



## China SunSine Chemical Holdings Ltd.

112 Robinson Road #11-01 Singapore 068902  
Tel: (65) 6220-9070 Web: www.ChinaSunSine.com

Company Registration No.: 200609470N

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### RESPONSE TO SGX-ST QUERIES ON RESULTS ANNOUNCEMENT FOR FY2019

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The Board of Directors (the “**Board**”) of China SunSine Chemical Holdings Ltd. (the “**Company**”, and together with its subsidiaries, collectively the “**Group**”) wishes to provide the following information in response to queries from Singapore Exchange Securities Trading Limited (“**SGX-ST**”) on 20 March 2020 with regards to our results announcement dated 28 February 2020 (the “**Announcement**”) for the financial year ended 31 December 2019 (“**FY2019**”).

#### Query 1:

*We refer to the Company's Results for its Full Year ended 31 December 2019 (the "FY2019 Results") announced on 28 Feb 2020. In the Income Statement, the Company reported "cost of sales" of RMB 1910.8 million in FY2019 from RMB 2157.4 million in FY2018. Please provide a breakdown of the items in comparison to FY2018. The Company also disclosed reported an overall increase in sales volume. Please elaborate on the factors results in the decrease in cost of sales by 11% when there was an overall increase in sales volume of 10%.*

#### Company's response:

The breakdowns of the cost of sales for FY2019 and FY2018 are tabulated below:

	<b>FY2019</b>	<b>FY2018</b>	<b>Difference</b>
	<b>RMB' million</b>	<b>RMB' million</b>	<b>RMB' million</b>
Raw material cost	1,332.8	1,646.5	(313.7)
Labor cost	141.4	130.4	11.0
Utilities	124.4	112.1	12.3
Depreciation	93.3	80.7	12.6
Packaging	65.7	57.6	8.1
Water treatment	87.4	77.7	9.7
Others	65.8	52.4	13.4
	<b>1,910.8</b>	<b>2,157.4</b>	<b>(246.6)</b>

The main reason for the decrease in cost of sales was due to the decrease in raw material cost. The prices of our raw materials had generally decreased during FY2019, especially our main raw material, Aniline, which had decreased more than 30%. A 200,000-ton Aniline production line of Shandong Jinling New Material Co., Ltd., one of the major suppliers of Aniline in China, had been stopped for one year starting from 4Q2017 to 4Q2018 due to an accident. This stoppage had resulted in shortage of supply of Aniline in the market and led to the higher prices in FY2018. The resumption of this production line in November 2018 led to the oversupply of Aniline and the material decline of the market price of Aniline for FY2019.

Other than raw material cost, other cost increased as a result of increased sales volume.



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### Query 2:

*In the Income Statement, the Company reported an increase in operating income by 20% to RMB 46.5 million in FY2019. This represents a net change of RMB 7.8 million from FY2018:*

- (i) *Please provide a breakdown and explain the material items under "Other operating (losses)/income" and disclose factors that resulted in each of the significant items.*
- (ii) *explain how the significant foreign exchange gain arose;*
- (iii) *disclose the underlying financial item(s) that caused the foreign exchange gain; and*
- (iv) *state the specific government grants received in both FY2018 and FY2019. Please elaborate on the purpose of the grants, the consideration and eligibility criteria set for each of the grant received and how the quantity of the grant was calculated.*

### Company's response:

- (i) The breakdowns of the other operating income for FY2019 and FY2018 are as follows:

	<b>FY2019</b>	<b>FY2018</b>	<b>Difference</b>
	<b>RMB' million</b>	<b>RMB' million</b>	<b>RMB' million</b>
Interest income on bank deposit	13.2	4.2	9.0
Gain on sales of scrap materials	3.8	5.6	(1.8)
Government grants	6.3	8.1	(1.8)
Foreign exchange gain	21.4	20.1	1.3
Others	1.8	0.7	1.1
	<b>46.5</b>	<b>38.7</b>	<b>7.8</b>

The increase in other operating income for FY2019 was mainly due to higher interest income on bank deposits received during the year, as the Group placed more of its cash into fixed deposits.

- (ii) The foreign exchange gains mainly arose from the appreciation of USD and SGD against RMB. Please refer to (iii) below for details.
- (iii) The USD appreciated by RMB0.1130 from USD1.00 : RMB6.8632 at the end of December 2018 to USD1.00 : RMB6.9762 at the end of December 2019. The SGD also appreciated by RMB RMB0.1677 from SGD1.00 : RMB5.0062 at the end of December 2018 to SGD1.00 : RMB5.1739 at the end of December 2019. The effect of exchange gains are shown below:-



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	Amount (USD' million)	Amount (RMB' million)
<b>Holdings in USD</b>		
Bank balances at year-end	92.3	
Trade receivables	13.8	
Total bank and trade receivables	106.1	
Unrealised exchange gains arising from strengthening USD against RMB (106.1 * 0.1130)		12.0
	Amount (SGD' million)	Amount (RMB' million)
<b>Holdings in SGD</b>		
Bank balances at year-end	8.0	
Unrealised exchange gains arising from strengthening SGD against RMB (8.0 * 0.1677)		1.3
Other unrealised exchange losses arising from translation of other currency, such as EUR etc		(0.1)
Realised exchange gains		8.2
<b>Total exchange gains</b>		<b>21.4</b>

(iv) The government grants received for FY2019 and FY2018 are as follows:-

<b>FY2019</b>	<b>Purposes</b>	<b>Received From</b>	<b>Amount (RMB' million)</b>
1	To award Shandong SunSine as the most outstanding contributor to Shanxian's tax collection	Shanxian Bureau of Finance	5.0
2	To award Shandong SunSine for carrying out certain R&D activities.	Department of Science and Technology of Shandong Province	1.3
	<b>Total</b>		<b>6.3</b>

<b>FY2018</b>	<b>Purposes</b>	<b>Received From</b>	<b>Amount (RMB' million)</b>
1	To award Shandong SunSine as the most outstanding contributor to Shanxian's tax collection	Shanxian Bureau of Finance	6.5



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2	To award Shandong Sunsine's achievements on the reduction of air pollution	Shanxian Environment Protection Bureau	1.1
3	To award Shandong Sunsine for its technological innovation	Shanxian Bureau of Science and Technology	0.2
4	To award Weifang Sunsine for its reduction of waste discharge	Weifang Haibin Bureau of Finance	0.1
5	To award Weifang Sunsine for its employment of handicapped personnel	Weifang Haibin Bureau of Human Resource	0.2
<b>Total</b>			<b>8.1</b>

All the above grants received were recognised into other income directly, as they were income in nature and not conditional upon other specific requirements.

**Query 3:**

*Please provide a breakdown for the item "Other receivables, deposits and prepayment" on page 3 of the Financial Statements in comparison with the corresponding period last year. In addition, please elaborate on the material items and disclose the underlying transactions which gave rise to each of the material item under "Other receivables, deposits or prepayments".*

**Company's response:**

The breakdown of other receivables, deposits and prepayments as at 31 December 2019 and 2018 are as follows:-

	<b>As at 31.12.2019</b>	<b>As at 31.12.2018</b>	<b>Difference</b>
	<b>RMB' million</b>	<b>RMB' million</b>	<b>RMB' million</b>
Other receivables	13.8	18.3	(4.5)
Advance to suppliers	122.5	49.6	72.9 <sup>(1)</sup>
Deposits	28.7	0.1	28.6 <sup>(2)</sup>
Prepayments	2.4	1.9	0.5
	<b>167.4</b>	<b>69.9</b>	<b>97.5</b>

- (1) Advance to suppliers consists of payments made in advance to raw material suppliers as well as contractors (for our IS project, TBBS project and other works). The higher Advance to suppliers in FY2019 compared to those in FY2018 were mainly due to more advance payments being made to contractors.



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- (2) The Deposits in FY2019 mainly refer to the deposits paid to Shanxian Government in order to acquire a piece of Land located in Shanxian Chemical Zone (the "Land"), and to obtain the Land Use Rights ("LURs") of the Land. The deposits will be transferred to the Land cost once the LURs are obtained. Please refer to the Company's announcements dated 12 March 2019 and 16 March 2019 for more details on the acquisition of the Land.

### Query 4:

It is stated on page 4 that "trade receivables include notes receivables provided by trade debtors. These note receivables are promissory notes issued by local banks with low risks of non-recoverability". Please:-

- (i) explain why the banks have not paid on the promissory notes where debts are overdue by up to 3 months if in the Company's opinion the risk of non-recoverability is low. Please state when the amount of RMB167.1 million will be paid;
- (ii) provide tabulate by month the due dates for the amount of RMB 167.1 million Note Receivable outstanding and which of these overdue amounts have since been collected.

### Company's response:

- (i) Bank notes are promissory notes issued by Chinese local banks ("Banks") at the request of their clients. When bank notes are due, the Banks pay the amount stated on the face of the notes regardless of whether their clients placed sufficient money in the Banks. Bank notes are similar to "post-dated cheques" with its payments guaranteed by the Banks. Bank notes are commonly used in China as a payment method. When the debts are due, Chinese companies use these bank notes, instead of cash/cheques, to pay to their suppliers. Upon receipt of the bank notes, the recipient can either endorse and transfer the bank notes to pay to other companies ("Endorsement"), or wait for the bank notes to mature and collect the money from the issuing banks ("Maturity"), or can discount them for earlier settlement. As such, the Company believes that the risk of non-recovery of bank notes is very low. The Company wishes to clarify that the bank notes do not go into "overdue" situation as once they are due, they will be presented to the Banks for payment.
- (ii) The due dates of notes receivables by month are as follows:-

Due date before	31.01 2020 RMB' million	29.02.2020 RMB' million	31.03.2020 RMB' million	Total RMB' million
Bank notes receivables	29.7	32.3	105.1	167.1

To-date, the usage of the bank notes receivables is as follows:-

	Amount RMB' million
Endorsement	98.8
Maturity	20.0
Not due and payable by the Banks	48.3
	<hr/> 167.1 <hr/>



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**Query 5:**

*It is stated on page 11 that for FY2019, "Other losses" amounted to RMB 9.6 million, mainly consisting of donations to charitable organisations. Please disclose and provide a breakdown of these charitable organisations and the respective amounts contributed for each.*

**Company's response:**

The breakdown of the Other losses is as follows:-

	<b>Amount RMB' million</b>
Donation to Shanxian Charity Federation	1.9
Donation to Shanxian Foundation for poverty alleviation and development	1.2
Donation to Qingdao University of Science and Technology	5.0
Total Donations	<hr/> 8.1
Others	1.5
Total	<hr/> 9.6 <hr/>

**Query 6:**

*It is stated on page 12 that the Company will be constructing Phase 1 of its 30,000-ton per annum IS project at a cost of RMB 270 million. Please:-*

- (i) clarify if the Board of Directors has approved the Phase 1 project amounting to approximately RMB 270 million;*
- (ii) clarify what due diligence has been carried out to determine the commercial feasibility and costs to be incurred;*
- (iii) provide a breakdown of the amount RMB 270 million;*
- (iv) clarify whether government approvals have been received for the development and to provide details of what approvals are necessary and when these approvals were received;*
- (v) explain how will RMB 270 million be funded; and*
- (vi) disclose the identities of the financiers.*

**Company's response:**

- (i) The Board of Directors has approved the Phase 1 IS project amounting to approximately RMB 270 million.*



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- (ii) The Group has been in the rubber chemicals industry for 25 years since 1995, and globally it is the largest producer of rubber accelerators and the biggest producer of Insoluble Sulphur ("IS") in the PRC. The Group has extensive experience in the industry and has established a long term strategic partnership with our major customers. Before the project was initiated, our production utilisation rate for IS was more than 100%<sup>1</sup>. We had also sought feedback from our customers, carried out market research and feasibility study, and performed analysis on return on investment, before arriving at our decision.
- (iii) The breakdown of the budget of RMB 270 million is as follows:-

	<b>Amount RMB' million</b>
Land cost	39.0
Buildings and infrastructure	64.1
Machineries	156.9
Manpower and working capital	10.0
	<hr/> <hr/> 270.0

- (v) There are many approvals required to be obtained for a new chemicals project. Generally speaking, it takes 7 steps: -
- 1) Project Initiation: Company submits Initiation Application, Feasibility Study Report etc to the relevant authorities for approval. Once the approval is granted, the project can be initiated.
  - 2) Environmental Appraisal ("EA"): Submit Initiation Approval Letter, EA application form, General Design Drawing etc, to the relevant authorities to apply for EA. The relevant authorities will assign professional firms as well as engage environment experts to do the appraisal.
  - 3) Safety Appraisal ("SA"): Procedures are similar to EA.
  - 4) Energy and Water Resources Appraisal ("EWA"): Same procedures as above. Once the approvals for EA, SA and EWA are granted, construction may commence.
  - 5) Construction and Land Use Right Application (subject to land quota).
  - 6) Acceptance Test and Trial Run: After completion of construction, Acceptance Test, which includes environment test, safety test, fire-fighting test etc, needs to be carried out. Trial run application to be submitted to relevant authorities for approval.
  - 7) Commercial Production Commencement.

The Group has obtained all necessary approvals in order to start the construction. We expect the construction will be completed by end of 2020, and pass the acceptance test by 1Q2021. The commercial production will commence following the successful trial run.

- (iv) The RMB 270 million will be funded internally.

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<sup>1</sup> Utilisation rate for a production line is based on actual production output and designated capacity for the production line taking into account certain running time assumption and downtime for repairs and maintenance in a given year. As such, the actual production output may exceed the designated capacity.



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(v) Not applicable.

**Query 7:**

*It is stated on page 12 that the Company will be constructing the Phase 2 of its 20,000-ton per annum TBBS project at a cost of RMB 60 million. Please:-*

- (i) *clarify if the Board of Directors has approved the Phase 2 project amounting to approximately RMB 60 million;*
- (ii) *clarify what due diligence has been carried out to determine the commercial feasibility and costs to be incurred*
- (iii) *provide a breakdown of the amount RMB 60 million;*
- (iv) *clarify whether government approvals have been received for the development and to provide details of what approvals are necessary and when these approvals were received;*
- (v) *explain how the RMB 60 million will be funded; and*
- (vi) *disclose the identities of the financiers.*

**Company's response:**

- (i) The Board of Directors has approved the Phase 2 TBBS project amounting to approximately RMB 60 million.
- (ii) Apart from the Group's track record and extensive experience in the industry (as stated above), the Group has established a long term strategic partnership with our major customers. This 20,000-ton Phase 2 expansion follows the successful operation of our Phase 1 10,000-ton production line, and is part of the fully-automated 30,000-ton per annum TBBS project that started construction in 2017. Before the whole project was initiated, our utilisation rate for TBBS was more than 100%, and this product is well recognised by our customers. We had also sought feedback from our customers, carried out market research and feasibility study, and performed analysis on return on investment, before embarking on this project.
- (iii) The breakdown of the budget of RMB 60 million is as follows:-

	<b>Amount RMB' million</b>
Machineries	37.8
Additional infrastructure and integration	17.2
Installation	5.0
	<hr style="border-top: 1px solid black;"/> <b>60.0</b> <hr style="border-top: 1px solid black;"/>





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- (iv) The relevant approvals had been obtained together with the above-stated Phase 1 production line. Once the construction of Phase 2 is completed, Acceptance Test will need to be carried out by the relevant authorities before commercial production. We expect the construction to be completed by June 2020, and Acceptance Test to take place by September 2020.
- (v) The RMB 60 million will be funded internally.
- (vi) Not applicable.

### **Query 8:**

*It is stated on page 13 that the Company will be constructing a 30,000-ton per annum TMQ project costing RMB150 million. Please:-*

- (i) *clarify if the Board of Directors has approved the construction of the 30,000-ton per annum TMQ project costing RMB150 million;*
- (ii) *clarify what due diligence has been carried out to determine the commercial feasibility and costs to be incurred;*
- (iii) *provide a breakdown of the amount RMB 150 million;*
- (iv) *clarify whether government approvals have been received for the development and to provide details of what approvals are necessary and when these approvals were received;*
- (v) *explain how the RMB 150 million will be funded; and*
- (vi) *disclose the identities of the financiers.*

### **Company's response:**

- (i) The Board of Directors has approved the construction of the 30,000-ton per annum TMQ project costing RMB 150 million.
- (ii) Apart from the Group's track record and extensive experience in the industry (as stated above), the Group has established a long term strategic partnership with our major customers. Before the project was initiated, our utilisation rate for anti-oxidant TMQ was more than 100%. We had also sought feedback from our customers, carried out market research and feasibility study, and performed analysis on return on investment, before arriving at our decision.
- (iii) As the Group is still doing the land survey and drawing the blueprint, it is premature at this juncture to provide a detailed breakdown of the budget.
- (iv) The approval procedures are the same as the answer to Query 6 above. We have not applied for Project Initiation (Step 1) at present.
- (v) The RMB 150 million will be funded internally.
- (vi) Not applicable.



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**BY ORDER OF THE BOARD**

Xu Chengqiu  
Executive Chairman  
24 March 2020