Securities Investors Association (Singapore)
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UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Anchun International Holdings Ltd.

Security: Anchun International Holdings Ltd.

Meeting details:
Date: 26 April 2019
Time: 9.30 a.m.
Venue: Anson I & II, Level 2, M Hotel, 81 Anson Road, Singapore 079908

Company Description

Anchun International Holdings Ltd. is an investment holding and trading company. The Company provides integrated chemical systems engineering and technology solutions to the People's Republic of China (PRC) petrochemical and chemical industry. Its segments include Catalyst Business, which is involved in the manufacturing of a variety of catalysts for use in the process of gas-making, ammonia synthesis and methanol synthesis; Chemical engineering and technology (CET) Engineering Services, which is involved in providing chemical systems engineering and technology design services for the production of ammonia and methanol related products, such as agriculture fertilizers and biodiesel, which are mainly used in the agriculture and energy industries, and Chemical systems and components (CSC) Business, which is involved in the manufacturing of chemical equipment designed by the chemical engineering and technology consultancy services department.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=BTX)

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1. As noted in the chairman's message, the group's revenue surged by 70% to hit RMB111.2 million and the group recognised a net profit attributable to owners of the company of RMB10.5 million.

In the Chemical Systems and Components ("CSC") business and engineering services segment, the group delivered ammonia plants with capacity of over 740, 000 tonnes/a in Fujian and Hubei that accounted for 30% of total revenue. The CSC segment accounted for 86% of the group's revenue.

As at 31 December 2018, the order book stood at approximately RMB150.8 million.

- **(i) Would the board/management help shareholders understand if the group has the capacity to handle the higher order book, especially for the CSC segment?**

- **(ii) What was the utilisation rate of its Changsha manufacturing plant and how much more growth can the group support?**

- **(iii) Is the group looking to expand to other foreign markets? How is the group going to execute on its expansion plans?**

2. The "Impairment of trade receivables and contract assets" is a key audit matter (KAM) highlighted by the Independent Auditor in their Report on the Audit of the Financial Statements (page 52). Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.

As noted in the KAM, 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 gross carrying amount of trade receivables is shown in the table below (page 121):

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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 RMB'000	Loss allowance provision 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

(Source: Company annual report)

The group has gross trade receivables past due by more than 2 years of RMB29 million, past due by between 1 to 2 years of RMB7.9 million and past due within 1 year of RMB17 million. A total loss allowance provision of RMB35.5 million has been recognised as at 31 December 2019.

To put things in perspective, the group reported a net profit attributable to owners of the company of RMB10.5 million.

- **(i) Has the board evaluated project terms and reviewed how the payment terms could be made more favourable to the group?**

- **(ii) What is the typical payment structure and would it involve a significant percentage of milestone payment as the construction progresses?**

- **(iii) Did the board review the profile of the customers with long outstanding debt (of 2 years and more) and further finetuned the group's credit risk framework?**

3. As shown in Note 22 (page 102 – Investment), the group invested RMB20 million into an investment product (fund) placed with China Construction Bank to be invested in a diversified portfolio of financial products, with an investment tenure of 60 to 90 days.

- **(i) Would the board help shareholders understand if this is in line with the group's strategic direction?**

- **(ii) Was the investment made with the prior approval of the board?**

- **(iii) How was the bank/fund manager selected?**

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(iv) Has the company considered how this might change the risk profile of the group?

(v) If the group has excess capital, would the board consider the declaration of dividends/capital reduction to return excess capital to shareholders?