



ANCHUN INTERNATIONAL HOLDINGS LTD.

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RESPONSES TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON THE ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

The Board of Directors ("**Board**") of Anchun International Holdings Ltd. (the "**Company**", together with its subsidiary, the "**Group**") refers to the queries raised by Securities Investors Association (Singapore) ("**SIAS**") in its email dated 15 April 2022 in relation to the Company's Annual Report for the year ended 31 December 2021 ("**AR 2021**") and wishes to provide the following information in response to the queries:-

Question 1

As noted in the CEO's message, despite the challenges of the COVID-19 pandemic, the group increased its revenue by 16% to RMB109 million, with all business segments showing improvements.

The operational highlights include the EPC turnkey project to build an ammonia synthesis unit with a capacity of 80,000 Nm³/h coke oven gas which offers comprehensive recycling and co-production of LNG, methanol, and liquid ammonia. It also completed an ammonia synthesis system for fine chemicals and new material recycling.

- (i) **Would the board/management consider providing shareholders with an overview of the ongoing projects in a standalone section on "Operations review"? The current "Operations and financial review" in the annual report focused almost exclusively on the financial aspects. In particular, please provide an overview of the progress made in the eight coking projects (including scope of work, percentage completion, and target completion dates etc).**

Response:

The progress of 8 coking projects is as follows:

Customer	Scope of work	Percentage completion in 2021	Estimated completion quarter
1	Provide patented designs, equipment and accessories	89%	2Q 2022
2	Provides patented designs, equipment and its ancillary equipment, as well as pipes, electrical instruments and other materials for this section.	70%	2Q 2022
3	Provide patented designs, equipment and accessories	41%	2Q 2022
4	Provide patented equipment and accessories	23%	2Q 2022
5	Provide patented designs, equipment and accessories	2.8%	3Q 2022
6	Provide patented equipment and accessories	0.9%	3Q 2022
7	Provide patented designs, equipment and accessories	0.5%	3Q 2022
8	EPC(Construction does not include civil engineering and building)	0.8%	4Q 2022

In Thailand, the group will provide engineering design and equipment of the group's CO isothermal shift technology to a natural gas based hydrogen production project while in Zambia, Africa, it is contracted to provide process design package and proprietary equipment for a 100,000 tonnes per year ammonia plant.

(ii) As these are the first two overseas projects, how confident is management in its ability to deliver its products and services outside of China? Has the board/management identified the risks associated with these overseas projects and how is the group managing the risks?

Response:

For these two projects secured, the contracting party is a Chinese EPC Contractor for one contract and a Chinese company who is the Plant Owner for the other. Both projects involve design and supply of the Group's proprietary chemical equipment. As part of risk mitigation, the terms of the contract require the Group only to deliver and hand over the contracted chemical equipment to a port in PRC.

Based on the terms of the Thailand contract, we will receive accumulated progress payment milestones of ninety-two percent (92%) from the customer after delivery of all of goods to Shanghai Seaport. For the project in Africa, the Group is preparing to commence work on the engineering and design services while the contract to supply chemical equipment is being re-negotiated following the changes to equipment specifications.

We continue to focus on the area within the scope of what we do best, which is the technology licensor and key proprietary equipment provider, not the EPC Contractor. For these two overseas projects, the scope of works are principally undertaken in our Changsha plant and will be delivered and handed over at a Chinese port.

Question 2

Would the board/management provide shareholders with greater clarity on the following items in the cash flow statements? Specifically:

- (i) **Financial assets (write-back and impairment losses):** The group recognised a reversal of RMB2.59 million in trade receivables but impaired RMB1.68 million in contract assets. **What are the reasons for the RMB1.68 million in impairment in contract assets?**

Response:

These contract assets represent costs of CSC products completed in previous years where customers have requested for postponement of delivery. Following its assessment, the Group made the necessary impairment allowance against these balances in accordance with the Group's accounting policy following SFRS(I) 9.

- (ii) **Cash:** Despite a higher (average) increasing from RMB92.4 million to RMB129.7 million, the group recognised lower cash balance with cash finance income of RMB1.68 million (FY2020: RMB1.73 million). **Can management help shareholders reconcile the higher average cash balance and the lower finance income received in 2021?**

Response:

Finance income decreased slightly from RMB 1.73 million in FY 2020 to RMB1.68 million principally due to lower interest rates earned from short-term bank deposits and Principal Guaranteed Investment Products compared to previous year.

- (iii) **Prepayments:** In Note 19 (page 107 – Prepayments), it can be seen that prepayments to trade suppliers increased from RMB2.35 million to RMB7.33 million. **What are the prepayments for? How does management ensure that there are sufficient safeguards before making these prepayments?**

Response:

Prepayment increased by RMB4.98 million (212%) from RMB2.35 million in FY2020 to RMB7.33 million in FY2021 mainly due to:

- (i) RMB3.8 million for purchase of steel materials to be used for production in respect of one CSC contract with total contract value of RMB17 million; and

- (ii) RMB1.08 million for outsourcing processing of non-core components to be used for productions in respect of one EPC contract with total contract value of RMB 45 million.

The Management is keenly aware of the risks associated with suppliers. The Group has in place a process to evaluate and monitor its suppliers. Some of the measures put in place by Management to ensure that there are sufficient safeguards before making these prepayments are:

- 1) Establish the supervision mechanism of supplier access credit investigation.
- 2) Establish supplier management information system and assessment and elimination mechanism.
- 3) All bidding contracts need to prepare a bidding document, and suppliers that meet the bidding requirements must be selected strictly according to the bidding process.
- 4) Strictly implement the approval process for signing the purchase contract.
- 5) Verify purchase payment approval procedures and accounting data, and whether payment is strictly implemented in accordance with the contract.
- 6) Some suppliers are primary product providers, they are large companies, including state-owned enterprises, listed companies.
- 7) Some suppliers are our Group's long-term partners.
- 8) Strengthen communication with qualified supplier and keep good relationships.

Question 3

The group's sustainability report can be found on pages 15 to 22 of the annual report. Having conducted a materiality assessment, the group identified the following as material factors:



(i) Has the board further analysed the material factors and prioritised them according to the importance to external stakeholders and to internal stakeholders in a materiality matrix?

Response:

The Group's principal activities are engineering design and equipment builder and manufacturer which are low-utility consumption and non-emission operations. From the Group's investments in research and development, one of its proprietary technologies has been recognized as a key technology for energy saving and carbon reduction in the "14th Five-Year Plan" by the China Nitrogen Fertilizer Industry Association. Further in recognition of the Group's contribution to innovation for the year, the government has awarded a subsidy income of RMB1.13 million for the Group to further new technology development. The Group intends to focus its research and development efforts on new technologies aim to reduce energy intensity and to limit total energy consumption. The above are set out on page 5 and 6 of the Group's CEO's message.

Considering its principal activities and disruptions caused by Covid, the Board is of the view that the factors identified as reflective of its operations during FY 2021. The Group has also set targets and report the progress in meeting these targets for these environmental factors as disclosed on Page 17 to 20 of Sustainability Report.

(ii) ESG disclosure is becoming increasingly important to regulators, shareholders and investors. What are the board's plans to move towards more detailed and more meaningful ESG disclosures and targets for stakeholders in its sustainability report?

Response:

The Group's CSC and Engineering segments are low-utility consumption and non-emission operations, which contributes to approximately 89% of the Group's revenue in FY2021. The utility consumption of our catalyst is order based. The Group is fully in compliance environmentally.

The Group is a provider of integrated chemical systems engineering, environmental system engineering and technology solutions that are environmentally friendly and energy-efficient to the petrochemical and chemical industry in China in particular, ammonia and methanol industries. As a major technology developer and reactor manufacturer in PRC, the Group strives to develop and supply green and low-carbon technologies and products to its customers to produce greener versions of ammonia, alcohol and hydrogen end products.

The Group is committed to ESG disclosure as we understand its importance. It will continue to explore ways to continue to further enhance our ESG disclosure in our Sustainability Report.

- (iii) **Will the board consider how it could better connect the global decarbonisation agenda with the group's vision, mission and its core business?** Doing so will showcase the group's green credentials that are key in environment protection.

Response:

Please refer to Question 3(i) and 3(ii) above.

By Order of the Board

Zheng, ZhiZhong
Executive Director and Chief Executive Officer
22 April 2022