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RESPONSE TO THE QUESTIONS FROM OUR SHAREHOLDERS FOR THE PURPOSE OF AGM

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 questions from our shareholders received by the Company between the period from 5 May to 24 May 2020 ("**Q&As**") for the purposes of our annual general meeting ("**AGM**") to be held on 27 May 2020.

The Q&As are organized under the subject headings as set out below:

A. Competition

1. *SGX's 10-in-10 article states that "stringent environmental protection regulations forced many players that did not meet requirements to shut down". Your 4Q19 results announcement states that some rubber chemical players may have increased production capacities. Have the players referred to in the announcement done so? Could the Company indicate the total net expansions compared against the 3 groups of rubber chemicals produced by the Group.*

   <u>Company's response</u>

   As mentioned in our previous announcements, due to China's vigorous implementation of stringent environmental protection regulations and stricter environmental inspections since 2014, many manufacturers who failed to meet the requirements had to shut down productions. These manufacturers also tend to have smaller production capabilities.

   Between the end of 2017 and the first half of 2018, we have witnessed the sharp increase in the prices of rubber chemical products as a result of supply shortage. This has led to the rise of industry profits. Some of the larger producers who have the ability to maintain or improve their environmental protection capabilities, and who did not shut down, have been considering to expand their production capacity.

   We are not able to give the specific total net production expansions, as these larger players have announced their expansion plans without providing much details, and these expansions also require time to implement.

2. *Kemai made its third attempt last June to list on the Shanghai Stock Exchange for RMB 1 billion for a new base. Sennics (圣奥), the world's largest 6PPD producer, plans to branch into rubber accelerators. Do they pose severe challenges to Sunsine?*

Company's response

As of now, we are not aware of any updates regarding Tianjin Kemai's IPO application. Some smaller players in the industry may, during the current COVID-19 pandemic, withdraw from the market gradually while the bigger players may have plans to further strengthen their market position through expansion of their production capacity. It is expected that the market will undergo consolidation amongst the larger players.

3. *According to some media reports, some small and medium rubber chemical firms are facing financial difficulty in the wake of COVID-19 pandemic. How is the situation now?*

Company's response

Without a doubt, COVID-19 will adversely affect almost all manufacturers in general. Small and medium-sized manufacturers with financial difficulties will be hit harder than the larger manufacturers, as larger manufacturers like China Sunsine are in better financial positions to weather the economic downturns.

B. Demand and Supply, Average Selling Price (ASP), and Utilisation

4. *GPM in 4Q19 dropped to 17.1% from 3Q19's 28.5% on lower ASP and dearer raw materials. As orders are received in advance and raw materials are bought beforehand, why was a reasonable margin unattainable? What is the situation now? Are Sunsine's products priced higher than rivals'?*

Company's response

Orders from major customers are received 3 months in advance, and these kinds of orders account for less than half of our total orders. Raw materials are purchased approximately 10 days before production, while our storage capacity of raw materials is about one week.

The decline in gross profit margin in the fourth quarter was caused by an increase in the price of raw materials (from 3Q2019 to 4Q2019), and a lower ASP resulting from intense competition.

The current situation is that the price of our products is still under pressure, and gross profit margin remains relatively low. Generally, the selling prices of our products are about the same as the market price, with some products are selling at a slightly higher price.

5. *Due to the huge drop in oil price, the price of aniline has dropped quite significantly and seems to be on a downward trend. Want to ask if Sunsine believes that this aniline price is sustainable or will there be a large wave of closures of aniline suppliers? Has Sunsine spoken to any aniline supplier to understand the market, and if management can share with us?*

Company's response

Recently, international crude oil prices have recovered slightly. As aniline is a derivative of benzene (which is ultimately derived from crude oil), its price is generally dependent on oil price, as well as the demand and supply dynamics of the product. The utilisation rate for China's aniline producers is still low. Our major supplier, Shandong Jinling's Dongying factory, operates at about 80% load. Shandong Jinling's Dawang factory continues to suspend its 60,000-ton aniline production. Tianji's 13,000-ton capacity is running at a low level.

We believe that the price decrease of aniline will stabilise, and gradually pick up from here.

6. *Some automakers in China have indicated that their car sales in April 2020 have returned to 2019 levels. Since a large portion of Sunsine's sales is in China, can management share what the current untilization rate is?*

Company's response

In FY2019 and early 2020, we were operating at nearly full capacity. The current utilisation rate is at 70-80%.

The COVID-19 outbreak has dramatically impacted the production of tire factories, creating a sharp drop in demand for rubber chemicals. Currently, many rubber chemical producers have different stock levels.

To our knowledge, due to the decline in demand, many of our competitors may have suffered production closure or running at low production capacity.

7. *How long have the facilities been shut down in the earlier part of the year due to COVID-19? When factories in China closed for extended periods after Chinese New Year, was Sunsine able to fill overseas orders with its 10,000-tonne finished goods as at end-2019 (vs 5,500 tonnes the year before)?*

Company's response

The Group has partially resumed its production since 11 February 2020 after the Chinese Government initially extended the Chinese New Year holiday to 2 February 2020, and later directed businesses not to resume work before 10 February 2020 at the earliest in order to contain the spread of COVID-19 in China. In 1Q2020, some foreign manufacturers added orders or required us to ship in advance. However, as many tire manufacturing plants outside China were shutting down due to the evolving situation of the COVID-19 pandemic around the world, our overseas orders have seen a decline.

8. *Would Sunsine be raising ASP to mitigate the effets of COVID-19? If the environment of low ASP persists, what are the management's plans moving forward?*

Company's response

The selling price is determined by many factors, such as the pricing trends of raw materials, especially the main raw material Aniline; the demand for our products; the competition we are facing etc. Currently the ASP is still hoving at low levels due to intense competition and low raw material prices. We will do our best to reduce various consumption/wastage, save costs and increase our production and operational efficiency.

C. Research & Development ("R&D")

9. *China Sunsine's R&D Centre has secured 35 national patents. May I know if these patents are recognised under the financial statements? Do the patents provide exclusive rights to the Company, thereby providing tangible competitive advantage? Or do the patent contribute via licencing fees?*

Company's response

We do not recognize the patents as intangible assets as it is difficult to quantify their value. These patents are mainly improvements in production technology relating to rubber accelerators. They are seen in the quality of our products and reduction of wastage in the production process. We do not license our patents to third parties.

10. *What has been the upshot of spending RMB 102m in 2018 and RMB 91m in 2019 on R&D? Are there instances of product quality improvement, product innovation and use of smart & IT technologies?*

Company's response

Continuous production and automation are the main aspects of the Company's R&D expenditure. This includes the MBT continuous production project in collaboration with Tsinghua University, and the new TBBS automatic production line.

Furthermore, our R&D expenditure also goes into the improvement of clean production processes, and the upgrading and transformation of insoluble sulphur facility.

11. *What is masterbatch referred to in pg 5 of 2017 AGM minutes? Has progress been made in growing this product?*

Company's response

Rubber masterbatch refers to a customised mixture of rubber with specific rubber chemicals (Accelerators, Anti-oxidants, etc) as required by certain rubber product producers. It is often more environmental-friendly as customers do not need to mix the compound themselves in their own factories (bearing in mind rubber accelerators and anti-oxidants are typically in powder or granular forms), especially if they do not use too big a volume themselves. At present, there is no significant progress in the masterbatch business, as we focus our sales and marketing to service our large scale tire-makers who prefer to mix and create their own rubber compound (therein lies their trade secrets) to produce their tires. We plan to include it in our next five-year plan (2021-2025).

D. Cost-savings

12. *The SGX's 10-in-10 article mentions automation as one of the cost-saving measures.What % of productions lines are equipped with robotic arms? What are other labour-saving measures?*

Company's response

Currently, our new expansion project consisting of the new 30,000-ton TBBS project, the 30,000-ton 6PPD project, the 10,000-ton IS project at Shanxian and the 10,000-ton TMQ project, use automatic packaging lines, which improve the production efficiency, reduce labour intensity and improve environmental protection.

Under the current economic uncertainty, the Company is implementing policies to further reduce expenditure by cutting down on all kinds of unnecessary consumption and expenses, eliminating waste, blocking all kinds of revenue leakage, diligently enhancing internal management, strengthening cash flow management and controlling cost.

All policies are geared towards forming a collective agreement with everyone in terms of cutting expenditure, reducing costs and improving efficiency.

E. New Projects Totaling RMB 480m

13. *With the ongoing COVID-19 situation, is there any impact on the production expansion plans? (I.e Expected completion delay with respect to what has been given in the Annual Report 2019, Pg 6: Capacity Expansion Plan)*

Company's response

Our expansion plan will be implemented according to our original schedule.

14. *Advance to suppliers for raw materials and contractors (for projects for IS and TBBS) was RMB 122.5m as at end 2019, compared to RMB 49.6m the year before. How much of the capex for the IS and TBBS projects had already been paid and provided by end-2019?*

Company's response

As of end of 2019, the capital expenditure for these two projects was approximately RMB35 million.

(a) TBBS (phase II -- 20,000 tonnes)

15. *TBBS capacity will be 55,000 tonnes after the phase II expansion.Are the points in pg 8 and 9 of 2017 AGM minutes still valid?*

    ".....*the Group developed TBBS a few years ago to replace NOBS which was not as environmentally friendly. The Group has now become the largest producer of TBBS with its product recognised by tyre makers and other downstream companies. An expansion would not pose much technological difficulty to the Group"*

    "....theCompany holds 40% market share of the TBBS accelerator market. Even though there were many companies which also produce TBBS, the Company retains an competitive edge due to having better skills and financial resources."

    Company's response

    Yes, the above statements are still valid.

16. *Given that phase II RMB 60m capex (for 20,000 tonnes) is much lower than phase I's RMB 100m (10,000 tonnes) and it may tap on some running costs already incurred for phase I, will phase II outdo phase I in unit production cost?*

    Company's response

    Yes, the unit production cost for phase II will be lower than that in phase I.

17. *Sunsine has indicated that production of TBBS under the phase I and phase II is automated. What are the advantages of this mode compared to "manual" one?*

    Company's response

    The advantages of this automation include increased production efficiency, increased product yield by 2%, and environmental protection benefits.

    Nearly 40,000 tons of steam is saved annually (translating to cost savings of about RMB 7.6 million annually), work force is reduced by half as 100 fewer employees are required (contributing to cost savings of about RMB 10 million in salary and insurance annually), and new environmental benefits are achieved (namely, in the reduction of emission of waste gas, recycling of waste water and disposal of waste salt after necessary treatment).

(b) Insoluble Sulphur ("IS") (phase I -- 30,000 tonnes)

18. *With reference to the Analysis of Sales and Volume provided on Pg 10, I have noted that the ASP of Insoluble Sulphur is significantly lesser as compared to Accelerators and Anti-Oxidants. That said, what was the considerations to expand the production capacity of Insoluble Sulphur by 30,000 tons vs 20,000 tons for Accelerator? (or consider additional expansion of production capacity of Accelerator / Anti-Oxidants)*

Company's response

IS's selling price is lower than accelerators', but it enjoys a higher gross profit margin (GPM). For example, in FY2019, accelerators' GPM was about 28%, while IS's was about 35%. Another consideration is the market demand. China is still a net importer of IS. However, the import price is higher than domestic price. Thus, there is opportunity for growth to meet the market demand.

19. *In your budget for the new Phase I of 30,000-ton IS production capacity in the new Chemical Zone, is the budget for land (RMB39 million), buildings and infrastructure (RMB64.1million) for two phases?*

Company's response

The budgeted land cost of RMB39 million is for the 300 mu land reserved for the two phases of the IS project.

20. *Will the buildings and infrastructure cater for subsequent projects at the remaining 380-mu land too?*

Company's response

The budget for buildings and infrastructure covers only the IS project in the 300 mu of land, and not for the rest of the 380 mu.

21. *What was the breakdown of RMB 28.7m deposits for land?*

Company's response

The payment of the deposit of RMB13.6 million is based on the Investment Agreement entered into with the Shanxian Government in March 2019 (RMB20,000 per mu for a total land area of 680 mu). Another approximately RMB15 million is the guarantee deposit for the land use rights of the entire 680 mu.

The Company has completed all the procedures for applying for the first 95-mu's land use rights (with issuance of the land use rights certificate pending) and is now actively working with the local government to obtain the land use rights for another 200 mu of land.

22. *What caused IS'ASP to plunge to RMB 8,177 in 4Q19 from RMB 9,602 in 1Q19?*

    Company's response

    There are two reasons: the decline of raw material prices and intensifying market competition. For example, between 1Q and 4Q last year, the price of a main raw material for IS, sulphur, decreased from RMB1300/ton in 1Q2019 to RMB800/ton in 4Q2019; the price of another raw material, carbon disulfide, also dropped from RMB4000/ton to RMB2700/ton.

23. *Sunsine's 30,000-tonne IS capacity will double after phase I, and triple after phase II. Based a media report, global demand for IS will grow by a moderate 3.8% per year to between 2016 and 2021, implying an increase of around 10,000 tonnes between now and next year.Is Sunsine confident of grabbing market share from rivals? Will this be achieved by further price cut?*

    Company's response

    Our expansion is carried out in phases. The first phase of 30,000-ton IS capacity is scheduled to start operation next year, forming a total capacity of 60,000 tons. The second phase of expansion will depend on market conditions. The company is confident that it can achieve the equilibrium between production and sales.

(c) TMQ (30,000 tonnes)

24. *Is the TMQ coming on stream next year different from the existing one, quality wise?*

    Company's response

    The new TMQ project will introduce a continuous and new clean production process. This will help to improve quality and efficiency.

25. *Will adding 30,000 tonnes of TMQ to the existing 10,000 tonnes result in over supply since Tianjin Kemai, the world's biggest TMQ maker, already has a 50,000-tonne capacity.*

    Company's response

    Market demand is dynamic. We will decide how much capacity is required according to the market situation. We are confident of expanding our sales volume.

26. *Pg 5 of 2017 AGM minutes reveals plans to grow TMQ and 6PPD. What were the considerations for opting for TMQ only?*

Company's response

Given the current situation, we have only embarked on the TMQ project, and the 6PPD project is still in feasibility study phases, which will most likely be included in our next five-year plan (2021-2025).

(d) Other Projects

27. *Besides expanding production capacity, are there other plans in place to further improve the bottom line? Will it be practicable to expand beyond the tyre market to other rubber related products? (ie more diverse source of revenue besides automotive market / increase market share in other rubber related markets / increase market presence and revenue contribution from outside the PRC).*

Company's response

Our rubber chemical products are used in all rubber products, not only in tire manufacturing. Naturally, the tire industry consumes a larger portion Where there are opportunities, we would also want to sell more in the non-tire market segments. COVID-19 has adversely affected all industries. Weakened demand has caused the decrease in both prices and sales volume of our products. The Group has taken necessary measures to improve production process, strengthen cash flow management and control cost, and further improve production efficiency.

28. *Is Sunsine likely to have more capex in 2021 and 2022?*

Company's response

This year, the Group will invest approximately RMB400 - 500 million on the three projects. Currently we have not firmed up expansion plans for 2021 and 2022. The budget for capital expenditure in 2021 and 2022 has not been finalised but it is not expected to be higher than this year's capital expenditure.

F. Cash Level and Dividends

29. *The minutes of 2019 AGM states that "out of the total amount of approximately RMB 1,000 million cash, RMB 200 million is set aside as working capital, RMB 150 million will be used to pay for dividends, and RMB 200 million will be spent evenly on R&D and the replacement of existing equipment."As they are charged to P&L, why will cash level be reduced by R&D and equipment replacement? Will the Board share the cash level and promissory notes as at 31 March 2020, as well as how much of the RMB 480m capex budget of the three new projects had been paid and prepaid by the end of 1Q20?*

Company's response

As of 31 March 2020, the Group's cash and bank deposit was RMB1.35 billion, and the notes receivables were approximately RMB 200 million. As of end of March 2020, the Group has paid approximately RMB53 million for the projects under construction (excluding land cost). It is noted that the estimated RMB 200m (mentioned in the 2019 minutes) set aside for working capital exclude R&D spending, which is an operating cash outflow while replacement of existing equipment is an investing cash outflow, both of which utilise cash.

30. *We believe cash and promissory notes (RMB 1,280m and RMB 167m as at end-2019 respectively) will still be at healthy levels for future dividends to be way above the one cent declared for financial year 2019.*

Company's response

Yes. The Group will invest RMB 400 - 500 million in expansion projects this year. With the stringent environmental protection enforcement regulations and the current pandemic situation, enterprises worldwide are facing even greater challenges.The Board believes that it should exercise prudence and conserve our financial resources in the face of such uncertainties.

G. Guangshun

31. *Despite running way below full capacity in 2019, Guangshun turned in RMB 16m EBITDA and RMB 3m profit before tax. To what extent profitability will rise when more steam is produced for the three new projects?*

Company's response

After the new project is put into production, the steam demand for Guangshun will invariably increase. Therefore, the profitability of Guangshun should also increase.

32. *In recent weeks, the oil price has dropped significantly. What is the impact on CSS in terms of their energy sale from their generators, electricity consumption for the factories?*

Company's response

Guangshun uses coal to generate electricity and steam. Coal prices have dropped slightly, but not by much. Therefore, there is no significant impact on energy sales and electricity consumption.

H. Share Repurchase

33. *The last buyback on 6 April was at 30.5 cents (0.59 time 52c book value), whereas the Company's position, as reported by SGX's 10-in-10 article dated 21 April, is that share buyback will continue as the share price then hovered around 0.7 time book value.What are the reasons for halting share buyback?*

    Company's response

    The Company started the share buyback on 9 March 2020 and has been buying for nearly a month. When the stock price appears to have stabilised, the Company will wait and see. We will continue the sharebuyback programme at an appropriate time. The Share Buyback mandate will be renewed at the upcoming AGM.

I. Sunsine's leadership positions

34. *According to minutes of the EGM held in last Nov, Sunsine is:(i) the world's largest rubber chemical producer by revenue;(ii) the world's largest producer of rubber accelerators;(iii) China's largest and world's second largest producer of insoluble sulphur; and(iv) the world's third largest antioxidant producer. Will the relevant presentation slide, which only states leadership positions as world's top rubber accelerator producer and China's biggest insoluble sulphur, be updated?*

    Company's response

    China Sunsine is the largest rubber accelerator producer globally, and China's biggest insoluble sulphur producer. As for the statement that we are the world's third largest anti-oxidants producer, which was mentioned by our Executive Director at the EGM, that statement is based on estimates of our Company.

J. Businee Update

35. *Will management consider providing interim business updates for operations information, even though there is no requirement for quarterly reporting?*

    Company's response

    Although the Company is no longer required to do quarterly reporting, it will provide timely updates as and when required on material developments relating to its business, operations and financial situation, in compliance with SGX requirements.