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RESPONSE TO SGX-ST QUERIES ON RESULTS ANNOUNCEMENT FOR 2H&FY2020

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 4 March 2021 with regards to our financial statements announcement dated 26 February 2021 (the "**Announcement**") for the 2nd half and full year ended 31 December 2020 ("**2H&FY2020**").

Query 1:

Please disclose further details of the additions to construction in progress and property, plant and equipment ("PPE") that contributed to the increase in the Group's PPE by RMB 214.9 million for FY2020.

Company's response:

Property, plant and equipment ("**PPE**") increased by RMB 214.9 million from RMB 649.7 million to RMB 864.6 million mainly due to additions to Construction in Progress ("**CIP**") and PPE of RMB 275.3 million, as well as the acquisition of Heze Yongshun Environmental Protection Technology Co., Ltd ("**Yongshun**") of RMB 61.7 million, offset by the depreciation charge of RMB 120.5 million and written off of PPE of RMB 1.6 million. The details of the additions to CIP and PPE, and depreciation by categories[1] are as follows:-

	Plant and machinery RMB' mil	**Buildings RMB' mil**	**Motor vehicle RMB' mil**	**Office equipment RMB' mil**	**Greenery RMB' mil**	**CIP[2] RMB' mil**	**Total RMB' mil**
Additions to Hengshun's IS project (with a total budget of RMB 270 mil)	-	-	-	-	-	200.1	200.1
Additions to Sunsine's Phase 2 TBBS project (with a total budget of RMB 60 mil)	-	-	-	-	-	33.0	33.0

[1] A disclosure of the details of CIP and PPE may reveal the Company's confidential information, and would include hundreds of items, making it impractical to do so. Hence, only a disclosure of CIP and PPE by categories is made in this announcement.

[2] CIP includes infrastructure and buildings under construction, machinery, equipment etc. All costs incurred in connection with the project are captured under CIP until the project is fully completed, at which point such costs will be transferred to the relevant PPE categories.

Acquisition of Yongshun	29.4	29.0	0.3	0.2	1.5	1.3	61.7
Other additions	5.5	2.1	1.7	0.3	-	32.6	42.2
Depreciation charge	(85.6)	(29.9)	(1.5)	(3.5)	-	-	(120.5)
Written off of PPE	(1.5)	-	-	(0.1)	-	-	(1.6)
Total	**(52.2)**	**1.2**	**0.5**	**(3.1)**	**1.5**	**267.0**	**214.9**

Query 2:

In relation to the Company's Statement of Financial Position and corresponding Notes, please provide the breakdown of the trade and other payables amounting to RMB355.2 million as at 31 December 2020 which increased significantly from RMB259 million in FY2019.

Company's response:

The breakdown of trade and other payables as at 31 December 2020 and 31 December 2019 are as follows:-

	31 December 2020 RMB' mil	**31 December 2019 RMB' mil**
Trade payables	54.4	63.9
Other payables (please see details in the response to query 3 below)	165.5	74.4
Advances from customers	23.5	37.6
Accruals for operating expenses	142.8	147.1
Deferred income	23.4	-
Total trade and other payables	**409.6**	**323.0**

Query 3:

Please also disclose the status of the construction projects which resulted in the increase in payables to contractors. With reference to the aforementioned construction projects, please disclose:
i. The accumulated cost of construction to-date and the additional cost that will be incurred for the completion of the construction projects.
ii. How have and will these construction costs be financed. Please elaborate and quantify.
iii. When will the construction be completed.

Company's response:

The increase in other payables are mainly due to (1) increase in payables to contractors, especially for Hengshun's IS project; and (2) the acquisition of Yongshun. The breakdown of these two, as well as the other two on-going projects are as follows:-

	Other payables as at 31.12.2020 RMB' mil	Other payables as at 31.12.2019 RMB' mil	Cost incurred up to 31.12.2020 RMB' mil	Additional costs need to be incurred RMB' mil	Expected completion date (Status/remark)
Hengshun IS project	50.6	-	204.1	81.7	In the process of applying for trial run; once approval obtained, will start the trial run in Mar 2021; commercial production will commence in 2H2021.
TMQ project	6.6	-	4.9	145.1	At construction stage, expected to complete by end 1H2021.
Phase 1 Landfill project	-	-	5.6	74.4	Design and necessary application completed; construction has commenced: expected to complete by end of 2021
Acquisition of Yongshun	48.7	-	n.a.	n.a.	Acquisition completed; payables relate to outstanding payments to some creditors who paid for construction works and PPE on behalf of Yongshun prior to our acquisition
Others	59.6	74.4	n.a.	n.a.	Mainly relates to payables to vendors for the upgrading and alteration of PPE and construction works for ongoing upgrades at the plants in various sites, freight cost, etc.
Total	**165.5**	**74.4**			

All these projects are funded internally, as the Group has sufficient funds (cash and bank balances as at 31 December 2020 amounted to RMB 1.3 billion).

Query 4:

In relation to the Company's statement "Management is of the view that the possibility of renewing the "High-tech Enterprise" status this year is low, hence no renewal application was submitted in 2020". Please explain why Management is of the view that the possibility of renewing the "High-Tech Enterprise' status for Shandong Sunsine is low for this year.

<u>Company's response</u>:

In China, a "Scoring System" is adopted to decide whether a company may qualify for a "High-Tech Enterprise" status. Experts are engaged during the application or renewal process for "High-Tech Enterprise. Such experts will assess the company which is applying or renewing the "High-Tech Enterprise" status in four areas, namely "Intellectual Property ("**IP**") (30 points)", "The Ability to Transform the IP to Revenue (30 points)", "Structural and Management Skills in R&D (20 points)" and "The Growth of the Company (20 points)", and give points to each of these four areas. In each of the four areas, there are certain criteria which affect the points. The applicant will only qualify for "High-Tech Enterprise" status when the applicant is able to obtain 70 points and above.

When the "High-Tech Enterprise" status of Shandong Sunsine Chemical Co., Ltd ("**Shandong Sunsine**") expired in December 2019, the management conducted a self-assessment in the above-mentioned four areas based on those criteria. After self-assessment, the points obtained by Shandong Sunsine is less than 70. For example, in areas like the numbers of IP generated, the advances in the IP, the growth rate of the company's revenue in the past three years, the growth rate of the company's net assets for the past three years etc, Shandong Sunsine did not obtain high scores. As such, the Management is of the view that the possibility of renewing the "High-Tech Enterprise" status is low for 2020, and decided to postpone the renewal application. Once the Management assesses a higher possibility of obtaining this status, Shandong Sunsine will make the application again.

<u>Query 5</u>:

In relation to the Company's disclosure in paragraph 10 of its prospects in the next reporting period and the next 12 months, please disclose the reasons and bases for the Board's confidence about the Group's profitability in the next 12 months despite the uncertainties surrounding the strength of the economic recovery from the Covid-19 pandemic.

<u>Company's response</u>:

In the paragraph 10 of the Announcement, the Group stated that "Despite the challenges of COVID-19 and uncertainties surrounding the strength of the economic recovery from the pandemic, we remain confident about the Group's profitability in the next 12 months." The reasons and bases of our confidence include but are not limited to the following:-

1. We achieved a set of satisfactory results, reached another record sales volume, and recorded a net profit of RMB 218.8 million in FY2020 when both the Chinese and global economy were adversely affected by the pandemic. We have overcome this difficult period and are better prepared should the global economic recovery become uneven or protracted;

2. The Chinese economy has shown strong resilience and staged a robust rebound. China's GDP grew 2.3% in 2020, the first and only major economy to record positive growth in 2020. We are confident that China's GDP will continue to grow in 2021 based on publicly available economic data.

3. We sell to 2 key market segments – the replacement tire market, as well as the new tire market. The replacement tire market is more resilient as tires are replaced on a regular basis depending on usage, hence there is no discretionary judgement. As for the new tire market, we note the Chinese auto market has recovered steadily in 2020, and we expect auto sales in 2021 will grow after being hit hard by the COVID-19 in 2020.

4. According to IMF forecast, the global economy is projected to grow 3.5% in 2021, reflecting expectations of a vaccine-powered strengthening of activity and additional policy support in a few large economies.

5. Raw material prices have steadily recovered from their trough in 2020, providing a strong support to our average selling price.

6. Our expansion projects are slated to be completed in 2021, which will further strengthen our market leadership position and meet the increasing market demand.

7. Our strategy of "Production and Sales Equilibrium" (which means higher production leads to higher sales volume, and in turn, stimulates even higher production) has been proven to be practicable.

8. Our other competitive advantages, such as our strong financial position, high-quality products, economies of scale, variety of product range, brand name, and compliance with national environmental protection laws and regulations, should enable us to win over customers and achieve sustainable growth.

Barring unforeseen circumstances, the management remains confident about the profitability in the next 12 months.

Query 6:

In relation to the Updates to Expansion Plans in paragraph 10, please elaborate on the Phase 1 Controlled Landfill Project and the outlook and prospects in relation to the expected additional income to be generated from the project.

Company's response:

The Company has stated in detail the rationale for carrying out the Controlled Landfill Project ("**Project**") in paragraph 10 of the Announcement. The Company takes this opportunity to further elaborate on the Project as follows:-

1. With the rapid economic development of the Chinese cities, dangerous wastes ("**Wastes**") generated by the manufacturing companies have become a growing problem for the government. The type and range of Wastes vary, and the harmful effects of such Wastes have grown larger and the Wastes generated by these companies have become more and more difficult to treat, with disposal of Wastes directly affecting the harmonious development of the Chinese society.

2. Under the Environmental Protection Law (effective from 1 January 2015), Landfill Pollution Control Standards for the Dangerous Wastes (GB18598-2019) (effective from 1 June 2020) require further closer monitoring of the Wastes, and require enhanced treatment of the Wastes generated. A lot of Wastes cannot be disposed of at the flexible landfill but have to be disposed of at the controlled landfill.

3. Dangerous Wastes Pollution Control Plan Implementation for Shandong 13th Five-year Plan issued by Shandong Environmental Protection Department called for the promotion of the burning of the Wastes, accelerating the construction of centralised landfill, advancing the development of the centralised treatment of the Wastes project, and planning for each city to have 1 centralised wastes treatment facility. And there is currently no controlled landfill facility in the Heze area. With the support

of the government, the Company is able to fill this vacuum for such controlled landfill facility, fulfil its corporate social responsibility, and mitigate its environmental risks.

4. During the production of rubber chemicals, the Group generates Wastes, both organic and inorganic. The organic wastes can be treated by burning them, and as such, the Group acquired Yongshun in FY2020 to treat the organic waste. But in order for the proper treatment of the inorganic wastes, as well as the ashes generated by Yongshun, a controlled landfill is required.

5. The main purpose for the Project is to reduce the environmental risk faced by the Group, and save on the cost of such waste treatment in the long run. Additional income is also expected from this Project, but the amount will not be material compared to the revenue of the Group's core business.

Query 7:

In relation to the Group's expansion projects, given the significant investment outlay involved in construction to date, please provide details of the expected increases in capacities and how this would impact the utilisation rate for the group as a whole taking into account the current utilization of the Group's current production capacity of accelerators, insoluble sulphur and anti-oxidants. Please quantify to enable a better understanding of the utilisation of the Group's production capacity.

Company's response:

The current utilisation rate of each categories of our products and the expected annual capacities[3] are listed in the table below:-

	Utilisation rate for FY2020	Actual capacities for FY2020 (Tons)	Expected capacities for FY2021 (Tons)
Accelerators	78%	117,000	117,000
Insoluble Sulphur ("**IS**")	102%	30,000	60,000
Anti-oxidant	102%	45,000	75,000
Total	**87%**	**192,000**	**252,000**

In FY2021, the expansion projects are for IS and Anti-oxidant products, which are currently running at a rate exceeding their full (designed) capacity. The current volume of production for these two types of products are not sufficient to meet the market demand, given our limited capacities. While the expansion will result in lower utilisation rate for these two products, it will generate additional revenue and profits and allow the Company to gain market share. Based on our deep experience in the rubber chemicals industry, feedback from our customers, as well as our own market research, the management is confident that the expansion projects are in the best interest of and will provide an even greater competitive edge to the Company.

BY ORDER OF THE BOARD

Xu Chengqiu
Executive Chairman
8 March 2021

[3] Annual capacities exclude capacity of intermediary materials such as 4ADPA and MBT.