and 13.3

Pan-China Certified Accountants LLP is a member of the Institute of Internal Auditors. The internal audit work carried out is guided by the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. Guideline 13.4

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The Internal Auditors had submitted a report to AC on 10 August 2018 which covered their findings and recommendations. The Internal Auditors had subsequently issued a report on 10 August 2018 detailing the follow up review regarding the implementation of the internal audit recommendations.

The Internal Auditors plan their internal work schedules in consultation with, but independent of the Management. The audit plan is submitted to the AC for approval prior to the commencement of the internal audit work. The AC has reviewed the results of the internal audit conducted in FY2018 and is satisfied that the internal audit function is adequate and effective. Guideline 13.5

Principle 14:
Shareholder Rights

Companies should treat all shareholders fairly and equitably, and should recognise, protect and facilitate the exercise of shareholders' rights, and continually review and update such governance arrangements.

In line with the Group's disclosure obligations pursuant to the Listing Manual and the Act, the Board's policy is that all Shareholders should be informed simultaneously in an accurate and comprehensive manner for all material developments that impact the Group via SGXNET on an immediate basis. The Group recognises that the release of timely and relevant information is central to good corporate governance and enables shareholders to make informed decisions in respect of their investments in the Company, and will ensure that all information disclosed is as descriptive, detailed and forthcoming as possible. Guideline 14.1

All Shareholders are entitled to attend general meetings of the Company and are afforded the opportunity to raise questions to the Board, participate effectively and to vote at such meetings. Shareholders are also informed of the voting procedures prior to the commencement of voting by poll. Guideline 14.2

The Company's Constitution allows an individual Shareholder to appoint not more than two proxies to attend and vote on his or her behalf at general meetings. In line with the amendments to the Act, corporate Shareholders of the Company which provide nominee or custodial services to third parties, are entitled to appoint more than two proxies to attend and vote on their behalf at general meetings. A proxy need not be a member of the Company. Guidelines 14.3 and 16.1

Principle 15:
Communication with Shareholders

Companies should actively engage their shareholders and put in place an investor relations policy to promote regular, effective and fair communication with shareholders.

The Company is committed to maintaining and improving its level of corporate transparency of financial results and other pertinent information. Other than the routine announcements made in accordance with the requirements of the Listing Manual, the Company has issued additional announcements to update shareholders on the activities of the Company and the Group to keep the shareholders, investors and market apprised of corporate developments and financial performance of the Group. Guidelines 15.1 and 15.2

Shareholders of the Company receive the annual reports and notices of AGMs which are also advertised in the newspapers within the prescribed deadlines prior to the AGMs. The Board encourages Shareholders' participation at the AGMs and periodically communicates with Shareholders through SGXNET throughout the financial year. Similarly, Shareholders receive circulars and notices of Extraordinary General Meetings ("**EGMs**") which are advertised in the newspapers within the prescribed deadlines prior to the EGMs.

The Company does not practise selective disclosure. Price-sensitive information is first publicly released via SGXNET before the Company meets with any group of investors or analysts.

At general meetings, shareholders are given the opportunity to air their views and ask Directors or Management questions regarding the Company and the Group. Both Executive Directors and Independent Directors meet or speak with Shareholders regularly, primarily through general meetings of Shareholders, to gather their views and address concerns. Guidelines 15.3 and 15.4

The Board has not recommended any dividend for FY2018 to ensure that the Company has adequate resources to deal with adverse changes in macroeconomics environment. Guideline 15.5

Principle 16:
Conduct of Shareholder Meetings

Companies should encourage greater shareholder participation at general meetings of shareholders, and allow shareholders the opportunity to communicate their views on various matters affecting the company.

Voting in absentia, which is currently not permitted, may only be possible following careful study to ensure that the integrity of information and authentication of the identity of Shareholders through the web are not compromised, and legislative changes are effected to recognize remote voting. Guideline 16.1

Separate resolutions on each distinct issue are tabled at general meetings. All resolutions at general meetings of the Company are put to vote by poll in line with Listing Rule 730A. The results of the poll voting on each resolution tabled at general meetings are announced after the meetings at SGXNET. The Company has adopted manual polling as a cost-effective method of conducting the polls. Guidelines 16.2 and 16.5

The Board and the Management (including the chairpersons of the AC, RC and NC) are present at the general meetings to address any questions that shareholders may have. The External Auditors are also present at AGMs to address queries by Shareholders regarding the conduct of their audits and the contents of the auditors' report. Guideline 16.3

Minutes of general meetings, which include substantial comments or queries from shareholders and responses from the Board are available to shareholders upon written request. Guideline 16.4

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Dealing in Securities

In compliance with Rule 1207(19) of the SGX-ST Listing Manual, the Company has adopted policies to provide guidance to its officers relating to dealings in the Company's securities.

The Company and its officers are prohibited from dealing in the Company's shares on short-term considerations or when they are in possession of unpublished price-sensitive information. They are also not allowed to deal in the Company's securities during the period commencing two weeks before the announcement of the Company's financial statements for each of the first three quarters of its financial year and one month before the announcement of the Company's financial statements for the full financial year, and ending on the date of announcement of the relevant results.

The Company and its officers are required to report to the Company Secretary whenever they deal in the Company's shares. The Company Secretary assists the Board in monitoring such share transactions and making the necessary announcements.

Interested Person Transactions

The Company does not have a general mandate from Shareholders for recurrent interested person transactions. The Company has adopted an internal policy in respect of any transaction with an interested person, which sets out the procedures for review and approval of such transaction.

All interested person transactions will be documented and submitted periodically to the AC for their review to ensure that such transactions are carried out on an arm's length basis and on normal commercial terms and are not prejudicial to the Company.

Details of the interested person transactions entered into by the Group for FY2018 as required to be disclosed pursuant to Rule 1207(17) of the SGX-ST Listing Manual are set out below:

Name of interested person	Aggregate value of all interested person transactions during FY2018 (excluding transactions less than $100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than $100,000)
Nil	Nil	Nil

Material Contracts and Loans

Pursuant to Rule 1207(8) of the SGX-ST Listing Manual, the Company confirms that except as disclosed in the Directors' Statement and Financial Statements, there were no other material contracts and loans of the Company and its subsidiary involving the interests of the CEO or any Director or controlling shareholder, either still subsisting at the end of the financial year or if not then subsisting, which were entered into since the end of the previous financial year.

Update on usage of IPO Proceeds

As at 31 December 2018, the net proceeds from Group's initial public offering had been utilised in accordance with the intended purposes as follows:

Usage of IPO proceeds		Amount allocated (RMB'000)	Amount utilised (RMB'000)	Balance (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	10,122	5,357
	Working capital purposes	22,074	22,074	–
Total		133,489	50,661	82,828

The breakdown of working capital utilization is as follows:-

Usage of IPO proceeds for working capital	Amount utilised (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

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Key Information on Directors seeking Re-election pursuant to Rule 720(6) of the Listing Manual of the SGX-ST

Ms Xie Ming, Mr Lee Gee Aik, Ms Tan Min-Li and Professor He Mingyang, are the Directors seeking re-election at the forthcoming annual general meeting ("**AGM**") of the Company under Ordinary Resolution No. 3(i) to (iv) as set out in the Notice of AGM dated 10 April 2019 (collectively, the "**Retiring Directors**" and each a "**Retiring Director**").

Pursuant to Rule 720(6) of the Listing Manual of the SGX-ST, the information to the Retiring Directors as set out in Appendix 7.4.1 to the Listing Manual of the SGX-ST is set out below

Name of Directors	**Xie Ming**	**Lee Gee Aik**	**Tan Min-Li**	**He Mingyang**
Date of Appointment	2 November 2009	9 September 2010	9 September 2010	1 January 2019
Date of last re-appointment (if applicable)	29 April 2016	28 April 2017	29 April 2016	Not applicable
Age	45	60	50	56
Country of principal residence	United States	Singapore	Singapore	China
The Board's comments on this appointment (including rationale, selection criteria, and the search and nomination process)	After reviewing the recommendation of the Nominating Committee, the Board approved:			
	Ms Xie's re-designation from Executive Director and CEO to Executive Chairman of the Board.	Mr Lee's qualifications and experience, the Board approved his appointment as Lead Independent Director of the Company.	Ms Tan's qualifications and experience, the Board approved her appointment as Independent Director of the Company.	Professor He's qualifications and experience, the Board approved his appointment as Independent Director of the Company.
Whether appointment is executive, and if so, the area of responsibility	Executive. As set out in Ms Xie's profile write-up at page 10 of this Annual Report.	Non-Executive.	Non-Executive.	Non-Executive.
Job title (e.g. Lead ID, AC Chairman, AC Member etc.)	Executive Chairman	Lead Independent Director Audit Committee Chairman Nominating Committee Member	Independent Director Remuneration Committee Chairman Audit Committee Member Nominating Committee Member	Independent Director

Name of Directors	Xie Ming	Lee Gee Aik	Tan Min-Li	He Mingyang
Professional qualifications	-	1. The Association of Chartered Certified Accountants (ACCA) 2. The Institute of Singapore Chartered Accountants (ISCA)	Advocate and Solicitor of the Supreme Court of Singapore	-
Working experience and occupation(s) during the past 10 years	As disclosed in the "Board of Directors" Section of this Annual Report at pages 10 to 13.			
Shareholding interest in the listed issuer and its subsidiaries	Deemed to be interested in 10,800,000 shares held by Ace Sense Holdings Limited.	None	None	None
Any relationship (including immediate family relationships) with any existing director, existing executive officer, the issuer and/or substantial shareholder of the listed issuer or of any of its principal subsidiaries	Daughter of Mr Xie Ding Zhong, the Non-Executive Director of the Company.	None	None	None
Conflict of interest (including any competing business)	None			
Undertaking (in the format set out in Appendix 7.7) under Rule 720(1) has been submitted to the listed issuer	Yes			

Corporate Governance Report

Name of Directors	Xie Ming	Lee Gee Aik	Tan Min-Li	He Mingyang
Other principal commitments including directorships	Past (for the last 5 years)			
	Nil	1. International Healthway Corporation Limited 2. Leader Environmental Technologies Limited 3. Ley Choon Group Holdings Limited 4. LHN Limited 5. Max Management Pte. Ltd. 6. R Chan & Associates PAC	1. CNP Services Pte. Ltd. 2. Linkasia Consult Pte Ltd 3. Westgrove International Pte. Ltd.* 4. Xeitgeist Entertainment Group Pte. Limited *The Company has been struck off. **Excludes companies which Tan Min-Li was appointed as a director for purposes of incorporation only and in the course of her professional practice, and companies where she acted as nominee director	Changzhou Almaden Co., Ltd.

Name of Directors	Xie Ming	Lee Gee Aik	Tan Min-Li	He Mingyang
Other principal commitments including directorships (cont'd)	Present			
	1. Ace Sense Holdings Limited 2. Hunan Anchun Advanced Technology Co., Ltd	1. Astaka Holdings Limited 2. SHS Holdings Limited 3. Uni-Asia Holdings Limited	1. Belle Curve Holdings Pte. Ltd 2. Ocean Sky International Limited. 3. Plan B Projects Pte. Ltd. 4. Sky Premium International Pte. Ltd. 5. Union Steel Holdings Limited 6. Whitelight Ventures Inc. *Excludes companies which Tan Min-Li was appointed as a director for purposes of incorporation only and in the course of her professional practice, and companies where she acts as nominee director	Nil

The Retiring Directors confirm that there are no circumstances or matters requiring to be disclosed in relation to the queries provided in Appendix 7.4.1 of the Listing Rules.

Directors' Statement

The directors are pleased to present their statement to the members together with the audited consolidated financial statements of Anchun International Holdings Ltd. (the "**Company**") and its subsidiary (collectively, the "**Group**") and the balance sheet and statement of changes in equity of the Company for the financial year ended 31 December 2018.

Opinion of the directors

In the opinion of the directors,

(a) the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2018 and the financial performance, changes in equity and cash flows of the Group and changes in equity of the Company for the year ended on that date; and

(b) at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

Directors

The directors of the Company in office at the date of this statement are:

Xie Ming
Zheng Zhi Zhong
Dai Feng Yu
Xie Ding Zhong
Lee Gee Aik
Andrew Bek
Tan Min-Li
Yang Chun Sheng
He Mingyang (appointed on 1 January 2019)

Arrangements to enable directors to acquire shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose object is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

Directors' interests in shares or debentures

The following directors, who held office at the end of the financial year, had, according to the register of directors' shareholdings, required to be kept under section 164 of the Singapore Companies Act, Chapter 50, an interest in shares of the Company and related corporations (other than wholly owned subsidiary) as stated below:

	Direct interest		Deemed interest	
Name of directors	At the beginning of financial year	At the end of financial year	At the beginning of financial year	At the end of financial year
The Company				
(Ordinary shares of the Company)				
Xie Ding Zhong	120,000	120,000	–	–
Dai Feng Yu	–	–	4,082,200	4,082,200
Xie Ming	–	–	10,800,000	10,800,000
Andrew Bek	–	1,600,000	1,600,000	–

By virtue of Section 7 of the Companies Act, Xie Ming is deemed to have an interest in 10,800,000 shares of the Company through Ace Sense Holdings Limited.

Dawn Vitality International Limited holds 4,252,200 shares, of which 170,000 shares are held on trust for certain employees under Anchun Performance Share Plan 2014. Dai Feng Yu owns 25.24% of Dawn Vitality International Limited with the remaining 74.76% held on trust by her for 142 beneficiaries under a Trust Agreement.

By virtue of Section 7 of the Companies Act, Andrew Bek was deemed to have an interest in 1,600,000 shares of the Company through Able Gallery Ltd.

There was no change in any of the above-mentioned interests in the Company between the end of the financial year and 21 January 2019.

Except as disclosed in this report, no director who held office at the end of the financial year had interests in shares, share options, warrants or debentures of the Company, or of related corporations, either at the beginning of the financial year, or date of appointment if later, or at the end of the financial year.

Directors' Statement

Share options and share awards

In developing long-term incentive schemes, the Company's main objectives are to provide its employees an opportunity to participate in the equity of the Company and to enhance its competitive edge in attracting, recruiting and retaining talented key senior management and employees. In line with these objectives, the Company has adopted the Anchun Performance Share Plan 2014 ("Anchun PSP") and Anchun Employee Share Option Scheme 2014 ("Anchun ESOS").

The Company has adopted the Anchun PSP and Anchun ESOS which were approved by the shareholders at the Extraordinary General Meeting held on 29 April 2014. The Remuneration Committee is responsible for administering the Anchun PSP and Anchun ESOS.

On 30 December 2014, the Company has granted an aggregate of 1,700,000 share awards under the Anchun PSP to certain employees by way of transferring all its treasury shares to Dawn Vitality International Limited to be held on trust for such employees (the "**EBT shares**"). The 1,700,000 EBT shares under the awards were consolidated to 170,000 shares following a 10 to 1 ordinary share consolidation exercise effective from 26 May 2016.

During FY2017, employees of the Group became beneficially interested in an aggregate of 144,000 EBT shares after fulfilling the three years' service condition of the awards granted to them in FY2014.

Of the remaining 26,000 EBT shares under the Anchun PSP, the Company has granted awards comprising 17,000 EBT shares to an employee on 29 December 2017. The employee will become beneficially interested in the 17,000 EBT shares after fulfilling the three years' service condition under the grant of the awards.

During FY2018, the Company had granted awards comprising the balance 9,000 EBT shares available for allocation to the employees of the Group.

As at 31 December 2018, the Company held 417,400 treasury shares pursuant to the exercise of its share buyback mandate obtained from shareholders. During FY2018, the Company granted an award comprising 160,000 treasury shares to Mr Zheng Zhi Zhong, the Executive Director and CEO of the Company on 13 September 2018. The 160,000 treasury shares will be transferred to Mr Zheng Zhi Zhong after he has fulfilled the three years' service condition under the grant of the award.

No directors or employees of the Group received 5% or more of the total number of share awards available under the Anchun PSP. Save as disclosed above, there were no share awards granted to directors, controlling shareholders of the Company and/or their associates.

Audit Committee

The Audit Committee (AC) carried out its functions in accordance with section 201B (5) of the Singapore Companies Act, Chapter 50. Further details regarding the audit committee are disclosed in the Report on Corporate Governance.

Directors' Statement

Auditor

Ernst & Young LLP have expressed their willingness to accept re-appointment as auditor.

On behalf of the board of directors:

Xie Ming
Director

Dai Feng Yu
Director

29 March 2019

Independent Auditor's Report

To the Members of Anchun International Holdings Ltd.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Anchun International Holdings Ltd. (the "Company") and its subsidiary (collectively, the "Group"), which comprise the balance sheets of the Group and the Company as at 31 December 2018, the statements of changes in equity of the Group and the Company and the consolidated statement of comprehensive income and consolidated cash flow statement of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group, the balance sheet and the statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the Act) and Singapore Financial Reporting Standards (International) (SFRS(I)) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2018 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and changes in equity of the Company for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (ACRA) Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled our responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Impairment of trade receivables and contract assets

The Group's trade receivable and contract assets were significant as these represent 23% of the total assets in the consolidated balance sheet. Trade receivables and contract assets amounted to RMB123.7 million as at 31 December 2018, against which an allowance for expected credit losses ("ECL") of RMB35.5 million was made. The Group uses a provision matrix to calculate ECL for trade receivables and contract assets, which is determined based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Trade receivables and contract assets impairment assessment requires significant management. As such, we determined this as a key audit matter.

Key Audit Matters (cont'd)

Impairment of trade receivables and contract assets (cont'd)

We evaluated the Group's processes and controls relating to the monitoring of trade receivables and review of credit risks of customers. In addition, our audit procedures included, amongst others, requesting trade receivable confirmations for selected trade debtors and checking to receipts from customers subsequent to the year end. We also evaluated management's assumptions and estimates used to determine the trade receivables impairment amount through analyses of ageing of receivables, assessment of material overdue individual trade receivables, review of customers' payment history and correspondences between the Group and the customers. In addition, we evaluated management's assumptions and inputs used in the computation of historical loss rates and assessed the reasonableness of management's assumptions used in establishing the forward-looking factors. The Group's disclosures on the trade receivables and the related risks such as credit risk and liquidity risk are in Note 21 and 32 to the consolidated financial statements.

Revenue from chemical systems and components ("CSC") business and chemical engineering and technology ("CET") engineering services

The Group recognises revenue from sale of chemical equipment under the CSC business and from rendering of design services under CET engineering services over time by reference to the Group's progress towards completing these contracts. The measure of the progress is determined based the proportion of contract costs incurred to date to the estimated total contract costs for each contract. The determination of total contract costs and costs to complete require significant management judgements and estimates, which may have an impact on the amounts of revenue and profits recognised during the year. In addition, as disclosed in Note 2.2 to the financial statements, the Group's initial application of SFRS(I) 15 Revenue from Contracts with Customers ("SFRS(I) 15") has resulted in significant transitional adjustments to the Group's financial statements due to a change in timing of revenue recognition from a point in time to over time for the sale of chemical equipment. Accordingly, we identified this as a key audit matter.

Our audit procedures include understanding and evaluating the design and operating effectiveness of internal controls with respect to the Group's project management, the project cost estimation and budgeting process, and accounting for revenue from these contracts. We reviewed the robustness of management's budgeting process by comparing the budgeted costs to actual costs incurred for major contracts completed during the year. For significant on-going contracts as at 31 December 2018, we reviewed the project files and discussed with management the progress of the contracts to determine if there are any adverse changes such as delays, penalties or overruns that could have a material impact on the estimation of contract costs. We evaluated management's underlying assumptions made in estimating total costs to complete by comparing to actual costs incurred for past similar projects. We checked the arithmetic accuracy of revenue and profit recognised based on the measure of progress calculation. We compared the contract revenue against the estimated total contract costs to assess if there is a need to consider provision for onerous loss-making contracts and assessed the reasonableness of provision for onerous contract provided by management.

In addition, we evaluated the Group's procedures and processes for recognising revenue from contracts with customers. We reviewed contractual terms and conditions for major contracts with customers. We evaluated management's assessment of the impact to revenue recognition from the adoption of SFRS(1) 15 and reviewed the quantification of the transitional adjustments made to the financial statements. We also assessed the adequacy of the disclosures in respect of revenue in Note 4 to the financial statements.

Independent Auditor's Report

To the Members of Anchun International Holdings Ltd.

Other Information

Management is responsible for other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and SFRS(I), and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Auditor's Responsibilities for the Audit of the Financial Statements (cont'd)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Tan Soon Seng.

Ernst & Young LLP
Public Accountants and
Chartered Accountants

Singapore
29 March 2019

Consolidated Statement of Comprehensive Income

For the financial year ended 31 December 2018

(Amounts expressed in Renminbi)

		Group	
	Note	**2018**	**2017**
		RMB'000	RMB'000
Revenue	4	111,205	65,434
Cost of sales		(86,785)	(58,515)
Gross profit		24,420	6,919
Other items of income			
Finance and other income	5	12,628	6,124
Write-back of impairment losses on financial assets, net		11,236	–
Other items of expense			
Marketing and distribution expenses		(5,786)	(4,714)
Administrative expenses		(26,036)	(24,785)
Research expenses		(6,440)	(4,449)
Other expenses	6	(118)	(53)
Impairment losses on financial assets, net		–	(16,660)
Finance costs	7	(40)	(458)
Profit/(loss) before tax	8	9,864	(38,076)
Income tax credit	9	628	–
Profit/(loss) for the year, representing total comprehensive income for the year attributable to owners of the Company		10,492	(38,076)
Profit/(loss) per share (RMB cents):			
Basic	10	20.88	(75.67)
Diluted	10	20.85	(75.67)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Balance Sheets

As at 31 December 2018

(Amounts expressed in Renminbi)

		Group			Company		
	Note	2018	As at 31 December 2017	As at 1 January 2017	2018	As at 31 December 2017	As at 1 January 2017
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS							
Non-current assets							
Property, plant and equipment	14	74,037	87,695	100,222	–	–	–
Intangible assets	15	185	264	598	–	–	–
Land use rights	16	13,344	13,709	14,075	–	–	–
Investment in a subsidiary	13	–	–	–	75,482	75,461	75,353
Investment properties	18	2,432	436	612	–	–	–
Prepayments	19	24	35	–	–	–	–
Deferred tax assets	17	628	–	–	–	–	–
		90,650	102,139	115,507	75,482	75,461	75,353
Current assets							
Inventories	20	28,672	20,288	17,200	–	–	–
Trade and other receivables	21	50,699	72,388	83,835	35,846	35,800	35,788
Contract asset	4	62,856	21,275	23,520	–	–	–
Prepayments	19	16,180	6,583	8,481	102	95	82
Investment	22	20,000	–	–	–	–	–
Cash and cash equivalents	23	114,518	136,689	148,697	19,086	22,161	24,576
		292,925	257,223	281,733	55,034	58,056	60,446
Total assets		383,575	359,362	397,240	130,516	133,517	135,799

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Balance Sheets

As at 31 December 2018

(Amounts expressed in Renminbi)

	Note	Group			Company		
		2018	As at 31 December 2017	As at 1 January 2017	2018	As at 31 December 2017	As at 1 January 2017
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
EQUITY AND LIABILITIES							
Current liabilities							
Trade and other payables	24	30,973	46,430	49,780	11,625	11,439	11,252
Contract liabilities	4	44,809	17,493	13,737	–	–	–
Other liabilities	25	16,478	14,362	14,415	836	996	1,035
Provisions	26	59	–	–	–	–	–
Income tax payable		6,560	6,560	6,560	–	–	–
		98,879	84,845	84,492	12,461	12,435	12,287
Net current assets		194,046	172,378	197,241	42,573	45,621	48,159
Non-current liability							
Deferred tax liabilities	17	100	100	100	–	–	–
Total liabilities		98,979	84,945	84,592	12,461	12,435	12,287
Net assets		284,596	274,417	312,648	118,055	121,082	123,512
Equity attributable to owners of the Company							
Share capital	27(a)	149,278	149,278	149,278	149,278	149,278	149,278
Treasury/employee benefit trust shares	27(b)	(604)	(288)	(430)	(604)	(288)	(430)
Other reserves	28	121,981	121,001	120,388	85	64	349
Accumulated profits/(losses)		13,941	4,426	43,412	(30,704)	(27,972)	(25,685)
Total equity		284,596	274,417	312,648	118,055	121,082	123,512
Total equity and liabilities		383,575	359,362	397,240	130,516	133,517	135,799

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Statements of Changes in Equity

For the financial year ended 31 December 2018

(Amounts expressed in Renminbi)

	Attributable to owners of the Company				
	Total equity	Share capital (Note 27)	Treasury/ employee benefit trust shares	Other reserves (Note 28)	Accumulated profits
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2018					
Group					
Opening balance at 1 January 2018 (FRS framework)	275,671	149,278	(288)	121,001	5,680
Cumulative effects of adopting SFRS(I)	(1,254)	–	–	–	(1,254)
Opening balance at 1 January 2018 (SFRS(I) framework)	274,417	149,278	(288)	121,001	4,426
Profit for the year, representing total comprehensive income for the year	10,492	–	–	–	10,492
<u>Contributions by and distributions to owners</u>					
Grant of equity-settled performance shares	21	–	–	21	–
Purchase of treasury shares	(316)	–	(316)	–	–
	(295)	–	(316)	21	–
<u>Others</u>					
Transfer to statutory reserve fund – safety production expenditure	–	–	–	420	(420)
Transfer to statutory reserve fund	–	–	–	539	(539)
Transfer to staff welfare payable	(18)	–	–	–	(18)
	(18)	–	–	959	(977)
Closing balance at 31 December 2018	284,596	149,278	(604)	121,981	13,941

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Statements of Changes in Equity

For the financial year ended 31 December 2018

(Amounts expressed in Renminbi)

	Attributable to owners of the Company				
	Total equity	Share capital (Note 27)	Treasury/ employee benefit trust shares	Other reserves (Note 28)	Accumulated profits
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2017					
Group					
Opening balance at 1 January 2017 (FRS framework)	309,031	149,278	(430)	120,388	39,795
Cumulative effects of adopting SFRS(I)	3,617	–	–	–	3,617
Opening balance at 1 January 2017 (SFRS(I) framework)	312,648	149,278	(430)	120,388	43,412
Loss for the year, representing total comprehensive income for the year	(38,076)	–	–	–	(38,076)
Contributions by and distributions to owners					
Grant of equity-settled performance shares	100	–	–	100	–
EBT shares reissued pursuant to vesting of performance share plan	(21)	–	364	(385)	–
Purchase of treasury shares	(222)	–	(222)	–	–
	(143)	–	142	(285)	–
Others					
Transfer to statutory reserve fund – safety production expenditure	–	–	–	536	(536)
Transfer to statutory reserve fund	–	–	–	362	(362)
Transfer to staff welfare payable	(12)	–	–	–	(12)
	(12)	–	–	898	(910)
Closing balance at 31 December 2017	274,417	149,278	(288)	121,001	4,426

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Statements of Changes in Equity

For the financial year ended 31 December 2018

(Amounts expressed in Renminbi)

	Attributable to owners of the Company				
	Total equity	Share capital (Note 27)	Treasury/ employee benefit trust shares	Other reserves (Note 28)	Accumulated losses
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2018					
Company					
Opening balance at 1 January 2018 (SFRS(I) framework)	121,082	149,278	(288)	64	(27,972)
Loss for the year, representing total comprehensive income for the year	(2,732)	–	–	–	(2,732)
<u>Contributions by and distributions to owners</u>					
Grant of equity-settled performance shares	21	–	–	21	–
Purchase of treasury share	(316)	–	(316)	–	–
	(295)	–	(316)	21	–
Closing balance at 31 December 2018	118,055	149,278	(604)	85	(30,704)
2017					
Company					
Opening balance at 1 January 2017 (SFRS(I) framework)	123,512	149,278	(430)	349	(25,685)
Loss for the year, representing total comprehensive income for the year	(2,287)	–	–	–	(2,287)
<u>Contributions by and distributions to owners</u>					
Grant of equity-settled performance shares	100	–	–	100	–
EBT shares reissued pursuant to vesting of performance share plan	(21)	–	364	(385)	–
Purchase of treasury share	(222)	–	(222)	–	–
	(143)	–	142	(285)	–
Closing balance at 31 December 2017	121,082	149,278	(288)	64	(27,972)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Consolidated Cash Flow Statement

For the financial year ended 31 December 2018

(Amounts expressed in Renminbi)

	Group	
	2018	**2017**
	RMB'000	RMB'000
Operating activities		
Profit(loss) before tax	9,864	(38,076)
Adjustments for:		
Depreciation of property, plant and equipment	11,676	13,208
Depreciation of investment properties	366	176
Amortisation of intangible assets	319	334
Amortisation of land use rights	365	366
(Write-back of)/impairment losses on financial assets, net	(11,236)	16,660
Allowance for provision on onerous contracts	59	–
(Gain)/loss on disposal of property, plant and equipment, net	(470)	6
Write-off of property, plant and equipment	30	71
Finance costs	40	458
Finance income	(3,209)	(3,733)
Grant of equity-settled performance shares	21	100
Unrealised exchange gain	(95)	(58)
Operating cash flows before changes in working capital	7,730	(10,488)
Changes in working capital		
Decrease/(increase) in:		
Inventories	(8,384)	(3,088)
Trade and other receivables	32,925	(5,213)
Contract assets	(41,581)	2,245
Prepayments	(9,598)	1,898
Increase/(decrease) in:		
Trade and other payables	2,455	(3,054)
Contract liabilities	27,316	3,756
Other liabilities	2,098	(516)
Total changes in working capital	5,231	(3,972)
Cash flows generated from/(used in) operations	12,961	(14,460)
Interest received	3,209	3,733
Interest paid	(40)	(8)
Net cash flows generated from/(used in) operating activities	16,130	(10,735)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Consolidated Cash Flow Statement

For the financial year ended 31 December 2018

(Amounts expressed in Renminbi)

	Note	Group 2018 RMB'000	Group 2017 RMB'000
Investing activities			
Purchase of property, plant and equipment	A	(783)	(1,098)
Purchase of intangible assets - software		(240)	–
Proceeds from disposal of property, plant and equipment		933	10
Purchase of investment at fair value through profit or less managed by a fund manager		(20,000)	–
Net cash flows used in investing activities		(20,090)	(1,088)
Financing activities			
Purchase of treasury shares		(316)	(222)
Repayment of loans from former shareholders of a subsidiary		(17,990)	–
Net cash flows used in financing activities		(18,306)	(222)
Net decrease in cash and cash equivalents		(22,266)	(12,045)
Cash and cash equivalents at 1 January		136,689	148,697
Effect of exchange rate changes on cash and cash equivalents		95	37
Cash and cash equivalents at 31 December	23	114,518	136,689

A. Purchase of property, plant and equipment

	Group 2018 RMB'000	Group 2017 RMB'000
Current year additions to property, plant and equipment (Note 14)	873	768
Less: Payable to creditors	(196)	(64)
Prepayments made in prior year	(18)	–
	659	704
Add: Payments for prior year purchase	118	359
Prepayments made in current year	6	35
Net cash outflow for purchase of property, plant and equipment	783	1,098

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Notes to the Financial Statements

For the financial year ended 31 December 2018

1. Corporate information

Anchun International Holdings Ltd. (the "Company") is a limited liability company incorporated and domiciled in Singapore and is listed on the Singapore Exchange Securities Trading Limited ("SGX-ST").

The registered office of the Company is located at 81 Anson Road, Suite 8.20, Singapore 079908. The principal place of business of the Group is located at No. 539, Lusong Road, Changsha National Hi-tech Industrial Development Zone, Changsha City, Hunan Province, PRC 410205.

The principal activity of the Company is an investment holding. The principal activities of the subsidiary are disclosed in Note 13 to the financial statements.

2. Summary of significant accounting policies

2.1 *Basis of preparation*

The consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company have been prepared in accordance with Singapore Financial Reporting Standards (International) (SFRS(I)).

For all periods up to and including the year ended 31 December 2017, the Group prepared its financial statements in accordance with Financial Reporting Standards in Singapore (FRS). These financial statements for the year ended 31 December 2018 are the first the Group has prepared in accordance with SFRS(I). Refer to Note 2.2 for information on how the Group adopted SFRS(I).

The financial statements have been prepared on a historical cost basis except as disclosed in the accounting policies below.

The financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand ("RMB'000"), except when otherwise indicated.

2.2 *First-time adoption of Singapore Financial Reporting Standards (International) (SFRS(I))*

These financial statements for the year ended 31 December 2018 are the first the Group and the Company have prepared in accordance with SFRS(I). Accordingly, the Group and the Company have prepared financial statements that comply with SFRS(I) applicable as at 31 December 2018, together with the comparative period data for the year ended 31 December 2017, as described in the summary of significant accounting policies. On preparing the financial statements, the Group's and the Company's opening balance sheets were prepared as at 1 January 2017, the Group and the Company's date of transition to SFRS(I).

The principal adjustments made by the Group on adoption of SFRS(I) and the adoption of the new standards that are effective on 1 January 2018 are disclosed below.

Exemptions applied on adoption of SFRS(I)

SFRS(I) allows first-time adopters exemptions from the retrospective application of certain requirements under SFRS(I). The Group has applied the following exemption:

- The comparative information does not comply with SFRS(I) 9 Financial Instruments or SFRS(I) 7 Financial Instruments: Disclosures to the extent the disclosures relate to items within the scope of SFRS(I) 9. The requirements of its previous GAAP were applied to financial instruments up to the financial year ended 31 December 2017.

2. Summary of significant accounting policies (cont'd)

2.2 *First-time adoption of (SFRS(I)) (cont'd)*

New accounting standards effective from 1 January 2018

The accounting policies adopted are consistent with those previously applied under FRS except that in the current financial year, the Group has adopted all the SFRS(I) which are effective for annual financial periods beginning on or after 1 January 2018. Except for the impact arising from the exemptions applied as described above and the adoption of SFRS(I) 9 and SFRS(I) 15 described below, the adoption of these standards did not have any material effect on the financial performance or position of the Group and the Company.

SFRS(I) 9 Financial Instruments

On 1 January 2018, the Group adopted SFRS(I) 9 Financial instruments, which is effective for annual periods beginning on or after 1 January 2018. The changes arising from the adoption of SFRS(I) 9 have been applied retrospectively. The Group has elected to apply the exemption in SFRS(I) 1 and has not restated comparative information in the year of initial application. There is no material impact arising from SFRS(I) 9 adoption at the date of initial application. The comparative information was prepared in accordance with the requirements of FRS 39.

Classification and measurement

SFRS(I) 9 requires debt instruments to be measured either at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVPL). Classification of debt instruments depends on the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). An entity's business model is how an entity manages its financial assets in order to generate cash flows and create value for the entity either from collecting contractual cash flows, selling financial assets or both. If a debt instrument is held to collect contractual cash flows, it is measured at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held both to collect the assets' contractual cash flows and to sell the assets are measured at FVOCI. Financial assets are measured at FVPL if they do not meet the criteria of FVOCI or amortised cost.

The assessment of the business model and whether the financial assets meet the SPPI requirements was made as of 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018.

The Group's debt instruments have contractual cash flows that are solely payments of principal and interest. Debt instruments that were measured at amortised cost previously are held to collect contractual cash flows, and accordingly measured at amortised cost under SFRS(I) 9. There is no significant impact arising from measurement of these instruments under SFRS(I) 9.

Impairment

SFRS(I) 9 requires the Group to record expected credit losses on all of its financial assets measured at amortised cost or FVOCI and financial guarantees. The Group previously recorded impairment based on the incurred loss model when there is objective evidence that a financial asset is impaired. Upon adoption of SFRS(I) 9, there is no significant impact arising from recording of impairment on its financial assets based on expected credit loss model.

SFRS(I) 15 Revenue from Contracts with Customers

The Group adopted SFRS(I) 15 which is effective for annual periods beginning on or after 1 January 2018.

Notes to the Financial Statements

For the financial year ended 31 December 2018

2. Summary of significant accounting policies (cont'd)

2.2 *First-time adoption of (SFRS(I)) (cont'd)*

New accounting standards effective from 1 January 2018 (cont'd)

SFRS(I) 15 Revenue from Contracts with Customers (cont'd)

The Group applied SFRS(I) 15 retrospectively and has elected to apply the exemption in SFRS(I) 1 to apply the following practical expedients in accordance with the transition provisions in SFRS(I) 15:

- For completed contracts, the Group has not restated contracts that begin and end within the same year or are completed contracts at 1 January 2017. Had the Group elected not to apply this practical expedient, the amount of revenue recorded for the prior year would have been lower;

- For the comparative year ended 31 December 2017, the Group has not disclosed the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the corresponding revenue is expected to be recognised.

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 adopting SFRS(I) 15 is detailed as follows:

(a) *Sale of chemical equipment*

<u>Timing of revenue recognition</u>

The Group previously recognised revenue from the sale of chemical equipment using the completed contract method. Under SFRS(I) 15, performance obligations from the sale of chemical equipment are satisfied over time, as the customised nature of the equipment limited the practicality of readily directing the equipment for another use, and the Group has an enforceable right to payment for performance completed to date.

The Group has determined that for the sale of chemical equipment where revenue was recognised upon completion previously, its performance does not create an asset with alternative use to the Group and it has concluded that it has an enforceable right to payment for performance completed to date. Therefore, revenue is recognised over time under SFRS(I) 15.

As a result, the Group recognised contract assets of RMB23,520,000 with a corresponding increase in other payables of RMB7,061,000 arising on value-added tax, and derecognised inventories relating to chemical equipment of RMB33,366,000 on 1 January 2017. Trade and other receivables, net of reclassification of retention sums to contract assets, decreased by RMB303,000. Advances from customers of RMB34,564,000 were reclassified to contract liabilities, of which a portion were offset against either contract assets or trade and other receivables to reflect the substance of transaction, resulting in a net contract liabilities amount of RMB13,737,000. Correspondingly, the accumulated profits increased by RMB3,617,000.

The Group's balance sheet as at 31 December 2017 was restated, resulting in the recognition of contract assets of RMB21,275,000 with a corresponding increase in other payables of RMB8,862,000 arising on value-added tax. Inventories relating to chemical equipment of RMB39,537,000 were derecognised. Trade and other receivables, net of reclassification of retention sums to contract assets, decreased by RMB3,682,000. Advances from customers of RMB47,045,000 were reclassified to contract liabilities, of which a portion were offset against either contract assets or trade and other receivables to reflect the substance of transaction, resulting in a net contract liabilities amount of RMB17,493,000. Correspondingly, the accumulated profits decreased by RMB1,254,000.

The statement of profit or loss for the year ended 31 December 2017 was also restated, resulting in increases in revenue and cost of sales of RMB2,652,000 and RMB7,523,000 respectively.

2. Summary of significant accounting policies (cont'd)

2.2 *First-time adoption of (SFRS(I)) (cont'd)*

New accounting standards effective from 1 January 2018 (cont'd)

The following is the reconciliation of the impact arising from first-time adoption of SFRS(I) including application of the new accounting standards on 1 January 2017 to the balance sheet of the Group.

The adoption of SFRS(I) does not have any impact to the balance sheet of the Company as at 1 January 2017.

	Group		
	1 January 2017 (FRS)	SFRS(I) 15 adjustments	1 January 2017 (SFRS(I))
	RMB'000	RMB'000	RMB'000
ASSETS			
Non-current assets			
Total non-current assets	115,507	–	115,507
Current assets			
Inventories	50,566	(33,366)	17,200
Trade and other receivables	84,138	(303)	83,835
Contract assets	–	23,520	23,520
Other current assets	157,178	–	157,178
	291,882	(10,149)	281,733
Total assets	**407,389**	**(10,149)**	**397,240**
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables	42,719	7,061	49,780
Contract liabilities	–	13,737	13,737
Advances from customers	34,564	(34,564)	–
Other current liabilities	20,975	–	20,975
	98,258	(13,766)	84,492
Non-current liability			
Deferred tax liabilities	100	–	100
Total liabilities	**98,358**	**(13,766)**	**84,592**
Equity attributable to owners of the Company			
Share capital	149,278	–	149,278
Treasury/employee benefit trust shares	(430)	–	(430)
Other reserves	120,388	–	120,388
Accumulated profits	39,795	3,617	43,412
Total equity	**309,031**	**3,617**	**312,648**
Total equity and liabilities	**407,389**	**(10,149)**	**397,240**

Notes to the Financial Statements

For the financial year ended 31 December 2018

2. Summary of significant accounting policies (cont'd)

2.2 *First-time adoption of (SFRS(I)) (cont'd)*

The following is the reconciliation of the impact arising from first-time adoption of SFRS(I) including application of the new accounting standards on 31 December 2017 to the balance sheet of the Group.

The adoption of SFRS(I) does not have any impact to the balance sheet of the Company as at 31 December 2017 and 1 January 2018.

	Group		
	31 December 2017 (FRS)	SFRS(I) 15 adjustments	31 December 2017 (SFRS(I))
	RMB'000	RMB'000	RMB'000
ASSETS			
Non-current assets			
Total non-current assets	102,139	–	102,139
Current assets			
Inventories	59,825	(39,537)	20,288
Trade and other receivables	76,070	(3,682)	72,388
Contract assets	–	21,275	21,275
Other current assets	143,272	–	143,272
	279,167	(21,944)	257,223
Total assets	**381,306**	**(21,944)**	**359,362**
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables	37,568	8,862	46,430
Contract liabilities	–	17,493	17,493
Advances from customers	47,045	(47,045)	–
Other current liabilities	20,922	–	20,922
	105,535	(20,690)	84,845
Non-current liability			
Deferred tax liabilities	100	–	100
Total liabilities	**105,635**	**(20,690)**	**84,945**
Equity attributable to owners of the Company			
Share capital	149,278	–	149,278
Treasury/employee benefit trust shares	(288)	–	(288)
Other reserves	121,001	–	121,001
Accumulated profits	5,680	(1,254)	4,426
Total equity	**275,671**	**(1,254)**	**274,417**
Total equity and liabilities	**381,306**	**(21,944)**	**359,362**

2. Summary of significant accounting policies (cont'd)

2.2 *First-time adoption of (SFRS(I)) (cont'd)*

The following is the reconciliation of the impact arising from first-time adoption of SFRS(I) and application of the new accounting standards to the comprehensive income the Group for the year ended 31 December 2017.

	2017 (FRS) RMB'000	SFRS(I) 15 adjustments RMB'000	2017 (SFRS(I)) RMB'000
Revenue	62,782	2,652	65,434
Cost of sales	(50,992)	(7,523)	(58,515)
Gross profit	11,790	(4,871)	6,919
Other items of income	6,124	–	6,124
Other items of expenses	(51,119)	–	(51,119)
Loss before tax	(33,205)	(4,871)	(38,076)
Income tax credit	–	–	–
Loss for the year, representing total comprehensive income for the year attributable to owners of the Company	(33,205)	(4,871)	(38,076)
Loss per share (RMB cents)			
Basic	(65.99)	(9.68)	(75.67)
Diluted	(65.99)	(9.68)	(75.67)

2.3 *Standards issued but not yet effective*

The Group has not adopted the following standards applicable to the Group that have been issued but not yet effective:

Description	Effective for annual periods beginning on or after
SFRS(I) 16 Leases	1 January 2019
SFRS(I) INT 23 *Uncertainty over Income Tax Treatments*	1 January 2019
Amendments to SFRS(I) 9 *Prepayment Features with Negative Compensation*	1 January 2019
Amendments to SFRS(I) 1-28 *Long-term Interests in Associates and Joint Ventures*	1 January 2019
Annual improvements to SFRS(I)s 2015-2017 Cycle	1 January 2019
Amendments to SFRS(I) 10 and SFRS(I) 1-28 *Sale or Contribution of Assets between an investor and its Associate or Joint Venture*	Date to be determined**

** *The mandatory effective date of this Amendment had been revised from 1 January 2016 to a date to be determined by the ASC in December 2015 via Amendments to Effective Date of Amendment to SFRS(I) 10 and SFRS(I) 1-28*

Notes to the Financial Statements

For the financial year ended 31 December 2018

2. Summary of significant accounting policies (cont'd)

2.3 *Standards issued but not yet effective (cont'd)*

Except for SFRS(I) 16, the directors expect that the adoption of the other standards above will have no material impact on the financial statements in the year of initial application. The nature of the impending changes in accounting policy on adoption of SFRS(I) 16 are described below.

SFRS(I) 16 Leases

SFRS(I) 16 requires lessees to recognise most leases on balance sheets. The standard includes two recognition exemptions for lessees – leases of 'low value' assets and short-term leases. SFRS(I) 16 is effective for annual periods beginning on or after 1 January 2019. At commencement date of a lease, a lessee will recognise a liability to make a lease payment (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

The Group plans to adopt SFRS(I) 16 retrospectively with the cumulative effect of initially applying the standard as an adjustment to the opening retained earnings at the date of initial application, 1 January 2019. The Group is currently assessing the impact of adoption of SFRS(I) 16.

On the adoption of SFRS(I) 16, the Group expects to choose, on a lease-by-lease basis to measure the right-of-use asset at either:

(i) its carrying amount as if SFRS(I) 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate as of 1 January 2019; or

(ii) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before 1 January 2019.

In addition, the Group plans to elect the following practical expedients:

- not to reassess whether a contract is, or contains a lease at the date of initial application and to apply SFRS(I) 16 to all contracts that were previously identified as leases
- to apply the exemption not to recognise right-of-use asset and lease liabilities to leases for which the lease term ends within 12 months as of 1 January 2019

The Group has performed a preliminary impact assessment based on currently available information, and the assessment may be subject to changes arising from ongoing analysis until the Group adopts SFRS(I) 16 in 2019.

On adoption of SFRS(I) 16, the Group expects to recognise right-of-use assets and lease liabilities for its leases previously classified as operating leases, with a corresponding adjustment in the opening retained earnings as of 1 January 2019.

2. Summary of significant accounting policies (cont'd)

2.4 *Basis of consolidation and business combinations*

(a) *Basis of consolidation*

The consolidated financial statements comprise the financial statements of the Company and its subsidiary as at the end of the reporting period. The financial statements of the subsidiary used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

The subsidiary is consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

(b) *Business combinations*

Business combinations are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in profit or loss.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in profit or loss on the acquisition date.

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the Group's cash-generating units that are expected to benefit from the synergies of the combination.

The cash-generating units to which goodwill have been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates.

Notes to the Financial Statements

For the financial year ended 31 December 2018

2. Summary of significant accounting policies (cont'd)

2.5 *Foreign currency*

The financial statements are presented in Renminbi ("RMB"), which is also the Company and its subsidiary's functional currency.

Transactions and balances

Transactions in foreign currencies are measured in RMB and are recorded on initial recognition in RMB at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in profit or loss.

2.6 *Property, plant and equipment*

All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition, property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

	Years
Buildings	20
Machinery	5 to 15
Office equipment and furniture	5
Motor vehicles	5

Assets under construction included in property, plant and equipment are not depreciated as these assets are not yet available for use.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

The residual value, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset is included in profit or loss in the year the asset is derecognised.

2. Summary of significant accounting policies (cont'd)

2.7 *Intangible assets*

Intangible assets acquired separately are measured initially at cost. Following initial acquisition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets are not capitalised and expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

Intangible assets with finite useful lives are amortised over their estimated useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Computer software

Computer software is measured at cost less accumulated amortisation and any accumulated impairment loss. It is amortised on a straight-line basis over its estimated useful lives of 3 years.

2.8 *Land use rights*

Land use rights are initially measured at cost. Following initial recognition, land use rights are measured at cost less accumulated amortisation. The land use rights are amortised on a straight-line basis over the lease term of 50 years.

2.9 *Investment properties*

Investment properties are properties that are either owned by the Group or leased under a finance lease that are held to earn rentals or for capital appreciation, or both, rather than for use in the production or supply of goods or services, or for administrative purposes, or in the ordinary course of business. Investment properties comprise completed investment properties and properties that are being constructed or developed for future use as investment properties. Properties held under operating leases are classified as investment properties when the definition of an investment property is met.

Investment properties are initially measured at cost, including transaction costs. The Group has adopted the cost model which is to measure investment properties at cost less accumulated depreciation and accumulated impairment losses. Depreciation is computed on a straight-line basis over the estimated useful lives of 20 years.

The carrying values of investment properties are reviewed for impairment when event or charges in circumstances indicate that the carrying value may not be recoverable.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of retirement or disposal.

2. Summary of significant accounting policies (cont'd)

2.10 *Impairment of non-financial assets*

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses are recognised in profit or loss.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit and loss.

2.11 *Subsidiaries*

A subsidiary is an investee that is controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

In the Company's balance sheet, investment in subsidiary is accounted for at cost less impairment losses.

2.12 *Financial instruments*

(a) *Financial assets*

Initial recognition and measurement

Financial assets are recognised when, and only when the entity becomes party to the contractual provisions of the instruments.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Trade receivables are measured at the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third party, if the trade receivables do not contain a significant financing component at initial recognition.

2. Summary of significant accounting policies (cont'd)

2.12 *Financial instruments (cont'd)*

(a) *Financial assets (cont'd)*

Subsequent measurement

Investments in debt instruments

(i) Amortised cost

Financial assets that are held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the assets are derecognised or impaired, and through amortisation process.

(ii) Fair value through profit or loss

Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt instruments that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss in the period in which it arises.

De-recognition

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

(b) *Financial liabilities*

Initial recognition and measurement

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

After initial recognition, financial liabilities that are not carried at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

De-recognition

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires. On de-recognition, the difference between the carrying amounts and the consideration paid is recognised in profit or loss.

Notes to the Financial Statements

For the financial year ended 31 December 2018

2. Summary of significant accounting policies (cont'd)

2.13 *Impairment of financial assets*

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss and financial guarantee contracts ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is recognised for credit losses expected over the remaining life of the exposure, irrespective of timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.14 *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and on hand and short-term deposits which are subject to an insignificant risk of changes in value.

2.15 *Inventories*

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing the inventories to their present location and condition are accounted for as follows:

- Raw materials: purchase costs on a weighted average basis.

- Finished goods and work-in-progress: costs of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity. These costs are assigned on a weighted average basis.

When necessary, allowance is provided for damaged, obsolete and slow moving items to adjust the carrying value of inventories to the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2. Summary of significant accounting policies (cont'd)

2.16 *Provisions*

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources embodying economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Onerous contracts

A contract is onerous when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. When a contract is onerous, a present obligation under the contract shall be recognised and measured as a provision.

2.17 *Borrowing costs*

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.18 *Government grants*

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the government grants relate to income, it is recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grant is intended to compensate. The grants are presented as a credit in profit or loss, under a general heading such as "Finance and other income".

2.19 *Research costs*

Research costs are expensed as incurred.

Notes to the Financial Statements

For the financial year ended 31 December 2018

2. Summary of significant accounting policies (cont'd)

2.20 *Employee benefits*

(a) *Defined contribution plans*

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations.

PRC

The PRC subsidiary is required to provide certain staff pension benefits to their employees under existing PRC laws and regulations. Pursuant to the PRC laws and regulations, defined contributions are provided at rates stipulated by PRC regulations and contributed to a pension fund managed by government agencies, which are responsible for administering these amounts for the subsidiary's employees. Pension contributions are recognised as an expense in the period in which the related services are performed.

Singapore

The Company makes contribution to the Central Provident Fund scheme in Singapore, a defined contribution pension scheme. Pension contributions are recognised as an expense in the period in which the related services are performed.

(b) *Equity-settled share-based payment transactions*

Employees of the Group receive remuneration in the form of shares as consideration for services rendered. The cost of these equity-settled share based payment transactions with employees is measured by reference to the fair value of the shares at the date on which the shares are granted which takes into account vesting conditions. This cost is recognised in profit or loss, with a corresponding increase in the employee share reserve, over the vesting period. The cumulative expense recognised at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of shares that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense.

Vesting conditions

Vesting condition are conditions that determine whether the entity receives the services that entitle the counterparty to receive cash, other assets or equity instruments of the entity under a share-based payment arrangement.

Vesting conditions are limited to service condition (e.g., requires counterparty to complete a specified period of service).

(c) *Employee leave entitlement*

Employee entitlements to annual leave are recognised as a liability when they are accrued to the employees. The estimated liability for leave is recognised for services rendered by employees up to the end of the reporting period.

2. Summary of significant accounting policies (cont'd)

2.21 *Leases*

(a) *As lessee*

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

(b) *As lessor*

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. The accounting policy for rental income is set out in Note 2.22(g).

2.22 *Revenue*

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Revenue is recognised when the Group satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognised is the amount allocated to the satisfied performance obligation.

(a) *Sale of chemical catalyst*

The Group supplies chemical catalyst for consumers, for use in the process of gas-making, ammonia synthesis and methanol synthesis.

Revenue from sale of chemical catalyst is recognised when control of the good has been transferred to the customer at a point in time. Control is transferred upon the transfer of significant risk and rewards of ownership of the good, which generally coincides with the delivery of goods based on its shipping terms.

The amount of revenue recognised is based on the contractual price, as the contracts with customer do not normally include variable consideration such as right of returns, refunds, trade discounts or volume rebates.

(b) *Sale of chemical equipment*

The Group manufactures chemical system equipments including reactors, pressure vessels and other auxiliary equipment for consumers.

Revenue from sale of chemical equipment is recognised when control of the equipment has been transferred to customer over time, as the Group has limited practicality of readily directing the customised equipment for another use, and has an enforceable right to payment for performance completed to date. Revenue is recognised over time, based on costs incurred to date as a proportion of the estimated total cost to be incurred.

Notes to the Financial Statements

For the financial year ended 31 December 2018

2. Summary of significant accounting policies (cont'd)

2.22 *Revenue (cont'd)*

(b) *Sale of chemical equipment (cont'd)*

The Group accounts for contract modifications arising from change orders to modify the scope or price of the contract as separate contracts if the modification adds distinct goods or services at their standalone selling prices. For contract modifications that add distinct goods or services but not at their standalone selling prices, the Group combines the remaining consideration in the original contract with the consideration promised in the modification to create a new transaction price that is then allocated to all remaining performance obligations. For contract modifications that do not add distinct goods or services, the Group accounts for the modification as continuation of the original contract and is recognised as a cumulative adjustment to revenue at the date of modification.

The contracts with customer includes only assurance-type warranty to assure that the equipment complies with agreed-upon specifications, and are accounted for as a provision for warranty.

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

(c) *Rendering of services*

The Group provides chemical systems engineering and technology design services for the production of ammonia and methanol related products.

Revenue from the rendering of services is recognised when control over the engineering design services has been transferred to customer over time, as the customer simultaneously receives and consumes the benefits as the Group performs. Revenue is recognised over time, based on costs incurred to date as a proportion of the estimated total cost to be incurred.

(d) *Sale of scrap materials and parts*

Sale of scrap items is recognised upon the transfer of significant risk and rewards of the scrap items to contracted party responsible for scraping, upon delivery of goods.

(e) *Interest income*

Interest income is recognised using the effective interest method.

(f) *Dividend income*

Dividend income is recognised when the Group's right to receive payment is established.

(g) *Rental income*

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms. The aggregate costs of incentives provided to lessees are recognised as a reduction of rental income over the lease term on a straight-line basis.

2. Summary of significant accounting policies (cont'd)

2.23 *Taxes*

(a) *Current income tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period, in the countries where the Group operates and generates taxable income.

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(b) *Deferred tax*

Deferred tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of taxable temporary differences associated with investments in subsidiary, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of deductible temporary differences associated with investments in subsidiary, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Notes to the Financial Statements

For the financial year ended 31 December 2018

2. Summary of significant accounting policies (cont'd)

2.23 *Taxes (cont'd)*

(b) *Deferred tax (cont'd)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of each reporting period.

Deferred tax relating to items recognised outside profit and loss is recognised outside profit and loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

(c) *Value-added-tax ("VAT") / Goods and services tax ("GST")*

Revenues, expenses and assets are recognised net of the amount of VAT/GST except:

- Where the VAT/GST incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT/GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- Receivables and payables that are stated with the amount of VAT/GST included.

2.24 *Segmental reporting*

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by respective segment managers responsible for the performance of the respective segments under their charge. The segment manager reports directly to the management of the Company who regularly reviews the segment results in order to allocate the resources to the segments and assess the segment performance. Additional disclosures on each of these segments are shown in Note 29, including the factors used to identify the reportable segments and the measurement basis of segment information.

2.25 *Contingencies*

A contingent liability is:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or

(b) a present obligation that arises from past events but not recognised because:

(i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) The amount of the obligation cannot be measure with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent liabilities and assets are not recognised on the balance sheet of the Group.

2. Summary of significant accounting policies (cont'd)

2.26 *Share capital and share issuance expenses*

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

2.27 *Treasury shares*

The Group's own equity instruments, which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount of treasury shares and the consideration received, if reissued, is recognised directly in equity. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them respectively.

3. Significant accounting judgements and estimates

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of each reporting period. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

3.1 *Judgements made in applying accounting policies*

Management is of the opinion that there is no significant judgement made in applying accounting policies that have a significant effect on the amounts recognised in the consolidated financial statements.

3.2 *Key sources of estimation uncertainty*

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period are discussed below. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

(a) *Provision for expected credit losses of trade receivables and contract assets*

The Group uses a provision matrix to calculate the ECLs for trade receivables and contract assets, for which the matrix is initially based on historical observed default rates. The matrix is calibrated to adjust historical credit loss experience with forward-looking information which incorporated forecast macroeconomic conditions specific to the debtors and the environment in which the Group operates. At every reporting date, historical default rates are updated and changes in forward-looking estimates are analysed.

3. Significant accounting judgements and estimates (cont'd)

3.2 *Key sources of estimation uncertainty (cont'd)*

(a) *Provision for expected credit losses of trade receivables and contract assets (cont'd)*

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate, and may also not be representative of the actual default in the future. The carrying amount of the Group's trade receivables and contract assets, and information about its ECLs is disclosed in Note 4 and Note 21 to the financial statements.

(b) *Contracts and revenue recognition*

The Group recognises contract revenue by reference to the progress towards complete satisfaction of a performance obligation within the contract, when the outcome of a performance obligation can be reasonably measured. The progress is measured by reference of the costs incurred to date as a proportion of the estimated total cost to be incurred. Significant assumptions are required to estimate the total budgeted contract costs, progress towards completion, and remaining costs to completion.

For the financial year ended 31 December 2018, the Group recorded revenue of RMB104,682,000 (2017: RMB52,116,000) from contracts under CET engineering services and CSC business.

4. Revenue

(a) ***Disaggregation of revenue***

	Catalyst business		CSC business		CET engineering services		Total revenue	
	2018	2017	2018	2017	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Primary geographical market								
People's Republic of China	6,523	13,318	95,233	46,755	9,449	5,361	111,205	65,434
	6,523	13,318	95,233	46,755	9,449	5,361	111,205	65,434
Major product or service lines								
Catalyst	6,523	13,318	–	–	–	–	6,523	13,318
Chemical equipment	–	–	95,233	46,755	–	–	95,233	46,755
Engineering and design services	–	–	–	–	9,449	5,361	9,449	5,361
	6,523	13,318	95,233	46,755	9,449	5,361	111,205	65,434
Timing of transfer of goods or services								
At a point in time	6,523	13,318	–	–	–	–	6,523	13,318
Over time	–	–	95,233	46,755	9,449	5,361	104,682	52,116
	6,523	13,318	95,233	46,755	9,449	5,361	111,205	65,434

4. Revenue (cont'd)

(b) *Judgement and methods used in estimating revenue*

Recognition of revenue from sale of chemical equipment over time

For the sale of chemical equipment where the Group satisfies its performance obligations over time, management has determined that a cost-based input method provides a faithful depiction of the Group's performance in transferring control of the chemical equipment to the customers, as it reflects the Group's efforts incurred to date relative to the total inputs expected to be incurred for sale of chemical equipment. The measure of progress is based on the costs incurred to date as a proportion of total costs expected to be incurred up to the complete construction of the chemical equipment.

The estimated total construction and other related costs are based on contracted amounts and, in respect of amounts not contracted for, management relies on past experience and knowledge of the project engineers to make estimates of the amounts to be incurred. In making these estimates, management takes into consideration the historical trends of amounts incurred to construct other similar chemical equipments.

(c) *Contract assets and contract liabilities*

Information about receivables, contract assets and contract liabilities from contracts with customers is disclosed as follows:

	Group		
	2018	**As at 31 December 2017**	**As at 1 January 2017**
	RMB'000	RMB'000	RMB'000
Receivables from contracts with customers (Note 21)	25,274	37,154	66,076
Contract assets	62,856	21,275	23,520
Contract liabilities	44,809	17,493	13,737

The Group has recognised a write-back of impairment losses on receivables, net, on receivables arising from contracts with customers of RMB11,236,000 (2017: impairment losses on receivables, net of RMB16,660,000).

Contract assets primarily relate to the Group's right to consideration for work completed but not yet billed at reporting date for sale of chemical equipment. Contract assets are transferred to receivables when the rights become unconditional. The Group has not recognised any impairment losses on contract assets during the year (2017: nil).

Contract liabilities primarily relate to the Group's obligation to transfer goods or services to customers for which the Group has received advances received from customers for sale of chemical equipment

Contract liabilities are recognised as revenue as the Group performs under the contract.

Notes to the Financial Statements

For the financial year ended 31 December 2018

4. Revenue (cont'd)

(c) Contract assets and contract liabilities (cont'd)

(i) Significant changes in contract assets are explained as follows:

	Group	
	2018	**2017**
	RMB'000	RMB'000
Contract asset reclassified to receivables	8,070	16,894

(ii) Significant changes in contract liabilities are explained as follows:

	Group	
	2018	**2017**
	RMB'000	RMB'000
Revenue recognised that was included in the contract liability balance at the beginning of the year	9,283	5,813

(d) Transaction price allocated to remaining performance obligation

The aggregate amount of transaction price allocated to the unsatisfied (or partially unsatisfied) performance obligations as at 31 December 2018 is RMB150,332,000. The Group expects to recognise RMB141,164,000 as revenue relating to the transaction price allocated to the unsatisfied (or partially satisfied) performance obligations as at 31 December 2018 in the financial year 2019 and RMB9,168,000 in the financial year 2020.

5. Finance and other income

	Group	
	2018	**2017**
	RMB'000	RMB'000
Finance income		
Interest income on bank balances and deposits	3,209	3,733
Other income		
Government grants^	1,864	214
Sale of scrap materials and parts	3,836	859
Rental income from investment properties (Note 18)	2,784	731
Net foreign exchange gain	95	58
Gain from contract penalty	176	512
Gain on disposal of property, plant and equipment	488	–
Others	176	17
	12,628	6,124

^ During the financial year ended 31 December 2018 and 2017, the Company' subsidiary in the People's Republic of China received cash grants for distinguished enterprise and research and development mainly from Changsha Finance Bureau High-Tech Zone.

6. Other expenses

	Group	
	2018	**2017**
	RMB'000	RMB'000
Loss on disposal of property, plant and equipment	18	6
Others	100	47
	118	53

7. Finance costs

	Group	
	2018	**2017**
	RMB'000	RMB'000
Interest expense on loans from former shareholders of a subsidiary	37	450
Others	3	8
	40	458

Notes to the Financial Statements

For the financial year ended 31 December 2018

8. Profit/(loss) before tax

The following items have been included in arriving at profit/(loss) before tax:

	Note	Group 2018 RMB'000	Group 2017 RMB'000
Audit fees			
- auditors of the Company		413	412
- other auditors		558	557
Non-audit fees			
- other auditors		333	156
Grant of equity-settled performance shares		21	100
Allowance for provision on onerous contracts	25	59	–
Amortisation of land use rights	16	365	366
Amortisation of intangible assets	15	319	334
Operating lease expense	30	674	536
Depreciation of property, plant and equipment	14	11,676	13,208
Depreciation of investment property	18	366	176
Employee benefits expense	11	29,382	23,659
Direct operating expenses arising from investment property	18	637	264
Inventories recognised as an expense in cost of sales	20	57,165	36,488
Write-off of property, plant and equipment	14	30	71
(Write-back of)/impairment losses on financial assets, net:			
- Trade receivables	21	(11,236)	16,660

Impairment losses on financial assets allocated by function are as follows:

	Group 2018 RMB'000	Group 2017 RMB'000
Other income	(11,236)	–
Other expenses	–	16,660

9. Income tax credit

Major components of income tax credit

The major components of income tax credit for the years ended 31 December 2018 and 2017 are:

	Group 2018 RMB'000	Group 2017 RMB'000
Deferred income tax:		
- Origination of temporary differences	(628)	–
Income tax credit recognised in profit or loss	(628)	–

9. Income tax credit (cont'd)

Relationship between tax credit and accounting profit/(loss)

The reconciliation between tax credit and the product of accounting profit/(loss) multiplied by the applicable corporate tax rate for the years ended 31 December 2018 and 2017 is as follows:

	Group	
	2018	**2017**
	RMB'000	RMB'000
Profit/(loss) before tax	9,864	(38,076)
Tax at the domestic rates applicable to profit in the countries where the Group operates	1,425	(5,758)
Adjustments:		
- Non-deductible expenses	459	394
- Deferred tax assets not recognised	–	5,375
- Income not subject to taxation	(1,701)	(11)
- Effect of partial tax exemption and tax relief	(183)	–
- Recognition of deferred tax asset previously not recognised	(628)	–
Income tax credit recognised in profit or loss	(628)	–

The above reconciliation is prepared by aggregating separate reconciliations for each national jurisdiction.

The nature of income that are not subject to taxation are as follows:

	Group	
	2018	**2017**
	RMB'000	RMB'000
Write-back of impairment losses on financial assets, net	11,236	–
Capital foreign exchange differences	95	65
	11,331	65

Anchun International Holdings Ltd. (the "Company")

The Company is incorporated in Singapore and is subject to a tax rate of 17% for the financial year ended 31 December 2018 (2017: 17%).

Hunan Anchun Advanced Technological Co., Ltd ("Hunan Anchun")

According to the Enterprise Income Tax Law of the PRC, promulgated by the State Council and the Administrative Measure for Determination of High and New Technology Enterprises, issued by the Ministry of Science and Technology, Finance and State Administration of Tax and effective on 1 January 2008, High and New Technology Enterprises that require key state support are subject to the applicable enterprise income tax rate of 15%.

Given that Hunan Anchun has received the certificate of High and New Technology Enterprise since 2007, it enjoys the preferential income tax rate of 15%.

Notes to the Financial Statements

For the financial year ended 31 December 2018

10. Earnings/(loss) per share

Basic earnings/(loss) per share are calculated by dividing profit/(loss) for the year, net of tax, attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share for the financial year ended 31 December 2018 are calculated by dividing profit for the year, net of tax, attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the financial year plus the weighted average number of ordinary shares that would be issued on the conversion of all dilutive potential ordinary shares into ordinary shares.

Diluted loss per share for the financial year ended 31 December 2017 is the same as the basic loss per share as the Company does not have any dilutive potential ordinary shares for the financial year then ended.

The following tables reflect the profit/(loss) and share data used in the computation of basic and diluted earnings/(loss) per share for the years ended 31 December:

	Group	
	2018	**2017**
	RMB'000	RMB'000
Profit/(loss) for the year attributable to owners of the Company used in the computation of basic and diluted loss per share	10,492	(38,076)
Weighted average number of ordinary shares for basic earnings/(loss) per share computation ('000) #	50,249	50,317
Effects of dilution of share awards ('000)	68	NA*
Weighted average number of ordinary shares for diluted earnings/(loss) per share computation ('000)	50,317	50,317
Basic earnings/(loss) per share (RMB cents)	20.88	(75.67)
Diluted earnings/(loss) per share (RMB cents)	20.85	(75.67)

* Not applicable as the share awards are anti-dilutive as at 31 December 2017.

\# The weighted average number of ordinary shares takes into account the weighted average effect of changes in treasury and EBT shares transactions during the year.

As at 31 December 2018, 160,000 treasury shares and 26,000 EBT shares granted to employees under the Performance Share Plan 2014 have been included in the calculation of diluted earnings per share.

As at 31 December 2017, 17,000 EBT shares granted to employees under the Performance Share Plan 2014 have not been included in the calculation of diluted loss per share because they are anti-dilutive.

11. Employee benefits expense

	Group	
	2018	2017
	RMB'000	RMB'000
Employee benefits expense (including directors):		
Salaries and bonuses	23,834	18,714
Welfare expense	1,607	775
Contribution to defined contribution plans	3,920	4,070
Performance share expense	21	100
	29,382	23,659

Employee share awards

Performance Share Plan 2014

The Anchun Performance Share Plan 2014 ("Anchun PSP") was approved by the shareholders of the Company on 29 April 2014. Under the Anchun PSP, certain employees are entitled to a grant of performance shares, which will be released to these employees once they have been in service for a period of three years from the date of grant.

Fair value of share awards granted

The fair value of the shares granted is determined by reference to the published market bid price at the respective grant date. The fair value of the services from employees received in exchange for the grant of the shares under the Anchun PSP is recognised as an expense in the income statement with a corresponding increase in Anchun PSP reserve. The total amount to be recognised over the vesting period is determined by reference to the fair value of the performance shares at the date of grant and the number of performance shares expected to be vested by vesting date. At the end of each reporting period, the Group revises its estimate of the number of performance shares that are expected to vest on vesting date. Any revision of this estimate is included in the income statement and a corresponding adjustment to Anchun PSP reserve over the remaining vesting period.

During the financial year, there were no revisions to this estimate of the number of employees who will fulfil the three years' service condition (2017: there were revisions). The movement in performance shares is disclosed in Note 27(b) to the financial statements.

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11. Employee benefits expense (cont'd)

Employee share awards (cont'd)

Movement of share awards during the financial year

The following table illustrates the number (No.) of, and movements in, share awards during the financial year:

	2018 No. ('000)	2017 No. ('000)
Outstanding at 1 January	17	170
- Granted	169	17
- Forfeited	–	(26)
- Vested	–	(144)
	186	17

12. Related party transactions

(a) ***Sale and purchase of services***

In addition to related party information disclosed elsewhere in the financial statements, the following transactions between the Company and the related parties took place on terms agreed between the parties during the financial year:

	Group	
	2018 RMB'000	2017 RMB'000
Service fee charged to a subsidiary	20	20

(b) ***Compensation of key management personnel***

	Group	
	2018 RMB'000	2017 RMB'000
Salaries, bonuses and fees	2,963	2,437
Contribution to defined contribution plans	98	122
Performance share expense	21	*
Total compensation paid to key management personnel	3,082	2,559
Comprises amounts paid to:		
- Directors of the Company	2,532	2,145
- Other key management personnel	550	414
Total compensation paid to key management personnel	3,082	2,559

* Less than RMB1,000.

12. Related party transactions (cont'd)

(b) ***Compensation of key management personnel (cont'd)***

Key management personnel's interest in employee share awards

During the financial year, 160,000 (2017: 17,000) share awards have been granted to one (2017: one) of the Company's key management personnel under the Anchun PSP. The shares will be released to the employee at the conclusion of a three years vesting period.

At the end of the reporting period, the total number of outstanding share awards granted by the Company to the abovementioned key management personnel under the Anchun PSP amounted to 177,000 (2017: 17,000).

13. Investment in a subsidiary

	Company		
	2018	As at 31 December 2017	As at 1 January 2017
	RMB'000	RMB'000	RMB'000
Unquoted equity shares, at cost	75,000	75,000	75,000
Anchun PSP	482	461	353
	75,482	75,461	75,353

Details of the subsidiary is as follows:

Name of company	Country of incorporation	Principal activities	Proportion of ownership interest		
			2018	As at 31 December 2017	As at 1 January 2017
			%	%	%
Held by the Company					
Hunan Anchun Advanced Technology Co., Ltd ("Hunan Anchun") [1]	PRC	Provision of integrated chemical systems engineering and technology solutions to the petrochemical and chemical industries	100	100	100

(1) Audited by Peking Certified Public Accountants (Special General Partnership), Hunan Branch, for PRC statutory reporting purpose. Audited by Ernst & Young Hua Ming, Shenzhen office, for consolidation purpose.

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For the financial year ended 31 December 2018

14. Property, plant and equipment

	Buildings RMB'000	Machinery RMB'000	Office equipment and furniture RMB'000	Motor vehicles RMB'000	Total RMB'000
Group					
Cost:					
At 1 January 2017	91,567	109,082	5,630	2,326	208,605
Additions	–	583	185	–	768
Disposals	–	(301)	(4)	–	(305)
Write-off	–	(199)	–	(474)	(673)
At 31 December 2017 and 1 January 2018	91,567	109,165	5,811	1,852	208,395
Additions	–	726	147	–	873
Disposals	–	(3,925)	(18)	–	(3,942)
Write-off	–	(317)	(17)	–	(334)
Transfers to investment properties (Note 18)	(6,840)	–	–	–	(6,840)
At 31 December 2018	84,727	105,649	5,923	1,852	198,151
Accumulated depreciation:					
At 1 January 2017	(35,918)	(66,302)	(4,755)	(1,408)	(108,383)
Depreciation charge for the year	(4,338)	(8,311)	(253)	(306)	(13,208)
Disposals	–	285	4	–	289
Write-off	–	152	–	450	602
At 31 December 2017 and 1 January 2018	(40,256)	(74,176)	(5,004)	(1,264)	(120,700)
Depreciation charge for the year	(4,149)	(7,022)	(243)	(262)	(11,676)
Disposals	–	3,465	15	–	3,479
Write-off	–	289	15	–	304
Transfers to investment properties (Note 18)	4,478	–	–	–	4,478
At 31 December 2018	(39,927)	(77,444)	(5,217)	(1,526)	(124,114)
Net carrying amount:					
At 1 January 2017	55,649	42,780	875	918	100,222
At 31 December 2017	51,311	34,989	807	588	87,695
At 31 December 2018	44,800	28,205	706	326	74,037

15. Intangible assets

	Group		
	2018	As at 31 December 2017	As at 1 January 2017
	RMB'000	RMB'000	RMB'000
Cost			
At 1 January	1,562	1,562	924
Additions	240	–	638
At 31 December	1,802	1,562	1,562
Accumulated amortisation			
At 1 January	(1,298)	(964)	(631)
Amortisation charge for the year	(319)	(334)	(333)
At 31 December	(1,617)	(1,298)	(964)
Net carrying amount			
At 31 December	185	264	598

Intangible assets relate to computer software purchased from vendors and have an average remaining amortisation period of 2 years (31 December 2017: 2 years, 1 January 2017: 3 years). The amortisation of intangible asset is included in the "Administrative expenses" line item in the consolidated statement of comprehensive income.

16. Land use rights

	Group		
	2018	As at 31 December 2017	As at 1 January 2017
	RMB'000	RMB'000	RMB'000
Cost:			
At 1 January and 31 December	18,271	18,271	18,271
Accumulated amortisation:			
At 1 January	(4,562)	(4,196)	(3,831)
Amortisation for the year	(365)	(366)	(365)
At 31 December	(4,927)	(4,562)	(4,196)
Net carrying amount			
At 31 December	13,344	13,709	14,075

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16. Land use rights (cont'd)

	Group		
	2018	As at 31 December 2017	As at 1 January 2017
	RMB'000	RMB'000	RMB'000
Amount to be amortised:			
- Not later than one year	365	365	365
- Later than one year but not later than five years	1,460	1,460	1,460
- Later than five years	11,519	11,884	12,250

The Group has land use rights over three plots of state-owned land in the People's Republic of China (PRC) where the Group's PRC manufacturing and storage facilities reside. The land use rights are not transferable and have an average remaining tenure of 35 years (31 December 2017: 36 years, 1 January 2017: 37 years). The amortisation of land use rights is included in the "Administrative expenses" line item in the consolidated statement of comprehensive income.

17. Deferred tax

Deferred tax as at 31 December relates to the following:

	Group		
	2018	As at 31 December 2017	As at 1 January 2017
	RMB'000	RMB'000	RMB'000
Deferred tax assets:			
Unutilised tax losses	628	–	–
Deferred tax liabilities:			
Undistributed earnings of a subsidiary	(100)	(100)	(100)

Unrecognised tax losses

At the end of the reporting period, the Group has tax losses of approximately of RMB10,129,000 (31 December 2017: RMB10,776,000, 1 January 2017: RMB11,550,000) that are available for offset against future taxable profits of a subsidiary in which the losses arose. As at 31 December 2018, RMB5,942,000 (31 December 2017: RMB10,776,000, 1 January 2017: RMB11,550,000) of tax losses were not recognised as deferred tax asset due to uncertainty of its recoverability. The use of these tax losses is subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation of the respective countries in which the companies operate. The tax losses have no expiry date except for an amount of RMB8,460,000 (31 December 2017: RMB9,669,000, 1 January 2017: RMB11,001,000) which will expire in 2026.

17. Deferred tax (cont'd)

Unrecognised temporary differences relating to investment in subsidiary

At the end of the reporting period, no further deferred tax liability has been recognised for withholding tax that would be payable on the remaining undistributed earnings of the PRC subsidiary as the Group has determined that undistributed earnings of its PRC subsidiary will not be distributed in the foreseeable future. Such temporary difference for which no deferred tax liability has been recognised aggregates RMB42,747,000 (31 December 2017: RMB30,501,000, 1 January 2017: RMB67,200,000) and the deferred tax liability is estimated at RMB2,137,000 (31 December 2017: RMB1,525,000, 1 January 2017: RMB3,360,000).

18. Investment properties

	Group		
	2018	As at 31 December 2017	As at 1 January 2017
	RMB'000	RMB'000	RMB'000
Balance sheet:			
Cost			
At 1 January	3,711	3,711	3,711
Transfer from property, plant and equipment (Note 14)	6,840	–	–
At 31 December	10,551	3,711	3,711
Accumulated depreciation			
At 1 January	(3,275)	(3,099)	(2,923)
Transfer from property, plant and equipment (Note 14)	(4,478)	–	–
Depreciation charge for the year	(366)	(176)	(176)
At 31 December	(8,119)	(3,275)	(3,099)
Net carrying amount			
At 31 December	2,432	436	612
Fair value	28,017	12,029	9,613
Consolidated statement of comprehensive income			
Rental income from investment property:			
- Minimum lease payments	2,784	731	
Direct operating expenses (including repairs and maintenance) arising from:			
- Rental generating property	637	264	

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For the financial year ended 31 December 2018

18. Investment properties (cont'd)

The Group has no restrictions on the realisability of its investment property and no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

Transfer from property, plant and equipment

During the financial year ended 31 December 2018, the Group transferred 6,000 square meter of a plant that was held as buildings to investment properties as the Group has commenced using the area for rental income purposes.

Valuation of investment property

The fair value of investment property in Xiang Kai Shi Hua Tower is determined based on comparable market transactions that consider the sales of similar properties that have been transacted in the open market.

The fair value of investment property in Lufeng Road is determined based on discounted cash flows method. Details of valuation techniques and inputs are disclosed in Note 31 to the financial statements.

The investment property held by the Group as at 31 December is as follows:

Description and location	Existing Use	Tenure of land	Unexpired lease term
10th floor, Xiang Kai Shi Hua Tower, Changsha, PRC	Offices	Leasehold, 50 years lease from 2 August 1999	31 years (2017: 32 years)
No. 65, Lufeng Road, Hi-Tech Industrial Development Zone, Changsha, PRC	Manufacturing	Leasehold, 50 years lease from 16 August 2002	34 years (2017: 35 years)

19. Prepayments

	Group			Company		
	2018	As at 31 December 2017	As at 1 January 2017	2018	As at 31 December 2017	As at 1 January 2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current						
Prepayments relating to acquisition of property, plant and equipment	24	35	–	–	–	–
Current						
Prepayments to trade suppliers	15,770	6,249	7,262	–	–	–
Prepaid operating expenses	410	334	1,219	102	95	82
	16,180	6,583	8,481	102	95	82

20. Inventories

	Group		
	2018	As at 31 December 2017	As at 1 January 2017
	RMB'000	RMB'000	RMB'000
Balance sheet:			
Raw materials (at cost)	19,977	10,159	8,094
Work-in-progress (at cost or net realisable value)	1,836	5,925	4,690
Finished goods (at cost or net realisable value)	6,859	4,204	4,416
	28,672	20,288	17,200

	Group	
	2018	2017
	RMB'000	RMB'000
Consolidated statement of comprehensive income:		
Inventories recognised as an expense in cost of sales	57,165	36,488

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For the financial year ended 31 December 2018

21. Trade and other receivables

	Group			Company		
	2018	As at 31 December 2017	As at 1 January 2017	2018	As at 31 December 2017	As at 1 January 2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	25,274	37,154	66,076	–	–	–
Bill receivables	22,279	33,742	16,371	–	–	–
VAT/GST receivables	35	10	17	35	10	17
Amount due from a subsidiary (non-trade)	–	–	–	35,781	35,761	35,742
Other receivables	3,111	1,482	1,371	30	29	29
Total trade and other receivables	50,699	72,388	83,835	35,846	35,800	35,788
Add:						
Contract assets	62,856	21,275	23,520	–	–	–
Cash and cash equivalents (Note 22)	114,518	136,689	148,697	19,086	22,161	24,576
Less:						
VAT/GST receivables	(35)	(10)	(17)	(35)	(10)	(17)
Total financial assets carried at amortised cost	228,038	230,342	256,035	54,897	57,951	60,347

Trade receivables

Trade receivables are unsecured, non-interest bearing and are normally settled 90 to 180 days' terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

Trade and other receivables denominated in foreign currency at 31 December are as follows:

	Group		
	2018	As at 31 December 2017	As at 1 January 2017
	RMB'000	RMB'000	RMB'000
Singapore dollars	65	39	46

Bill receivables

Bill receivables are interest-free and have maturity periods of approximately 90 to 180 days' terms.

21. Trade and other receivables (cont'd)

Amount due from a subsidiary

The amount is non-trade related, unsecured, non-interest bearing, repayable on demand and are to be settled in cash.

Trade receivables that are past due but not impaired

The Group has trade receivables amounting to RMB22,555,000 as at 31 December 2017 and RMB60,833,000 as at 1 January 2017 that are past due at the end of the reporting period but not impaired. These receivables are unsecured and the analysis of their ageing at the end of the reporting period is as follows:

	Group	
	As at 31 December 2017	As at 1 January 2017
	RMB'000	RMB'000
Trade receivables past due but not impaired:		
Within 1 year	12,839	37,436
1 year - 2 years	8,911	17,043
2 years - 3 years	692	4,113
More than 3 years	113	2,241
	22,555	60,833

Trade receivables that are impaired

The Group's trade receivables that are impaired at the end of the reporting period and the movement of the allowance accounts used to record the impairment are as follows:

	Group	
	As at 31 December 2017	As at 1 January 2017
	RMB'000	RMB'000
Trade receivables – nominal amounts	39,804	23,152
Less: Allowance for impairment	(39,804)	(23,152)
	–	–

Movement in the allowance accounts:	
At 1 January	23,152
Charge for the year	25,546
Write-back during the year	(8,886)
Written-off	(8)
At 31 December	39,804

Notes to the Financial Statements

For the financial year ended 31 December 2018

21. Trade and other receivables (cont'd)

Trade receivables that are impaired (cont'd)

Trade receivables that are individually determined to be impaired at the end of the reporting period relate to debtors that are in significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

Expected credit losses

The movement in allowance for expected credit losses of trade receivables and contract assets computed based on lifetime ECL are as follow:

	Group	
	Trade receivables	**Contract assets**
	2018	2018
	RMB'000	RMB'000
Movement in the allowance accounts:		
At 1 January	39,804	6,975
Charge for the year	6,518	–
Write-back during the year	(17,754)	–
At 31 December	28,568	6,975

22. Investment

	Group		
	2018	**As at 31 December 2017**	**As at 1 January 2017**
	RMB'000	RMB'000	RMB'000
Current:			
Investment at fair value through profit or loss managed by a fund manager	20,000	–	–

Investment at fair value through profit or loss managed by a fund manager relate to funds placed with China Construction Bank and are managed by a fund manager for investment into a diversified portfolio of financial products, with an investment tenure of 60 to 90 days.

23. Cash and cash equivalents

	Group			Company		
	2018	As at 31 December 2017	As at 1 January 2017	2018	As at 31 December 2017	As at 1 January 2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cash at banks and on hand	90,988	108,489	106,126	3,297	2,024	2,908
Short-term deposits	23,530	28,200	42,571	15,789	20,137	21,668
Cash and cash equivalents	114,518	136,689	148,697	19,086	22,161	24,576

Cash at banks

Cash at banks earns interest at floating rates based on daily bank deposit rates.

Short-term deposits

Short-term deposits are made for varying periods between one and three months (31 December 2017: one and three months, 1 January 2017: one and three months), and earn interests at the respective short-term deposit rates.

The weighted average effective interest rates as at 31 December 2018 for the Group and the Company were 2.0% (31 December 2017: 2.2%, 1 January 2017: 2.3%) and 2.7% (31 December 2017: 2.9%, 1 January 2017: 2.7%) respectively.

Cash and cash equivalents denominated in foreign currency at 31 December are as follows:

	Group and Company		
	2018	As at 31 December 2017	As at 1 January 2017
	RMB'000	RMB'000	RMB'000
Singapore dollars	3,297	2,024	2,908

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24. Trade and other payables

	Group			Company		
	2018	As at 31 December 2017	As at 1 January 2017	2018	As at 31 December 2017	As at 1 January 2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	9,461	7,065	8,184	–	–	–
Bills payable	–	1,088	739	–	–	–
Payables to suppliers of property, plant and equipment	749	669	962	–	–	–
Loans from former shareholders of a subsidiary	–	17,990	17,990	–	–	–
Amount due to subsidiary (non-trade)	–	–	–	11,625	11,439	11,252
Other taxes payable	1,147	220	717	–	–	–
VAT payable	12,617	13,081	15,098	–	–	–
Other payables	6,999	6,317	6,090	–	–	–
	30,973	46,430	49,780	11,625	11,439	11,252
Add:						
Other liabilities (Note 25)	16,537	14,362	14,415	836	996	1,035
Less:						
Other taxes payable	(1,147)	(220)	(717)	–	–	–
VAT payable	(12,617)	(13,081)	(15,098)	–	–	–
Total financial liabilities carried at amortised cost	33,746	47,491	48,380	12,461	12,435	12,287

Trade payables

Trade payables are non-interest bearing and are normally settled on 30 to 60 days' term.

Bills payable

Bills payable are non-interest bearing and have maturity period of 90 days' term.

24. Trade and other payables (cont'd)

Loans from former shareholders of a subsidiary

Loans from former shareholders of the subsidiary, Hunan Anchun, are for working capital purposes. The tenure will be for a year from the date of disbursement of the loans, renewable on a yearly basis up to five years by the subsidiary. During the financial year ended 31 December 2018, the loans have been fully repaid. The loans bear interest at rate of 2.5% per annum as at 31 December 2017 (1 January 2017: 2.5%).

A reconciliation of liabilities arising from the Group's financing activities is as follows:

	2017	**Cash flows**	**2018**
	RMB'000	RMB'000	RMB'000
Loans from former shareholders of a subsidiary	17,990	(17,990)	–

	1 January 2017	**Cash flows**	**2017**
	RMB'000	RMB'000	RMB'000
Loans from former shareholders of a subsidiary	17,990	–	17,990

Amount due to subsidiary (non-trade)

These amounts are unsecured, non-interest bearing, repayable on demand and to be settled in cash.

Other payables

Other payables are non-interest bearing and have an average term of six months.

25. Other liabilities

	Group			**Company**		
	2018	**As at 31 December 2017**	**As at 1 January 2017**	**2018**	**As at 31 December 2017**	**As at 1 January 2017**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Accrued salaries and bonuses	6,960	5,454	4,780	468	535	446
Accrued operating expenses	3,521	2,539	4,144	368	461	589
Accrued interest payable	–	487	37	–	–	–
Accrued welfare expenses	5,997	5,882	5,454	–	–	–
	16,478	14,362	14,415	836	996	1,035

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25. Other liabilities (cont'd)

Accrued interest payable

In the previous financial year, accrued interest payable is charged on the loans from former shareholders of the subsidiary, Hunan Anchun, at an interest rate of 2.5% per annum as at 31 December 2017 (1 January 2017: 2.5%). During the financial year ended 31 December 2018, the loans have been fully repaid.

Other liabilities denominated in foreign currency at 31 December are as follows:

	Group and Company		
	2018	As at 31 December 2017	As at 1 January 2017
	RMB'000	RMB'000	RMB'000
Singapore dollars	679	957	1,005

26. Provisions

	Group
	Onerous contract provision
	RMB'000
At 1 January 2017, 31 December 2017 and 1 January 2018	–
Arose during the year	59
At 31 December 2018	59

27. Share capital and treasury/employee benefit trust shares

(a) ***Share capital***

	Group and Company			
	2018	2018	2017	2017
	No. of shares	RMB'000	No. of shares	RMB'000
Issued and fully paid ordinary shares				
At 1 January and 31 December	50,500,000	149,278	50,500,000	149,278

27. Share capital and treasury/employee benefit trust shares (cont'd)

(a) ***Share capital (cont'd)***

The holders of ordinary shares (except treasury shares) are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions. The ordinary shares have no par value.

The Company has employee share awards plan (Note 11) pursuant to which ordinary shares of the Company have been granted to the certain employees, which shall vest and be released to these employees once they have been in service for a period of three years from the date of grant.

(b) ***Treasury/employee benefit trust shares***

	Group and Company			
	2018	**2018**	**2017**	**2017**
	No. of shares	RMB'000	No. of shares	RMB'000
At 1 January	(186,000)	(288)	(170,000)	(430)
Acquired during the year	(257,400)	(316)	(160,000)	(222)
Reissued pursuant to vesting of performance share plan	–	–	144,000	364
At 31 December	(443,400)	(604)	(186,000)	(288)

Treasury shares acquired during the year

Treasury shares relate to ordinary shares of the Company that is held by the Company.

The Company acquired 257,400 (2017: 160,000) shares in the Company through purchases on the Singapore Exchange during the financial year. The total amount paid to acquire the shares was RMB316,000 (2017: RMB222,000) and this was presented as a component within shareholders' equity.

On 13 September 2018, the Company has granted 160,000 treasury shares to an employee under the Anchun PSP. The shares shall be released to the employee at the conclusion of a three years' vesting period.

EBT shares reissued during the year

Employee benefit trust (EBT) shares relate to treasury shares which are transferred to an EBT managed by a director-related company.

On 30 December 2014, the Company had granted an aggregate of 1,700,000 share awards under the Anchun PSP to certain employees. The 1,700,000 shares are consolidated to 170,000 shares following a 10 to 1 share consolidation exercise effective from 26 May 2016.

On 29 December 2017, 144,000 treasury shares held under the EBT were released to employees after fulfilling the three years' service condition under the Anchun PSP. The remaining 26,000 treasury shares held under the EBT were re-allocated and granted to two employees of 17,000 shares and 9,000 shares on 29 December 2017 and 13 September 2018 respectively.

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28. Other reserves

		Group			Company		
		2018	As at 31 December 2017	As at 1 January 2017	2018	As at 31 December 2017	As at 1 January 2017
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(a)	Statutory reserve fund	39,230	38,691	38,329	–	–	–
(b)	Statutory reserve fund - safety production expenditure	5,941	5,521	4,985	–	–	–
(c)	Contribution from shareholder	1,725	1,725	1,725	–	–	–
(d)	Merger reserve	75,000	75,000	75,000	–	–	–
(e)	Gain on reissuance of EBT shares	64	64	–	64	64	–
(f)	Anchun PSP reserve	21	–	349	21	–	349
		121,981	121,001	120,388	85	64	349

(a) ***Statutory reserve fund***

In accordance with the Foreign Enterprise Law applicable to entities in the People's Republic of China ("PRC"), the Company's PRC subsidiary is required to make appropriation to a Statutory Reserve Fund ("SRF"). At least 10% of the statutory after tax profits as determined in accordance with the applicable PRC accounting standards and regulations must be allocated to the SRF until the cumulative total of the SRF reaches 50% of the subsidiary's registered capital. Subject to approval from the relevant PRC authorities, the SRF may be used to offset any accumulated losses or increase the registered capital of the subsidiary. The SRF is not available for dividend distribution to shareholders.

	Group	
	2018	2017
	RMB'000	RMB'000
At 1 January	38,691	38,329
Transferred from accumulated profits	539	362
At 31 December	39,230	38,691

28. Other reserves (cont'd)

(b) ***Statutory reserve fund – safety production expenditure***

In accordance with the Regulation on Safety Production Expenditures applicable to the subsidiary in the People's Republic of China ("PRC"), the subsidiary is required to make appropriation ranges from 0.1% to 2% of the revenue generated to a Statutory Reserve Fund – safety production expenditure. The safety production expenditure is recognised in the profit or loss when it is incurred.

	Group	
	2018	**2017**
	RMB'000	RMB'000
At 1 January	5,521	4,985
Transferred from accumulated profits	420	536
At 31 December	5,941	5,521

(c) ***Contribution from shareholder***

Contribution from shareholder represents the shares given by a shareholder to employees.

(d) ***Merger reserve***

This represents the difference between the consideration paid and the paid-in capital of the subsidiary when business combination of entities under common control was accounted for by applying the pooling of interest method.

(e) ***Gain on reissuance of EBT shares***

This represents the gain arising from the reissue of EBT shares to employees after fulfilling the three years' service condition under the Anchun PSP.

(f) ***Anchun PSP reserve***

This represents the Anchun PSP cumulative expense recognised in profit or loss prior the vesting date of the Anchun PSP, and is reduced by the release of shares to employees who become beneficially interested in the shares after fulfilling the three years' service condition.

Notes to the Financial Statements

For the financial year ended 31 December 2018

29. Segment information

For management purposes, the Group is organised into business units based on their products and services, and has three reportable operating segments as follows:

(i) ***Catalyst Business***

The catalyst business segment involves manufacturing of a variety of catalysts for use in the process of gas-making, ammonia synthesis and methanol synthesis.

(ii) ***Chemical engineering and technology ("CET") Engineering Services***

This segment involves providing chemical systems engineering and technology design services for the production of ammonia and methanol related products such as agriculture fertilisers and biodiesel which are mainly used in the agriculture and energy industries.

(iii) ***Chemical systems and components ("CSC") Business***

This segment involves manufacturing of chemical equipment designed by the chemical engineering and technology consultancy services department.

Except as indicated above, no operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on gross profit or loss.

29. Segment information (cont'd)

Segment assets and liabilities are not disclosed as they are not regularly provided to the chief operating decision maker.

	Catalyst Business	CSC Business	CET Engineering Services	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Group				
31 December 2018				
Revenue				
External customers	6,523	95,233	9,449	111,205
Total revenue	6,523	95,233	9,449	111,205
Results:				
Segment gross profit	3,170	14,606	6,644	24,420
Finance income				3,209
Other income				9,419
Write-back of impairment losses on financial assets, net				11,236
Marketing and distribution expenses				(5,786)
Administrative expenses				(26,036)
Research expenses				(6,440)
Other expenses				(118)
Finance costs				(40)
Profit before tax				9,864
Depreciation and amortisation				12,726
Other material non-cash items				
Write-back of impairment losses on financial assets, net				11,236
Allowance for provision on onerous contracts				(59)
Gain on disposal of property, plant and equipment, net				470

Notes to the Financial Statements

For the financial year ended 31 December 2018

29. Segment information (cont'd)

	Catalyst Business RMB'000	CSC Business RMB'000	CET Engineering Services RMB'000	Total RMB'000
Group				
31 December 2017				
Revenue				
External customers	13,318	46,755	5,361	65,434
Total revenue	13,318	46,755	5,361	65,434
Results:				
Segment gross profit	2,831	1,571	2,517	6,919
Finance income				3,733
Other income				2,391
Marketing and distribution expenses				(4,714)
Administrative expenses				(24,785)
Research expenses				(4,449)
Other expenses				(53)
Impairment losses on financial assets, net				(16,660)
Finance costs				(458)
Loss before tax				(38,076)
Depreciation and amortisation				14,084
Other material non-cash items				
Impairment losses on financial assets, net				(16,660)

Geographical information

No geographical information is provided as the principal assets employed by the Group are located in the PRC and the Group's revenue and profits are derived primarily from customers in the PRC.

Information about major customers

During the financial year ended 31 December 2018, revenue from two (2017: two) major customers amount to RMB30,068,000 (2017: RMB20,002,000), arising from sales by the CSC Business and CET Engineering Services segments (2017: CSC Business and CET Engineering Services Segments).

30. Commitments

(a) ***Operating lease commitments – as lessee***

In addition to the land use rights disclosed in Note 16, the Group has operating lease commitments with respect to the rental of motor vehicles, office and dormitory facilities. These leases have an average tenure of between one to three years (31 December 2017: one to three years, 1 January 2017: one to three years) with no renewal option or contingent rent provision included in the contracts. There are no restrictions placed upon the Group by entering into these leases.

Operating lease payments recognised as an expense in the consolidated statement of comprehensive income for the financial year ended 31 December 2018 amounted to RMB674,000 (2017: RMB536,000).

Future minimum rental payable under non-cancellable operating lease (excluding land lease rights) at the end of the reporting period are as follows:

	Group			Company		
	2018	**As at 31 December 2017**	**As at 1 January 2017**	**2018**	**As at 31 December 2017**	**As at 1 January 2017**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Not later than 1 year	680	1,134	533	43	125	31
Later than 1 year but not later than 5 years	33	689	–	–	42	–
	713	1,823	533	43	167	31

(b) ***Operating lease commitments – as lessor***

The Group has entered into commercial property leases on its investment property. The non-cancellable leases have remaining lease terms of between one to three years (31 December 2017: one to three years, 1 January 2017: one to three years). Certain leases include a clause to enable upward revision of the rental charge on an annual basis on prevailing market conditions.

Future minimum rental receivable under non-cancellable operating leases at the end of the reporting period are as follows:

	Group		
	2018	**As at 31 December 2017**	**As at 1 January 2017**
	RMB'000	RMB'000	RMB'000
Not later than 1 year	2,454	538	318
Later than 1 year but not later than 5 years	2,756	837	783
	5,210	1,375	1,101

31. Fair value of assets and liabilities

(a) Fair value hierarchy

The Group categorises fair value measurements using a fair value hierarchy that is dependent on the valuation inputs used as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 – Unobservable inputs for the asset or liability.

Fair value measurements that use inputs of different hierarchy levels are categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

(b) Asset measured at fair value

The following table shows an analysis of each class of asset measured at fair value at the end of the reporting period:

		Group Quoted prices in active markets for identical instruments		
	Note	2018	As at 31 December 2017	As at 1 January 2017
		RMB'000	RMB'000	RMB'000
Financial assets measured at fair value through profit or loss				
Investment at fair value through profit or loss managed by a fund manager	22	20,000	–	–

31. Fair value of assets and liabilities (cont'd)

(c) Assets not measured at fair value, for which fair value is disclosed

The following table shows an analysis of the Group's assets not measured at fair value, for which fair value is disclosed:

		Group 31 December 2018 RMB'000		
		Fair value measurements at the end of the reporting period using		
	Note	Significant observable inputs other than quoted prices (Level 2)	Significant unobservable inputs (Level 3)	Carrying amount
Investment property				
– Xiang Kai Shi Hua Tower	18	19,539	–	260
– Lufeng Road, Hi-Tech Industrial Development Zone		–	8,478	2,172

		Group 31 December 2017 RMB'000	
		Fair value measurements at the end of the reporting period using	
	Note	Significant observable inputs other than quoted prices (Level 2)	Carrying amount
Investment property			
– Xiang Kai Shi Hua Tower	18	12,029	436

		Group 1 January 2017 RMB'000	
		Fair value measurements at the end of the reporting period using	
	Note	Significant observable inputs other than quoted prices (Level 2)	Carrying amount
Investment property			
– Xiang Kai Shi Hua Tower	18	9,613	612

31. Fair value of assets and liabilities (cont'd)

(c) Assets not measured at fair value, for which fair value is disclosed (cont'd)

Determination of fair value

Level 2 fair value measurements

The fair value of investment property in Xiang Kai Shi Hua Tower as disclosed in the table above is determined based on comparable market transactions that consider the sales of similar properties that have been transacted in the open market.

Level 3 fair value measurements

The following table shows the information about fair value measurements using significant unobservable inputs (level 3):

Description	Fair value as at 31 December 2018 RMB'000	Valuation techniques	Unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Recurring fair value measurements				
Investment properties				
– Lufeng Road, Hi-Tech Industrial Development Zone	8,478	Discounted cash flow	Discount rate (12.1%)	An increase in discount rate in isolation would result in a lower fair value measurement.
			10 years net operating cash flow (RMB14.3 million)	An increase in net operating cash flow would result in a higher fair value measurement.

(d) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

Trade and other receivables (Note 21), contracts assets (Note 4), cash and cash equivalents (Note 23), trade and other payables (Note 24) and other liabilities (Note 25).

Management has determined that the carrying amounts of these financial assets and liabilities are reasonable approximation of their fair values due to their short-term nature or they approximate their fair values based on the market incremental rates for similar types of financial instruments at the end of the year.

32. Financial risk management objectives and policies

The Group and the Company is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include interest rate risk, liquidity risk, credit risk and foreign currency risk. The board of directors reviews and agrees policies and procedures for the management of these risks. The Audit Committee provides independent oversight to the effectiveness of the risk management process. It is, and has been throughout the current and previous financial year, the Group's policy that no trading in derivatives shall be undertaken. The Group does not apply hedge accounting.

There has been no change to the Group's exposure to these financial risks or the manner in which it manages and measures the risks.

The following sections provide details regarding the Group's and the Company's exposure to the above-mentioned risks and the objectives, policies, and processes for the management of these risks.

(a) *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates. The Group's and the Company's exposure to interest rate risk arises primarily from its floating rate cash at bank balances. The Group's and the Company's policy is to obtain the most favourable interest rates available.

Sensitivity analysis for interest rate risk

At the end of the reporting period, if RMB and SGD interest rates had been 100 basis points higher/lower with all other variables held constant, the Group's profit before tax would have been RMB1,145,000 (RMB1,367,000) higher/lower, arising mainly as a result of higher/lower interest income on floating rate cash at bank balances. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment.

(b) *Liquidity risk*

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

Notes to the Financial Statements

For the financial year ended 31 December 2018

32. Financial risk management objectives and policies (cont'd)

(b) *Liquidity risk (cont'd)*

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Group's and the Company's financial assets and liabilities at the balance sheet date based on contractual undiscounted repayments obligations.

	1 year or less		
	2018	As at 31 December 2017	As at 1 January 2017
	RMB'000	RMB'000	RMB'000
Group			
Financial assets			
Trade and other receivables (excluding sales tax receivables)	50,664	72,378	83,818
Contract assets	62,856	21,275	23,520
Investment	20,021	–	–
Cash and cash equivalents	114,518	136,689	148,697
Total undiscounted financial assets	248,059	230,342	256,035
Financial liabilities			
Trade and other payables (excluding sales tax payables)	17,209	33,129	33,965
Other liabilities	16,537	14,362	14,415
Total undiscounted financial liabilities	33,746	47,491	48,380
Total net undiscounted financial assets	214,292	182,851	207,655

32. Financial risk management objectives and policies (cont'd)

(b) ***Liquidity risk (cont'd)***

Analysis of financial instruments by remaining contractual maturities (cont'd)

	1 year or less		
	2018	**As at 31 December 2017**	**As at 1 January 2017**
	RMB'000	RMB'000	RMB'000
Company			
Financial assets			
Trade and other receivables (excluding sales tax receivables)	35,811	35,790	35,771
Cash and cash equivalents	19,086	22,161	24,576
Total undiscounted financial assets	54,897	57,951	60,347
Financial liabilities			
Trade and other payables (excluding sales tax payables)	11,625	11,439	11,252
Other liabilities	836	996	1,035
Total undiscounted financial liabilities	12,461	12,435	12,287
Total net undiscounted financial assets	42,436	45,516	48,060

(c) ***Credit risk***

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's and the Company's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including cash and cash equivalents), the Group and the Company minimises credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis by the Group.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period.

The Group has determined the default event on a financial asset to be when the counterparty fails to make contractual payments, within 90 days when they fall due, which are derived based on the Group's historical information.

Notes to the Financial Statements

For the financial year ended 31 December 2018

32. Financial risk management objectives and policies (cont'd)

(c) ***Credit risk (cont'd)***

To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at reporting date with the risk of default as at the date of initial recognition. The Group considers available reasonable and supportive forwarding-looking information which includes the following indicators:

- Internal credit rating

- External credit rating

- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations

- Actual or expected significant changes in the operating results of the borrower

- Significant increases in credit risk on other financial instruments of the same borrower

- Significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements

- Significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the group and changes in the operating results of the borrower.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 180 days past due in making contractual payment.

The Group determined that its financial assets are credit-impaired when:

- There is significant difficulty of the issuer or the borrower

- A breach of contract, such as a default or past due event

- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation

- There is a disappearance of an active market for that financial asset because of financial difficulty

The Group categorises a loan or receivable for potential write-off when a debtor fails to make contractual payments more than 1 year past due. Financial assets are written-off when there is no reasonable expectation of recovery, such as a debtor failing to engagement in a repayment plan with the Group. Where loans and receivables have been written off, the company continues to engage enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

32. Financial risk management objectives and policies (cont'd)

(c) ***Credit risk (cont'd)***

(i) Financial assets at fair value through profit or loss

A summary of the Group's internal grading category in the computation of the Group's expected credit loss model for the financial assets at fair value through profit or loss is as follows:

Category	**Definition of category**	**Basis for recognition of expected credit loss provision**	**Basis for calculating interest revenue**
Grade I	Interest and/or principal repayments are 30 days past due.	Lifetime expected credit loss	Amortised cost of carrying amount (net of credit allowance)

There are no significant changes to estimation techniques or assumptions made during the reporting period.

(ii) Trade receivables and contract assets

The Group provides for lifetime expected credit losses for all trade receivables, and contract assets using a provision matrix. The provision rates are determined based on the Group's historical observed default rates analysed in accordance to years past due. The loss allowance as at 31 December 2018 is determined as follows, the expected credit losses below also incorporate forward looking information such as forecast of economic conditions where the gross domestic product will deteriorate over the next year, leading to an increased number of defaults.

Summarised below is the information about the credit risk exposure on the Group's trade receivables and contract assets using provision matrix:

31 December 2018	**Gross carrying amount**	**Loss allowance provision**
	RMB'000	RMB'000
Contract assets	69,831	6,975
Trade receivables:		
Within 1 year	17,040	2,333
1 year – 2 years	7,904	3,921
2 years – 3 years	14,261	7,677
More than 3 years	14,637	14,637
Total	123,673	35,543

Information regarding loss allowance movement of trade receivables and contract assets are disclosed in Note 21.

Notes to the Financial Statements

For the financial year ended 31 December 2018

32. Financial risk management objectives and policies (cont'd)

(c) ***Credit risk (cont'd)***

(ii) Trade receivables and contract assets (cont'd)

Exposure to credit risk

At the end of the reporting period, the Group's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised on the balance sheets.

Credit risk concentration profile

At the end of the reporting period, approximately 9% (31 December 2017: 12%, 1 January 2017: 28%) of the Group's trade receivables were due from 10 (31 December 2017: 10, 1 January 2017: 10) major customers located in the People's Republic of China.

Financial assets that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are with creditworthy debtors with good payment record with the Group. Cash and cash equivalents and financial assets (current) that are neither past due nor impaired are placed with or entered into with reputable financial institutions.

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 21 (Trade and other receivables).

(d) ***Foreign currency risk***

The Group has exposure to foreign currency risk as a result of transactions denominated in foreign currencies, arising from the normal conduct of operations. The currency giving rise to this risk is primarily the Singapore Dollars ("SGD")

The Group's currency exposure to SGD is as follows:

	2018	**2017**
	RMB'000	RMB'000
Financial assets		
Cash and cash equivalents	3,297	2,024
Trade and other receivables	65	39
Financial liability		
Other liabilities	(679)	(957)
Currency exposure	2,683	1,106

32. Financial risk management objectives and policies (cont'd)

(d) ***Foreign currency risk (cont'd)***

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Group's profit/(loss) before tax to a reasonably possible change in the respective foreign currency against the functional currency of the Group, with all other variables held constant.

	Group	
	(Increase)/decrease	
	Profit before tax	Loss before tax
	2018	2017
	RMB'000	RMB'000
RMB against SGD		
- strengthened 5% (2017: 5%)	(134)	55
- weakened 5% (2017: 5%)	134	(55)

33. Capital management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2018 and 31 December 2017.

As disclosed in Note 28, the Company's PRC subsidiary is required by the relevant laws and regulations of the PRC to contribute to and maintain non-distributable statutory reserve funds whose utilisation is subject to approval by the relevant PRC authorities. This externally imposed capital requirement has been complied with by the subsidiary for the financial years ended 31 December 2018 and 2017.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, trade and other payables and other liabilities, less cash and cash equivalents. Capital consists of equity attributable to owners of the Company less the above mentioned reserve fund.

Notes to the Financial Statements

For the financial year ended 31 December 2018

33. Capital management (cont'd)

	Group		
	2018	**As at 31 December 2017**	**As at 1 January 2017**
	RMB'000	RMB'000	RMB'000
Trade and other payables (Note 24)	30,973	46,430	49,780
Other liabilities (Note 25)	16,537	14,362	14,415
Less:			
Investment (Note 22)	(20,000)	–	–
Cash and cash equivalents (Note 23)	(114,518)	(136,689)	(148,697)
Net surplus	(87,008)	(75,897)	(84,502)
Equity attributable to owners of the Company	284,596	274,417	312,648
Less:			
Statutory reserve fund (Note 28)	(39,230)	(38,691)	(38,329)
Statutory reserve fund – safety production expenditure (Note 28)	(5,941)	(5,521)	(4,985)
Staff welfare payable	(18)	(12)	–
Total capital	239,407	230,193	269,334
Gearing ratio	NA*	NA*	NA*

* Not applicable as the Group is in a net cash position.

34. Authorisation of financial statements

The consolidated financial statements for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the directors on 29 March 2019.

Statistics of Shareholdings

As at 15 March 2019

Issued and fully paid	:	S$45,449,200
Number of shares with voting rights	:	50,082,600 (excluding treasury shares and subsidiary holdings)
Number of Treasury Shares held	:	417,400
Subsidiary Holdings Held	:	Nil
Class of shares	:	Ordinary shares
Voting rights	:	1 vote per ordinary share

0.83% of the aggregate number of treasury shares and subsidiary holdings held against the total number of issued shares in issue (excluding treasury shares and subsidiary holdings)

SHAREHOLDINGS HELD IN HANDS OF PUBLIC

Based on information available to the Company as at 15 March 2019 approximately 32.61% of the issued ordinary shares of the Company (excluding treasury shares and subsidiary holdings) are held by the public and therefore Rule 723 of the Listing Manual is complied with.

DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 – 99	4	0.35	310	0.00
100 – 1,000	438	38.39	229,155	0.46
1,001 – 10,000	527	46.19	2,259,155	4.51
10,001 – 1,000,000	163	14.28	9,360,890	18.69
1,000,001 AND ABOVE	9	0.79	38,233,090	76.34
TOTAL	**1,141**	**100.00**	**50,082,600**	**100.00**

TWENTY LARGEST SHAREHOLDERS

S/NO.	NAME	NO. OF SHARES	%
1	ACE SENSE HOLDINGS LIMITED	10,800,000	21.56
2	ORIENTAL EAGLE HOLDINGS LIMITED	5,110,000	10.20
3	GIANT YIELD GLOBAL LIMITED	4,406,000	8.80
4	DAWN VITALITY INTERNATIONAL LIMITED	4,252,200	8.49
5	INVENTIVE RESULT ENTERPRISES LIMITED	4,097,500	8.18
6	PHILLIP SECURITIES PTE LTD	3,652,190	7.29
7	HUANG BAOJIA	2,355,200	4.70
8	CHINA XLX FERTILISER LTD	1,960,000	3.91
9	ANDREW BEK	1,600,000	3.19
10	MAYBANK KIM ENG SECURITIES PTE. LTD.	519,350	1.04
11	SINGAPORE NOMINEES PRIVATE LIMITED	507,600	1.01
12	BAO CHEN	407,600	0.81
13	LIM POH CHOON	405,600	0.81
14	GO POWER INVESTMENTS LIMITED	390,000	0.78
15	ABN AMRO CLEARING BANK N.V.	330,700	0.66
16	LIU DAN	272,100	0.54
17	DBS NOMINEES (PRIVATE) LIMITED	233,890	0.47
18	ZHANG GUOWEI	224,200	0.45
19	LAU CHUN LEUNG	224,000	0.45
20	OCBC SECURITIES PRIVATE LIMITED	215,630	0.43
	TOTAL	**41,963,760**	**83.77**

Statistics of Shareholdings

As at 15 March 2019

SUBSTANTIAL SHAREHOLDERS

	DIRECT INTEREST		DEEMED INTEREST	
	NO. OF SHARES	%[1]	NO. OF SHARES	%[1]
Xie Ming[2]	–	–	10,800,000	21.56
Xie Xing[3]	–	–	10,800,000	21.56
Li Chun Yang[4]	–	–	5,217,500	10.42
Liang Gong Zeng[5]	–	–	4,406,000	8.80
Dai Feng Yu[6]	–	–	4,082,200	8.15
Li Bin[7]	–	–	4,097,500	8.18
Ma Ong Kee[8]	–	–	3,255,400	6.50
Ace Sense Holdings Limited	10,800,000	21.56	–	–
Oriental Eagle Holdings Limited	5,110,000	10.20	–	–
Giant Yield Global Limited	4,406,000	8.80	–	–
Dawn Vitality International Limited[9]	4,252,200	8.49	–	–
Inventive Result Enterprises Limited	4,097,500	8.18	–	–

Notes:-

(1) Percentage calculated based on 50,082,600 voting shares (excluding treasury shares and subsidiary holdings) of the Company as at 15 March 2019.

(2) Xie Ming is deemed to be interested in 10,800,000 shares held by Ace Sense Holdings Limited.

(3) Xie Xing is deemed to be interested in 10,800,000 shares held by Ace Sense Holdings Limited.

(4) Li Chun Yang is deemed to be interested in 5,110,000 shares held by Oriental Eagle Holdings Limited and 107,500 shares held in the name of a nominee account.

(5) Liang Gong Zeng is deemed to be interested in 4,406,000 shares held by Giant Yield Global Limited.

(6) Dai Feng Yu is deemed to be interested in 4,082,200 shares held by Dawn Vitality International Limited.

(7) Li Bin is deemed to be interested in 4,097,500 shares held by Inventive Result Enterprises Limited.

(8) Ma Ong Kee is deemed to be interested in 3,255,400 shares held in a nominee account.

(9) Of the 4,252,200 shares, Dawn Vitality International Limited is holding 170,000 shares on trust for certain employees who are participants of the Anchun Performance Share Plan 2014.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting ("**AGM**") of Anchun International Holdings Ltd. (the "Company") will be held at Anson I & II, Level 2, M Hotel, 81 Anson Road, Singapore 079908 on Friday, 26 April 2019 at 9:30 a.m., for the purpose of transacting the following businesses:-

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Statement and the Audited Financial Statements for the financial year ended 31 December 2018 together with the Independent Auditors' Report thereon. **(Resolution 1)**

2. To approve the payment of Directors' fees of up to S$319,000 for the financial year ending 31 December 2019 (FY2018: S$280,000). **(Resolution 2)**
   [See Explanatory Note 1]

3. To re-elect the following Directors retiring pursuant to the Company's Constitution:

(i)	Ms Xie Ming	- Regulation 89	*[See Explanatory Note 2]*	**(Resolution 3)**
(ii)	Mr Lee Gee Aik	- Regulation 89	*[See Explanatory Note 3]*	**(Resolution 4)**
(iii)	Ms Tan Min-Li	- Regulation 89	*[See Explanatory Note 4]*	**(Resolution 5)**
(iv)	Professor He Mingyang	- Regulation 88	*[See Explanatory Note 5]*	**(Resolution 6)**

4. To re-appoint Messrs Ernst & Young LLP as Auditors of the Company until the conclusion of the next Annual General Meeting and to authorise the Directors to fix their remuneration. **(Resolution 7)**

5. To transact any other business that may be properly transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

To consider and, if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without amendments:

6. **General Share Issue Mandate** **(Resolution 8)**

   "That pursuant to Section 161 of the Companies Act, Cap. 50 of Singapore (the "**Companies Act**") and the Listing Manual of the Singapore Exchange Securities Trading Limited ("**SGX-ST**"), authority be and is hereby given to the Directors of the Company to:

   (a) (i) allot and issue shares (the "**Shares**"), whether by way of rights, bonus or otherwise; and/or

   (ii) make or grant offers, agreements or options (collectively, "**Instruments**") that might or would require Shares to be issued during the continuance of such authority or thereafter, including but not limited to the creation and issue (as well as adjustments to) warrants, debentures or other instruments convertible into Shares,

   at any time and upon such terms and conditions and for such purposes and to such persons as the Board may, in their absolute discretion, deem fit; and

Notice of Annual General Meeting

(b) issue Shares in pursuance of any Instrument made or granted by the Board while such authority was in force (notwithstanding that such issue of the Shares pursuant to the Instruments may occur after the expiration of the authority contained in this Resolution);

provided that:

(1) the aggregate number of shares to be issued pursuant to this Resolution (including shares to be issued in pursuance of instruments made or granted pursuant to this Resolution) does not exceed 50% of the issued shares in the capital of the Company (excluding treasury shares and subsidiary holdings) (as calculated in accordance with sub-paragraph (2) below) of which the aggregate number of shares to be issued other than on a pro rata basis to shareholders of the Company (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed 20% of the issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);

(2) (subject to such manner of calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (1) above, the percentage of issued shares shall be based on the number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company at the time of the passing of this Resolution, after adjusting for:

(aa) new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time this Resolution is passed; and

(bb) any subsequent consolidation or subdivision of shares;

(3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Constitution for the time being of the Company;

(4) unless revoked or varied by the Company in general meeting, such authority conferred by this Resolution shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier."
[See Explanatory Note 6]

7. **Renewal of Share Purchase Mandate** **(Resolution 9)**

That:

(a) for the purpose of Section 76C and 76E of the Companies Act, Cap. 50 of Singapore (the "**Companies Act**"), the Directors of the Company be and are hereby authorised to exercise all the powers of the Company to purchase or otherwise acquire ordinary shares in the capital of the Company ("**Shares**") not exceeding in aggregate the Prescribed Limit (as hereinafter defined), at such price(s) as may be determined by the Directors of the Company from time to time up to the Maximum Price (as hereinafter defined), whether by way of:

(i) market purchases (each a "Market Purchase") on the Singapore Exchange Securities Trading Limited ("**SGX-ST**"); and/or

(ii) off-market purchases (each an "**Off-Market Purchase**") effected otherwise than on the SGX-ST in accordance with any equal access schemes, as may be determined or formulated by the Directors of the Company as they consider fit, which scheme(s) shall satisfy all the conditions prescribed by the Companies Act,

and otherwise in accordance with all other provisions of the Companies Act and the Listing Manual of the SGX-ST as may for the time being be applicable (the "**Share Purchase Mandate**");

(b) any Share that is purchased or otherwise acquired by the Company pursuant to the Share Purchase Mandate shall, at the discretion of the Directors of the Company; either be cancelled or held in treasury and dealt with in accordance with the Companies Act;

(c) unless varied or revoked by the Company in general meeting, the authority conferred on the Directors of the Company pursuant to the Share Purchase Mandate may be exercised by the Directors at any time and from time to time during the period commencing from the passing of this Resolution and expiring on the earlier of:

(i) the date on which the next AGM of the Company is held or is required by law to be held;

(ii) the date on which the share purchases are carried out to the full extent mandated; or

(iii) the date on which the authority contained in the Share Purchase Mandate is varied or revoked;

(d) for purpose of this Resolution:

"**Prescribed Limit**" means 10% of the issued ordinary share capital of the Company as at the date of passing of this Resolution unless the Company has effected a reduction of the share capital of the Company in accordance with the applicable provisions of the Companies Act, at any time during the relevant period, in which event the issued ordinary share capital of the Company shall be taken to be the amount of the issued ordinary share capital of the company as altered (shares held by the Company as treasury shares and subsidiary holdings shall be disregarded for purpose of computing the Prescribed Limit).

"**Maximum Price**" in relation to a Share to be purchased, means an amount (excluding brokerage, commission, stamp duties, applicable goods and services tax, clearance fees and other related expenses) not exceeding:

(i) in the case of a Market Purchase:105% of the Average Closing Price; and

(ii) in the case of an Off-Market Purchase: 110% of the Average Closing Price, where

Notice of Annual General Meeting

"**Average Closing Price**" means the average of the closing market prices of a Share over the last five market days, on which transactions in the Shares were recorded, immediately preceding the day of the Market Purchase by the Company or, as the case may be the day of the making of the offer pursuant to the Off-Market Purchase, and deemed to be adjusted in accordance with Listing Manual of the SGX-ST for any corporate action that occurs after the relevant 5-day period;

"**day of the making of the offer**" means the day on which the Company makes an offer for the purchase of Shares from shareholders of the Company stating the purchase price (which shall not be more than the Maximum Price calculated on the foregoing basis) for each Share and the relevant terms of the equal access scheme for effecting the Off-Market Purchase; and

"**market day**" means a day on which the SGX-ST is open for trading in securities; and

(e) any of the Directors of the Company be and are hereby authorised to complete and do all such acts and things (including without limitation, to execute all such documents as may be required and to approve any amendments, alterations or modify cations to any documents), as they or he may consider desirable, expedient or necessary to give effect to the transactions contemplated by this Resolution.
[See Explanatory Note 7]

BY ORDER OF THE BOARD

Wee Woon Hong
Company Secretary

Singapore
10 April 2019

Explanatory Notes:

1. The Ordinary Resolution 2 proposed in item 2 above is to seek approval for the payment of up to S$319,000 as directors' fees on a current year basis, that is for the financial year ending 31 December 2019. In the event that the amount proposed is insufficient, approval will be sought at next year's annual general meeting for payments to meet the shortfall.

2. Ms Xie Ming will, upon re-election as a Director of the Company, remain as Executive Chairman of the Company. Detailed information of Ms Xie Ming pursuant to Rule 704(6) of the Listing Manual of the SGX-ST can be found in the Annual Report 2018.

3. Mr Lee Gee Aik will, upon re-election as a Director of the Company, remain as the Lead Independent Director, Chairman of the Audit Committee and member of the Nominating Committee. He will be considered independent for the purposes of Rule 704(8) of the Listing Manual in accordance with Guideline 2.3 of the Code of Corporate Governance 2012. Detailed information of Mr Lee Gee Aik pursuant to Rule 704(6) of the Listing Manual of the SGX-ST can be found in the Annual Report 2018.

4. Ms Tan Min-Li will, upon re-election as Director of the Company, remain as the Chairman of the Remuneration Committee and member of Audit and Nominating Committees. She will be considered independent for the purposes of Rule 704(8) of the Listing Manual in accordance with Guideline 2.3 of the Code of Corporate Governance 2012. Detailed information of Ms Tan Min-Li pursuant to Rule 704(6) of the Listing Manual of the SGX-ST can be found in the Annual Report 2018.

5. Professor He Mingyang will, upon re-election as a Director of the Company, remain as an Independent Director. Detailed information of Professor He Mingyang pursuant to Rule 704(6) of the Listing Manual of the SGX-ST can be found in the Annual Report 2018.

Notice of Annual General Meeting

6. The Ordinary Resolution 8 proposed in item 6 above, if passed, will empower the Directors of the Company to issue shares or other securities for up to 50% of the Company's issued share capital, with an aggregate sub-limit of 20% of the Company's share capital for any issue of shares or securities not made on a pro-rata basis to shareholders of the Company.

7. The Ordinary Resolution 9 proposed in item 7 above, if passed, will empower the Directors to make purchase (whether by way of Market Purchase or Off-Market Purchases on an equal access scheme) from time to time during Relevant Period (as hereinafter defined) of up to 10% of the total number of issued Shares (excluding treasury shares and subsidiary holdings) at prices up to but not exceeding the Maximum Price. The rationale for, the authority and limitation on, the sources of funds to be used for the purchase or acquisition including the amount of financing and the financial effects of the purchase or acquisition of Shares by the Company pursuant to the Share Purchase Mandate are set out in greater detail in the Letter to Shareholders dated 10 April 2019 accompanying this notice of annual general meeting. The "Relevant Period" is the period commencing from the passing of the aforesaid Share Purchase Mandate and expiring on the earliest of:

   (i) the conclusion of the next annual general meeting or the date by which such annual general meeting is required by law to be held;

   (ii) the date on which the purchases or acquisitions of Shares by the Company pursuant to the Share Purchase Mandate are carried out to the full extent mandated; or

   (iii) the date on which the authority contained in the Share Purchase Mandate is varied or revoked by ordinary resolution of the Company in general meeting.

Notes:

(i) A member of the Company entitled to attend and vote at the AGM may appoint not more than two proxies to attend and vote in his/her instead. A proxy need not be a shareholder of the Company. Where a member appoints more than one proxy, he /she shall specify the proportion of his / her shareholdings to be represented by each proxy.

(ii) Intermediaries such as banks and capital markets services licence holders which provide custodial services and are members of the Company may appoint more than two proxies provided that each proxy is appointed to exercise the rights attached to different shares held by the member.

(iii) The instrument appointing a proxy, duly executed, must be deposited at the office of the Company's Share Registrar, Boardroom Corporate & Advisory Services Pte. Ltd. at 50 Raffles Place, #32-01, Singapore Land Tower, Singapore 048623, not less than 48 hours before the time appointed for the meeting.

(iv) The instrument appointing a proxy or proxies must be under the hand of the appointer or his or his attorney duly authorised in writing. Where the instrument appointing a proxy is executed by a corporation, it must be executed either under its Common Seal or under the hand of its attorney or a duly authorised officer.

(v) Where an instrument appointing a proxy is signed on behalf of the appointer by an attorney, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.

(vi) A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the meeting, in accordance with Section 179 of the Companies Act, Cap. 50.

(vii) The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed, illegible or where the true intentions of the appointer are not ascertainable from the instructions of the appointer specified in the instrument appointing a proxy or proxies. In addition, in the case of a member whose shares are entered against his/her name in the Depository Register, the Company may reject any instrument of proxy lodged if such member, being the appointer, is not shown to have shares entered against his/her name in the Depository Register 72 hours before the time appointed for holding the meeting, as certified by the Depository to the Company.

Personal Data Privacy:

Where a member of the Company submits an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, proxy lists, minutes and other documents relating to the Annual General Meeting (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "**Purposes**"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

Photographic, sound and/or video recordings of the AGM may be made by the Company for record keeping and to ensure the accuracy of the minutes prepared of the AGM. Accordingly, the personal data of a member of the Company (such as his/her name, his/her presence at the AGM and any questions he/she may raise or motions he/she proposes/seconds) may be recorded by the Company for such purpose.

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ANCHUN INTERNATIONAL HOLDINGS LTD.
Registration No. 200920277C
(Incorporated in the Republic of Singapore)

PROXY FORM
ANNUAL GENERAL MEETING

Important:
1. For investors who have used their CPF monies ("**CPF Investors**") to buy the Company's shares, this Annual Report 2018 is sent to them at the request of their CPF Approved Nominees solely FOR **INFORMATION ONLY.**
2. This Proxy Form is not valid for use by CPF Investor and shall be ineffective for all intents and purposes if used or is purported to be used by them.

I/We*, ______________________________ (Name) NRIC/Passport No.* ________________ of

____ (Address)

being a shareholder/shareholders of **ANCHUN INTERNATIONAL HOLDINGS LTD.** (the "**Company**") hereby appoint :

Name	NRIC/Passport Number	Proportion of Shareholdings	
		Number of Shares	%
Address			

and/or *

Name	NRIC/Passport Number	Proportion of Shareholdings	
		Number of Shares	%
Address			

or failing him, the Chairman of the Annual General Meeting ("**AGM**") of the Company as my/our proxy/proxies* to attend and to vote for me/us* on my/your* behalf at the AGM of the Company to be held at Anson I & II, Level 2, M Hotel, 81 Anson Road, Singapore 079908 on Friday, 26 April 2019 at 9:30 a.m., and at any adjournment thereof. If no specific direction as to voting is given or in the event of any other matter arising at the AGM and at any adjournment thereof, the proxy/proxies will vote or abstain from voting at his/her discretion.

☐ Please tick here if more than two proxies will be appointed (Please refer to note 3). This is only applicable for intermediaries such as banks and capital markets services licence holders which provide custodial services.

All resolutions put to the vote at the AGM shall be decided by way of poll.

No.	Resolutions	For	Against
1.	Adoption of Directors' Statement and the Audited Financial Statements for the financial year ended 31 December 2018 together with the Independent Auditors' Report thereon		
2.	Approval of Directors' fees for the financial year ending 31 December 2019		
3.	Re-election of Xie Ming as Director		
4.	Re-election of Lee Gee Aik as Director		
5.	Re-election of Tan Min-Li as Director		
6.	Re-election of He Mingyang as Director		
7.	Re-appointment of Ernst & Young LLP as Auditors of the Company and authority to Directors to fix their remuneration		
8.	Authority to Directors to allot and issue shares and other securities		
9.	Proposed renewal of the Share Purchase Mandate		

(Please indicate your vote "For" or "Against" with a tick [✓] within the box provided. Alternatively, please indicate the number of votes as appropriate.)

Dated this __________ day of _________________ 2019.

Total number of shares	No. of Shares
(a) CDP	
(b) Register of Members	

____
Signature(s) of Shareholder(s)/or
Common Seal of Corporate Shareholder

**Delete where inapplicable*

Notes:

1. Please insert the total number of shares held by you. If you have shares entered against your name in the Depository Register (as defined in Section 81SF of the Securities and Futures Act, Chapter 289), you should insert that number of shares. If you have shares registered in your name in the Register of Members of the Company, you should insert that number of shares. If you have shares entered against your name in the Depository Register and the Register of Members of the Company, you should insert the aggregate number of shares entered against your name in the Depository Register and registered in your name in the Register of Members of the Company. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate held by you.

2. A member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint not more than two proxies to attend and vote on his behalf. A proxy need not be a member of the Company. Where a member appoints more than one proxy, he /she shall specify the proportion of his /her shareholdings to be represented by each proxy.

3. Intermediaries such as banks and capital markets services licence holders which provide custodial services and are members of the Company may appoint more than two proxies provided that each proxy is appointed to exercise the rights attached to different shares held by the member. In such event, the relevant intermediary shall submit a list of its proxies together with the information required in this proxy form to the Company.

4. The instrument appointing a proxy or proxies must be deposited at the office of the Company's Share Registrar, Boardroom Corporate & Advisory Services Pte. Ltd. at 50 Raffles Place, #32-01, Singapore Land Tower, Singapore 048623, not less than 48 hours before the time appointed for the AGM.

5. The instrument appointing a proxy or proxies must be executed under the hand of the appointor or his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its Common Seal or under the hand of its attorney or a duly authorised officer.

6. Where an instrument appointing a proxy is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.

7. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the meeting, in accordance with Section 179 of the Companies Act, Cap. 50.

8. The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of a member whose shares are entered against his/her name in the Depository Register, the Company may reject any instrument of proxy lodged if such member, being the appointor, is not shown to have shares entered against his/her name in the Depository Register 72 hours before the time appointed for holding the meeting, as certified by the Depository to the Company.

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Where a member of the Company submits an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the AGM and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, proxy lists, minutes and other documents relating to the AGM (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "**Purposes**"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

Corporate Information

BOARD OF DIRECTORS:

Xie Ming (Executive Chairman)
Zheng Zhi Zhong (Executive Director and CEO)
Dai Feng Yu (Executive Director)
Xie Ding Zhong (Non-Executive Director)
Lee Gee Aik (Lead Independent Director)
Tan Min-Li (Independent Director)
Yang Chun Sheng (Independent Director)
Andrew Bek (Independent Director)
He Mingyang (Independent Director)

COMPANY SECRETARY:

Wee Woon Hong

REGISTERED OFFICE:

81 Anson Road
Suite 8.20
Singapore 079908
Telephone: (65) 6500 6276

PRINCIPAL OFFICE AND CONTACT DETAILS:

No.539, Lusong Road
Changsha National Hi-tech Industrial
Development Zone
Changsha City, Hunan Province, PRC 410205
Telephone: 0731-88958633, 88958632
Facsimile: 0731-88958611

IR CONTACT:

Website Address:
http://www.anchun.com/home.htm

SHARE REGISTRAR AND SHARE TRANSFER AGENT:

Boardroom Corporate & Advisory Services Pte. Ltd.
50 Raffles Place,
#32-01 Singapore Land Tower,
Singapore 048623

AUDITOR:

Ernst & Young LLP
One Raffles Quay,
North Tower, Level 18,
Singapore 048583
Partner-in-charge: Tan Soon Seng
(Date of appointment:
since financial year ended 31 December 2016)

PRINCIPAL BANKERS:

China Construction Bank
China Merchants Bank
DBS Bank Limited
Industrial and Commercial Bank of China
Overseas Chinese Banking Corporation Limited

ANCHUN INTERNATIONAL
HOLDINGS LTD.

ANCHUN INTERNATIONAL HOLDINGS LTD.

Principal place of business:
No.539, Lusong Road
Changsha National Hi-tech Industrial Development Zone
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Facsimile : 0731-88958611