ANNUAL REPORT 2019

尚舜化工
SUNSINE

CHINA SUNSINE CHEMICAL HOLDINGS LTD.

CONTENTS

COMPANY PROFILE

China Sunsine Chemical Holdings Ltd. ("China Sunsine") is a leading specialty chemical producer. It is the largest producer of rubber accelerators in the world and the largest producer of insoluble sulphur in the People's Republic of China ("PRC").

Our production facilities are located at Shanxian, Weifang and Dingtao in Shandong Province, the PRC. Our total production capacity is currently 172,000 tons per annum, comprising 97,000 tons of rubber accelerators, 30,000 tons of insoluble sulphur and 45,000 tons of anti-oxidant. We also have a centralised heating plant at Shanxian which generates steams and electricity.

Our products are sold under the "Sunsine" brand (accredited as "Shandong Province Famous Brand"). Our customers are mainly the tire companies which rely on the automobile industry. We have over 1,000 customers around the world and continue to serve more than 2/3 of the Global Top 75 tire makers, such as Bridgestone, Michelin, Goodyear, Pirelli, Sumitomo, Yokohama, Hankook, Cooper, Kumho Tires, as well as PRC tire giants such as Hangzhou Zhongce, GITI Tire, Shanghai Double Coin Tyre etc.

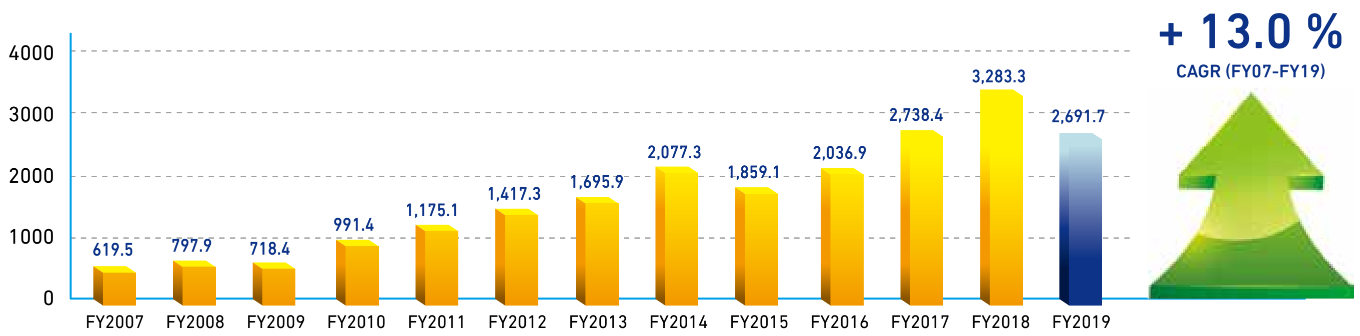
As a chemical producer serving its global customers, China Sunsine continuously improves its manufacturing and environmental protection capabilities. We have achieved GB/T19001-2016/ ISO9001:2015 standard for quality, GB/T24001-2016/ ISO14001:2015 standard for environment, and GB/T28001-2011 /OHSAS18001:2007 standard for occupational health and safety management system.

China Sunsine's wholly-owned subsidiary, Shandong Sunsine Chemical was listed in the first batch of Champion Manufacturing Enterprise by the Ministry of Industry and Information Technology of China in January 2017.

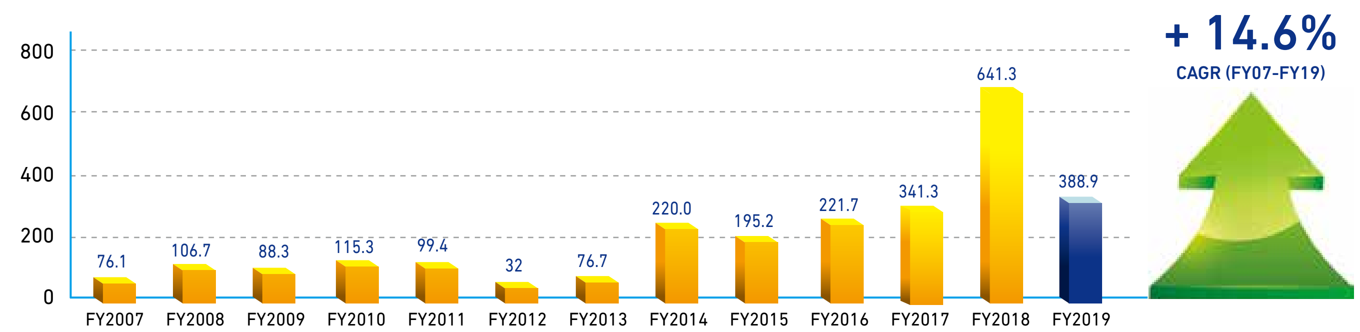
China Sunsine was listed on the Main Board of the Singapore Exchange Securities Trading Limited (SGX-ST) on 5 July 2007.

FINANCIAL HIGHLIGHTS

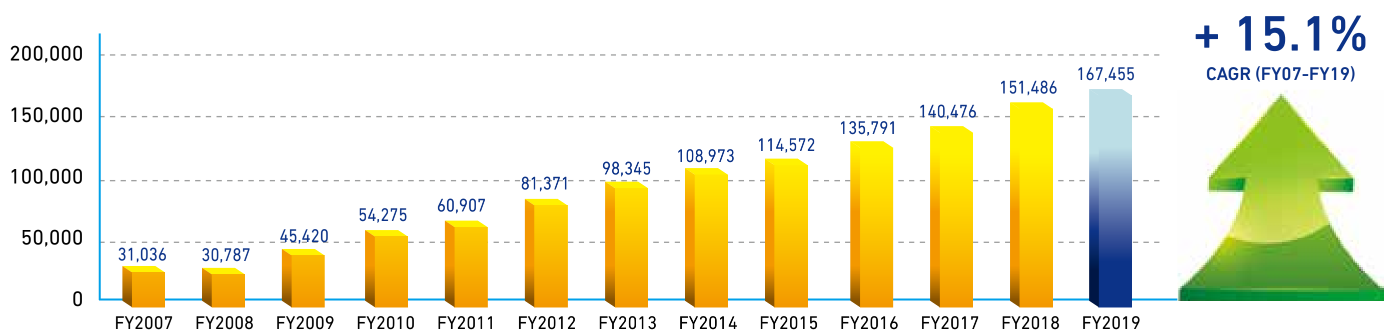
Revenue (RMB' million)



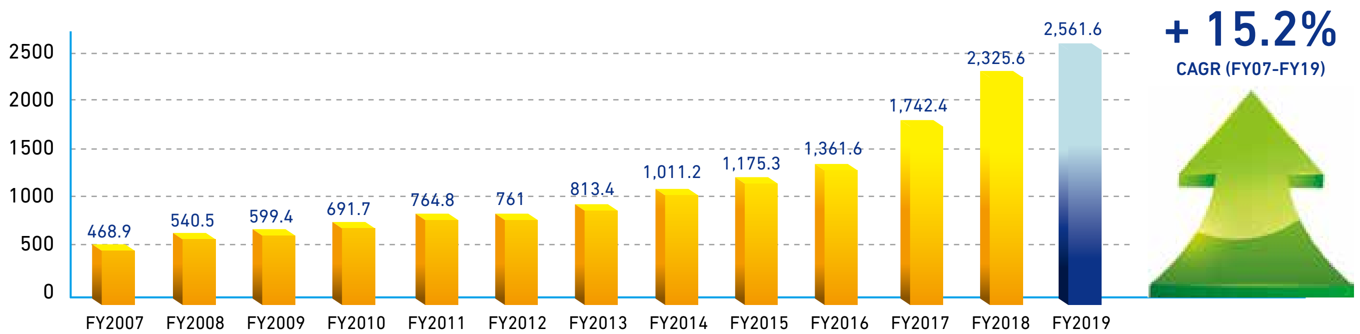
Net Profit (RMB' million)



Sales Volume (Tons)



Net Assets (RMB' million)



FINANCIAL HIGHLIGHTS

	2019	2018	2017	2016	2015 restated
As At 31 December (RMB' million)					
Total Assets	**2,918.2**	2,747.3	2,127.8	1,642.5	1,585.9
Total Liability	**356.6**	421.7	385.3	280.9	410.6
Shareholders' Equity	**2,561.6**	2,325.6	1,742.5	1,361.6	1,175.3
Cash and Cash Equivalent	**1,279.9**	1,038.6	499.6	275.9	341.3
Bank Borrowings	**-**	-	-	-	144.9
Treasury Shares	**21.7**	2.1	-	31.4	28.2
No of Shares ('million)					
No of Ordinary Shares	**975.7**	491.3	491.7	464.0	465.5
No of Treasury Shares	**7.7**	0.4	-	27.7	26.2
For the Year (RMB'million)					
Revenue	**2,691.7**	3,283.3	2,738.4	2,036.9	1,859.1
Gross Profit	**780.8**	1,125.9	788.1	540.4	492.0
Net Profit After Tax	**388.9**	641.3	341.4	221.7	195.2
Earnings before interest, tax, depreciation & amortisation (EBITDA)	**554.1**	803.9	565.1	407.4	390.6
Sales Volume (tons)					
Total Volume	**167,455**	151,486	140,476	135,791	114,572
Accelerator	**88,262**	83,255	83,335	82,767	76,090
Insoluble sulphur	**29,916**	25,759	22,283	20,031	15,417
Antioxidants	**47,283**	41,095	33,258	31,214	21,640
Others	**1,994**	1,377	1,600	1,779	1,425
Financial Analysis					
Gross Profit Margin (%)	**29.0%**	34.3%	28.8%	26.5%	26.5%
Net Profit Margin (%)	**14.4%**	19.5%	12.5%	10.9%	10.5%
EBITDA Margin (%)	**20.6%**	24.5%	20.6%	20.0%	21.0%
Current Ratio	**6.4**	4.8	3.7	3.7	2.4
Average YTD Trade Receivables Turnover(Days)	**55**	52	59	66	70
Average YTD Trade Payables Turnover (Days)	**12**	11	11	12	12
Average YTD Inventory Turnover (Days)	**44**	36	33	35	41
Return on Equity (%)	**15.2%**	27.6%	19.6%	16.3%	16.6%
Return on Asset (%)	**13.3%**	23.3%	16.0%	13.5%	12.3%
Gearing Ratio	**-**	-	-	-	0.12
Per Share Data					
NAV per Share (RMB cents)[1]	**262.6**	236.7	177.2	146.7	126.3
EPS (RMB cents)[1]	**39.72**	65.23	35.42	23.83	20.97
Dividend Per Share (SGD cents)	**1.0***	5.5	3.0	1.5	1.5

** equivalent to 2 Singapore cents before Share Split*

[1] NAV per share and EPS have been adjusted retrospectively due to Share Split

CHAIRMAN'S STATEMENT

Under such severe challenges in FY2019, the Group managed to outperform its peers. Guided by the strategy of "higher sales volume leads to higher production, which in turn stimulates even higher sales' and the combined efforts in marketing, R&D, as well as environmental production and workplace safety, the Group achieved satisfactory results amid the challenging economic conditions.

DEAR SHAREHOLDERS,

On behalf of the Board of Directors of China Sunsine Chemical Holdings Ltd. ("China Sunsine" or "the Company", together with its subsidiaries, collectively the "Group"), I am pleased to present the annual report for the financial year ended 31 December 2019 ("FY2019").

Product prices rose significantly between the second half of 2017 and the first half of 2018 on short supply as a result of implementation of stringent regulations on environmental protection and nationwide enforcement. With its superior environmental protection measures, the Group achieved exceptional performance in FY2018. However, the Group had emphasised at that time that growth would not continue as the market in 2019 was expected to fall from its peak in 2018.

In the past year of 2019, the Group faced more complex and severe challenges from the external economic environment, such as the rise of global trade protectionism, heightened trade war between China and the U.S., the slowing down of China's domestic economy, and the decline of auto sales. In the rubber chemicals industry, competition had intensified as some players had gradually resumed production after increasing their investment in technology and upgrading their facilities to meet the requirements for safe production. Coupled with the fact that raw material prices were hovering at low levels, the selling prices of our products were under pressure throughout 2019.

CHAIRMAN'S STATEMENT

Despite such severe challenges in FY2019, the Group managed to outperform its peers. Guided by the strategy of "higher sales volume leads to higher production, which in turn stimulates even higher sales' and the combined efforts in marketing, research and development, as well as environmentally friendly production and workplace safety, the Group achieved satisfactory results amid the challenging economic conditions.

THE YEAR UNDER REVIEW

The Group's revenue in FY2019 fell 18% from the year before to RMB 2,691.7 million. Sales volume rose 11% from the preceding year, marking the 12th consecutive year of growth since our initial public offering in 2007. Net profit dropped 39% to RMB 388.9 million from FY2018.

To increase the liquidity of our shares and broaden our shareholders' base, in November 2019, the Company undertook a share split of every one existing ordinary share ("Share") into two shares ("Share Split").

Based on the total number of shares after the Share Split, the Group's earnings per share for FY2019 was RMB 39.72 cents; net assets per share as at end-2019 was RMB 262.56 cents. The Group's financial position strengthened further with cash and bank deposits amounting to RMB 1,279.9 million, and no borrowings.

In 2019, the Group maintained its market leadership position as the world's largest rubber accelerator producer and China's largest insoluble sulphur producer. In November 2019, Shandong Sunsine Chemical Co., Ltd., a wholly-owned subsidiary of the Company, was once again named as "National Champion Manufacturing Enterprise" by the Ministry of Industry and Information Technology of China.

Mindful that technological innovation drives high-quality development, which in turn is necessitated by green production processes, the Group continued to intensify collaboration with research institutions to improve technologies and accelerate its transformation and upgrading.

At the same time, the Group invested more in environmental protection and workplace safety equipment, and further strengthened its standardised process management of equipment specification to ensure smooth production.

The Group added a 10,000-ton high-end accelerator TBBS production line (Phase I of the 30,000-ton fully automated TBBS project) in January 2019, and a 10,000-ton insoluble sulphur line at the end of 2018.

These two lines brought the Group's total capacity to 172,000 tons, enabling sales volume to hit 167,455 tons in 2019, achieving a production and sales equilibrium and close to full utilization rate.

In May 2019, the Group established a wholly-owned subsidiary - Shandong Hengshun New Materials Co., Ltd, to acquire an approximately 680-mu land in Shanxian to develop a comprehensive chemical zone ("New Chemical Zone"), laying the foundation for the Group to grow even stronger.

CAPACITY EXPANSION PLAN

Leveraging its reputation as a reliable and stable supplier of high-quality rubber chemical products, the Group has decided to develop the following three projects in 2020, to meet customers' demands and increase our market share:

- Phase II 20,000-ton high-end rubber accelerator TBBS project -- installation and trial production to be completed by June 2020, and commercial production in the second half of 2020;
- Phase I 30,000-ton Insoluble Sulphur project located in the New Chemical Zone -- expected to be completed by the end of 2020; and
- 30,000-ton Anti-oxidant TMQ project located in Shanxian -- expected to be completed by the end of 2020.

OUTLOOK AND PROSPECTS

New car sales in China began to decline in 2018 after 28 consecutive years of growth. In 2019, it dropped another 8% from the previous year to 25.80 million units. The main reason for the slowing down is that after years of rapid growth, the market is now mature and is heading for lower growth.

According to a IMARC[1] report, global tire market reached a volume of 3.2 billion units, a Compound Annual Growth Rate (CAGR) of around 4% between 2014 and 2019. Compared to new car sales, the tire industry is more stable as less than 30% tires are used in new cars, and the remaining 70% for the replacement market.

Due to the evolving situation of the COVID-19, starting from early 2020, many tire and rubber chemicals manufacturers (including us) in China had delayed the resumption of work after the Chinese New Year holiday. Some manufacturers are starting production gradually. However, with the spread of the pandemic outside China, many foreign tire companies have

[1] Source: "Tire Market: Global Industry Trends, Shares, Size, Growth, Opportunity and Forecast 2020-2025" on www.imarcgroup.com

begun to suspend production. Although the Group's capacity utilization rate is currently still at a high level, we expect that this wave of suspension will affect our subsequent production plan.

Amid the crisis, one must identify opportunities to wait in the wings. Although China and the rest of the world are being severely impacted by the outbreak, we believe the pandemic will end eventually and the economy will recover and grow. With the economy on the ebb, expanding our capacity and taking advantage of our strong financial and market position will enable the Group to grab market share for our products when the market recovers gradually, thus setting the foundation for long-term growth of the Group.

PROPOSED DIVIDEND

In consideration of the current uncertain economic condition and the anticipated capital expenditure for our expansion plans, the Board of Directors is recommending a final one tier tax-exempt dividend of 1 Singapore cent per share (equivalent to 2 Singapore cents before the Share Split) for FY2019. This proposal will be discussed and approved at the upcoming Annual General Meeting.

ACKNOWLEDGEMENTS

On behalf of the Board of Directors, I would like to thank our shareholders for their continued support and confidence in the Group over the years. I would also like to express my sincere appreciation to our customers, business associates, suppliers and the community for their long-standing and unwavering support. Last but not least, I thank my fellow board members, management teams and all staff for your professional counsel and tireless efforts in the past year.

Planning for rainy days and moving prudently are the principles that we have adhered to for decades. The steady growth and outstanding achievements of the past two decades have laid a sound foundation for our financial health. It will help us overcome the current difficulties and usher in the next round of recovery and prosperity. We are confident that, with the trust and support of our stakeholders, our Group will achieve long-term sustainable growth and enhance shareholders' value.

XU CHENGQIU

Executive Chairman

March 2020

主席致辞

在这严峻的挑战下，集团在2019财年的表现仍是同行里的佼佼者。在集团“以销促产，以产促销”的产销平衡策略的指导下，加上全体员工在销售、研发、环保及安全生产等各方面的共同努力，使得集团在艰难的竞争环境下取得了较为满意的成绩。

尊敬的股东们：

我代表中国尚舜化工控股有限公司（“中国尚舜”，连同其子公司合称“集团”）董事会，很高兴向大家呈上集团截至2019年12月31日的财政年度（“2019财年”）的年度报告。

2017年下半年至2018年上半年，由于中国实施了更为严格的环保措施，同时在全国范围内进行环保大检查，造成市场供应短缺，销售价格大幅增长。集团得益于其在环保方面的优势，在2018财年取得了非凡的业绩；同时集团也强调，2018财年的涨势不会持久，2019年的市场将会从高点回落。

在过去的2019年，集团面临更为复杂严峻的外部经济环境的挑战：全球贸易保护主义抬头。中美贸易战加剧、中国国内经济下行。汽车销量下滑等；而行业内，由于一些生产厂商通过投资技术和提升设备，满足了安全生产的要求，逐渐开始恢复生产，导致产品竞争激烈；再加上原材料价格一直处于低位，导致销售价格一直面临压力。整个2019年，销售价格一直处于下跌的趋势。

在这严峻的挑战下，集团在2019财年的表现仍是同行里的佼佼者。在集团“以销促产，以产促销”的产销平衡策略的指导下，加上全体员工在销售、研发、环保及安全生产等各方面的共同努力，使得集团在艰难的竞争环境下取得了较为满意的成绩。

年度业绩回顾

集团2019财年的营业收入同比减少了18%，至26.917亿元人民币。销量与去年同比增加了11%，实现了自2007年上市以来连续十二年的增长。集团2019财年净利润同比下跌39%，为人民币3.889亿元。

2019年11月，为了增加公司股票的流动性和扩大股东数量，公司进行了股票分折，将一股拆成二股（"股票分折"）。

基于分折后的股票数，集团2019财年的每股净利为人民币39.72分；截至2019年12月31日每股净资产为人民币262.56分。集团的财务状况进一步稳健，净现金及银行存款达人民币12.799亿元，无任何贷款。

集团2019年继续保持了全球最大的促进剂生产商和中国最大的不溶性硫磺生产商的行业领先地位。集团的全资子公司——山东尚舜化工有限公司于2019年11月再度被中国工业信息化部评为"制造业单项冠军示范企业"。

秉持着“技术创新是高质量发展的支撑。绿色生产是高质量发展的必然要求。”这一理念，集团继续加强与研究机构的合作，提高技术工艺，加快转型升级。

同时，集团也进一步提升了环保安全的设施投入和加强规范管理，保障了生产的正常运行。

集团从2019年1月起增加了1万吨的促进剂TBBS生产线（年产30000吨产能的第一期）；从2018年底开始增加了1万吨的不溶性硫磺生产线。这两个项目使得集团2019年的总产能达172,000吨。新增的产能促进了更高的销量，集团在2019年的销量达167,455吨，实现了产销平衡，产能的利用率近满负荷。

2019年5月，集团成立了下属全资子公司——山东恒舜新材料有限公司。该公司的成立主要用于在单县购买一块近680亩的地块，发展新的综合化工产业园，为集团今后做大做强奠定坚实的基础。

产能扩张计划

集团由于其优质的产品和稳定的供货而在助剂行业赢得了良好声誉。为了满足客户需求和进一步扩大市场份额，集团决定在2020年扩展以下三个发展项目：

- 第二期的年产二万吨的促进剂TBBS项目预计于2020年6月完成生产线的安装调试，下半年开始生产；
- 在新产业园新建第一期三万吨的不溶性硫磺项目，预计于2020年底建成，2021年投产；以及
- 在单县的三万吨的防老剂TMQ项目也预计于2020年底建成，2021年投产。

今后展望

中国的新车销量在连续28年的增长之后从2018年开始下跌。2019年比前一年又再下降8%，为2580万辆。车市放缓的主要原因是中国的汽车市场已逐渐进入成熟期，行业已经高速增长时代逐步转向低增速时代。

根据IMARC的研究报告，全球2019年轮胎数量为32亿条，从2014年至2019年的复合年平均增长率（CAGR）为4%；相较于新车的销售量，轮胎的波动性较为稳定，因为大约只有30%的轮胎用于新车，而剩下70%的轮胎销售来自于替代轮胎市场。

由于2020年年初新冠疫情的爆发，中国的很多轮胎企业都延迟复工，目前较具规模优势企业已经陆续恢复生产；然而，随着新冠疫情在全球蔓延，很多国外的轮胎企业又开始陆续停工停产，虽然目前集团的产能利用率仍然保持较高的水平，但是我们预计这一波停产潮将会影响到我们后续的生产计划。

机遇与挑战并存，在危机中寻找机会，蓄势待发。虽然目前中国和全球经济受到疫情的严重影响，但是我们相信，疫情终会过去，经济也会逐渐恢复。在低谷的时候，公司凭借着强大的资本优势和市场优势，开始扩建新的产能；当市场逐渐恢复正常，我们就能够乘势而发，扩大的产能将能够更好地满足市场对我们产品的需求，从而达到长期的发展目标，为集团的长远发展打下坚实的基础。

股息建议

考虑到目前的经济环境的不确定性和接下来扩产计划的资本支出，董事会建议在2019财年派发每股1新分的免税终期股息（相当于分拆前的每股2新分）。此建议将在来临的股东大会上讨论通过。

衷心感谢

在此，我代表公司董事会，感谢股东们长期以来对集团的坚守和信任；感谢我们的客户、商业伙伴、供应商和社会各界对集团的长期支持；同时，我也要感谢董事会同仁、管理团队和员工们的不懈努力和和提供专业的指导意见。

未雨绸缪，谨慎前行，是我们在这个行业几十年所恪守的发展准则。过去二十多年所取得的稳定发展和辉煌的成就，为我们的财务健康打下了良好的基础，也将协助我们克服目前的困难，迎接下一轮的复苏和繁荣。我们有信心，在股东们的信任和支持下，企业将会实现长远的稳定的发展，股东的价值会进一步的提高。

徐承秋
执行主席
2020年3月

OPERATIONS & FINANCIAL REVIEW

OUR FINANCIAL PERFORMANCE IN FY2019

A combination of factors, such as the slowing economic growth in China, declining auto sales, low raw material prices, as well as intensifying competition, had put intense pressure on the Group's overall average selling price ("ASP"). However, the Group has outperformed the competition and continued to increase its sales volume in FY2019.

The Group's revenue in FY2019 decreased by 18% to RMB 2,691.7 million from RMB 3,283.3 million in FY2018, mainly due to the decrease in ASP. Due to the decrease in the price of raw materials, as well as the stronger competition, ASP for rubber chemicals decreased by 26% to RMB 15,970 per ton in FY2019 as compared to RMB 21,535 per ton in FY2018; however, sales volume of rubber chemicals for FY2019 achieved a new record high of 167,455 tons, as compared to 151,486 tons in FY2018 mainly due to (i) increase in our production to meet demand, and (ii) the Group's flexible pricing strategy as the Group concentrates more on increasing its sales volume.

ANALYSIS OF SALES AND VOLUME

	Sales Volume (Tons)			Sales (RMB' million)		
	FY2019	FY2018	Change	FY2019	FY2018	Change
Rubber Chemicals						
Accelerators	88,262	83,255	6%	1,751.7	2,283.2	(23%)
Insoluble Sulphur	29,916	25,759	16%	267.6	292.7	(9%)
Anti-oxidant	47,283	41,095	15%	622.4	655.1	(5%)
Others	1,994	1,377	45%	32.6	31.2	4%
Total	**167,455**	**151,486**	**11%**	**2,674.3**	**3,262.2**	**(18%)**
Domestic Sales	110,732	101,708	9%	1,630.1	2,009.4	(19%)
International Sales	56,723	49,778	14%	1,044.2	1,252.8	(17%)
Heating Power	88,309	111,249	(21%)	16.7	20.1	(17%)
Hotel & Restaurant	-	-	n.m.	0.7	1.0	(30%)

n.m. – not meaningful

The Group's Sales volume for Accelerator, Insoluble Sulphur ("IS") and Anti-oxidant products increased by 6%, 16% and 15% respectively, mainly due to the reasons mentioned above.

Gross profit decreased by 31% from RMB 1,125.9 million in FY2018 to RMB 780.8 million in FY2019, while the Average Gross Profit Margin ("GPM") also decreased by 5.3 percentage points from 34.3% to 29.0%, mainly due to the lower ASP.

Other income increased by RMB 3.1 million from a total of RMB 21.2 million in FY2018 to a total of RMB 24.3 million in FY2019 mainly due to higher interest income on bank deposits.

Other gains amounted to RMB 21.4 million, consisting of foreign exchange gains.

Selling and distribution expenses decreased by 3% or RMB 2.8 million from RMB 99.5 million in FY2018 to RMB 96.7 million in FY2019 mainly due to decrease in incentives payable to sales personnel as a result of lower sales revenue, offset by higher freight costs as sales volume increased.

Administrative expenses decreased by 27% or RMB 67.3 million from RMB 253.2 million in FY2018 to RMB 185.9 million in FY2019, mainly due to the lower bonus recognised.

Research and development ("R&D") expenses decreased by 11% or RMB 11.5 million from RMB 102.3 million in FY2018 to RMB 90.8 million in FY2019, mainly due to fewer R&D projects being carried out in FY2019 as compared to FY2018.

Profit before tax ("PBT") decreased by 36% or RMB 259.0 million from RMB 711.6 million in FY2018 to RMB 452.6 million in FY2019, mainly due to the decrease in gross profit.

Income tax expenses decreased by 9% from RMB 70.3 million in FY2018 to RMB 63.7 million in FY2019, mainly due to decrease in profit before tax and the reversal of prior years' over-provision of income taxes.

Net profit attributable to shareholders decreased by 39% or RMB 252.4 million from RMB 641.3 million in FY2018 to RMB 388.9 million in FY2019, mainly due to the decrease in PBT.

FINANCIAL POSITION REVIEW

Property, plant and equipment ("PPE") decreased by RMB 41.1 million from RMB 690.8 million in FY2018 to RMB 649.7 million in FY2018, mainly due to depreciation charged, offset by additions to PPE.

Trade receivables decreased by RMB 165.4 million from RMB 690.6 million in FY2018 to RMB 525.2 million in FY2018. Trade receivables included notes receivables provided by trade debtors. These notes receivables are promissory notes issued by local banks with low risks of non-recoverability. As at 31 December 2019 and 31 December 2018, the notes receivables were RMB 167.1 million and RMB 238.5 million, respectively. Excluding the notes receivables, the trade receivables attributable to trade debtors would have decreased by RMB 93.9 million from RMB 452.0 million in FY2018 to RMB 358.1 million in FY2019, mainly due to lower sales.

Other receivables, advances to suppliers, deposits and prepayments increased by RMB 97.5 million from RMB 69.9 million in FY2018 to RMB 167.4 million in FY2019, mainly due to increased advance payment made to contractors.

Other payables decreased by RMB 18.8 million from RMB 277.9 million in FY2018 to RMB 259.1 million in FY2019 mainly due to decrease in staff incentive accrued as a result of poorer performance.

OPERATIONS & FINANCIAL REVIEW

CASH FLOW REVIEW

	FY2019 RMB' million	FY2018 RMB' million	Change RMB' million
Cash generated from operating activities	**448.0**	707.0	(259.0)
Cash used in investing activities	**(59.2)**	(124.2)	65.0
Cash used in financing activities	**(154.1)**	(59.6)	(94.5)
Net increase in cash and cash equivalents	**234.7**	523.2	(288.5)
Cash and bank balances at end of year per consolidated statement of cash flows	**1,278.6**	1,034.9	243.7

Net cash generated from operating activities decreased by RMB 259.0 million from RMB 707.0 million in FY2018 to RMB 448.0 million in FY2019 mainly due to lower operating profit generated during the year.

Net cash used in investing activities decreased by RMB 65.0 million from RMB 124.2 million in FY2018 to RMB 59.2 million in FY2019 mainly due to the decrease in additions to property, plant and equipment, partially offset by higher interest income received.

Net cash used in financing activities increased by RMB 94.5 million from RMB 59.6 million in FY2018 to RMB 154.1 million in FY2019 mainly due to more dividends paid to its shareholders, as well as more treasury shares purchased.

EXPANSION PROJECT

1. Phase 1 30,000-ton per annum IS project

The Group intends to utilise approximately 300 mu of a piece of land acquired at Shanxian Chemical Zone to build and construct a 60,000-ton per annum IS plant thereon, to be carried out in 2 phases. The construction of Phase 1 30,000-ton IS plant has started and is targeted to be completed by the end of 2020. Commercial production will commence in 2021. The budget for this Phase 1 project is approximately RMB 270 million.

2. Phase 2 20,000-ton per annum TBBS project

As planned, the Phase 2, 20,000-ton TBBS production line will be added to our existing TBBS line, which will bring our new fully-automated TBBS production capacity to 30,000-ton per annum in total. The installation of the Phase 2 production line has already started, and is targeted to be completed by June 2020. As the relevant government approvals have already been obtained, the management expects the commercial production of this 20,000-ton TBBS to commence shortly after successful trial-run. The budget for this Phase 2, 20,000-ton TBBS is approximately RMB 60 million.

3. 30,000-ton per annum TMQ project

The Group also intends to further expand its TMQ capacity by constructing another 30,000-ton per annum TMQ plant to be located in Shanxian, with a budget of approximately RMB 150 million. This project is also expected to be completed by the end of 2020, and the commercial production will begin in 2021. After the completion of the TMQ project, our total capacity for TMQ will reach 40,000 tons per annum, which will bring our total capacity for anti-oxidant products to 75,000 tons per annum.

These three expansion projects are in line with the Group's long term objectives, which is to continue to focus on the production of rubber accelerator products and enhance our market position as a global leader in this field, as well as to increase our market share of IS and anti-oxidant products. We will maximise the scale and efficiency of our production to maintain our current market advantage in an environmentally-friendly way.

Below is a summary of our Annual Capacity[1] at the end of each financial year:

Tons	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020e
Accelerators	87,000	87,000	87,000	87,000	87,000	97,000	117,000
Insoluble Sulphur	20,000	20,000	20,000	20,000	30,000	30,000	30,000
Anti-oxidant	45,000	45,000	45,000	45,000	45,000	45,000	45,000
Total	152,000	152,000	152,000	152,000	162,000	172,000	192,000

[1] Annual Capacity excludes capacity of intermediary materials such as 4ADPA and MBT.

BOARD OF DIRECTORS

XU CHENG QIU

Executive Chairman

XU CHENG QIU is the Executive Chairman of our Group, responsible for the overall management, formulation and implementation of our business strategies. He has more than 30 years of experience in the rubber chemical industry. He joined our Group in 1977, when the predecessor of our subsidiary, Shanxian Chemical, was first established. In December 1998, Mr Xu, together with other employees, executed an MBO and he became the Executive Chairman and General Manager of Shanxian Chemical. He was also honoured with numerous awards, amongst them "Outstanding Entrepreneur" award, from the Heze City Economic and Trade Committee and "Excellent Leader in Technological Innovation" by China Rubber Industry Association (CRIA). Mr Xu is part of a group of Chairpersons spearheading the various committees of CRIA. He obtained his degree in Rubber Chemical Engineering from Shandong Chemical College in 1966 and became a qualified senior engineer in 1989.

LIU JING FU

Executive Director

Group Chief Executive Officer

LIU JING FU is our Executive Director and was appointed as the Group Chief Executive Officer in November 2013 to oversee the whole Group's operations and be responsible for the overall strategic planning of the Group. Prior to this appointment, Mr Liu was the General Manager of the Group's key subsidiary, Shandong Sunsine Chemical Co., Ltd. Prior to joining our Group in 2006, he was the deputy chairman of Heze Petroleum Chemical Association and the Deputy Chairman of Heze Electrical, Mechanical and Petrochemical Association. He was honoured the "Shandong Province 8th 5-Year Plan Technological Advancement Outstanding Worker" Award in 1995. Mr Liu obtained his degree in Chemical Engineering from Shandong Chemical College in 1980, and became a qualified senior engineer in 1993.

XU JUN

Executive Director

XU JUN is our Executive Director and was appointed in November 2013 as the Vice-Chairman of Shandong Sunsine to assist our Chairman, Mr Xu Cheng Qiu, in the strategic planning, direction and overall management of the subsidiary. He joined the Group in 1998 as the head of the management department. In 2003, he was promoted to Assistant to General Manager and subsequently became our Deputy General Manager in 2006. Mr Xu obtained his diploma in Business Administration from Jining University of Technology in 1992 and the ISO9000 Internal Auditor Qualification in 2002.

XU XIAN LEI

Executive Director

XU XIAN LEI was appointed as Executive Director on 18 April 2018. He is in charge of overall management and operations of our China subsidiaries. Prior to that, he was Group's First Deputy General Manager, assisting the General Manager in the day-to-day operations. Mr Xu has more than 14 year's experiences in production, finance and management. Mr Xu graduated from Renmin University of China, majored in Business Administration.

BOARD OF DIRECTORS

LIM HENG CHONG BENNY

Lead Independent Director

LIM HENG CHONG BENNY is our Lead Independent Director. Mr Lim has been in legal practice for more than 20 years, and is presently a partner at Chris Chong & C T Ho LLP, where he focuses his practice on fund management and investment advisory matters, financial services regulatory compliance, and the structuring and establishment of Singapore and offshore funds. His other main areas of practice include corporate finance, mergers and acquisitions, cross-border joint ventures and investments, and regulatory compliance for listed companies and registered charities. Mr Lim holds a Bachelor of Laws and a Master of Laws, both from the National University of Singapore.

XU CHUN HUA

Independent Director

XU CHUN HUA is our Independent Director. She has more than 40 years of experience in the rubber and rubber chemical industry. Ms Xu was the Principal of Qingdao Rubber Tyre Engineering University. Previously, she was a lecturer in Nanjing Chemical University and she used to work for Beijing Rubber Chemical Research Centre. She is currently serving as Vice President of the China Rubber Industry Association. She has also written various articles for journals and magazines such as Rubber Industry, Synthetic Rubber Industry, as well as compiled handbooks such as the Synthetic Rubber Handbook and Rubber Chemical Practical Handbook. She obtained her degree in High Polymer Chemistry from Fudan University in 1965.

KOH CHOON KONG

Independent Director

KOH CHOON KONG was appointed as our Non-Executive Director in November 2009, and re-designated as Independent Director in December 2012. He has more than 20 years of audit, accounting, corporate finance and business experience, and currently is part of the management team of the largest independent power producer (IPP) in Bangladesh, Summit Power International Limited. Mr Koh served as Group CFO of several SGX-listed corporations and worked in diverse organisations including Citicorp Investment Bank (Singapore) Limited, EtonHouse International, ICH Capital and Price Waterhouse. He graduated from the Nanyang Technological University with a Bachelor of Accountancy and later obtained his Master of Business Administration degree from the University of Manchester. He is a member of the Singapore Institute of Director, a Chartered Accountant of Singapore, as well as a CFA charter holder.

TAN LYE HENG PAUL

Independent Director

TAN LYE HENG PAUL is our Independent Director. He was re-appointed on 12 June 2017. He is the managing director of CA TRUST PAC, a firm of Chartered Accountants. He has over 20 years of auditing experience including two years as an internal auditor of a large Singapore public listed company. He is active in academia, giving lectures in finance related topics since 1991. He is also an Independent Director of two other Singapore public listed companies. He holds a Master's degree in Business Administration from University of Birmingham, UK. He is a fellow of the Association of Chartered Certified Accountants (ACCA) and the Institute of Singapore Chartered Accountants (ISCA) and a full member of Singapore Institute of Directors (SID). He is also an Accredited Tax Advisor of the Singapore Institute of Accredited Tax Professionals (SIATP).

YAN TANG FENG

Independent Director

YAN TANG FENG is our Independent Director. He was appointed on 26 September 2019. Mr Yan has more than 15 years of experience in corporate finance and investment management. He is currently the President of Sinolion Holdings Pte. Ltd., responsible for the overall management of investment management and business operations. He was the Vice President of ICH Capital Group and was later promoted to Senior Vice President, responsible for investment management. Mr. Yan was the Non-Executive Chairman of Shengli Oil & Gas Pipe Holdings Ltd and Non-Executive Director of Starrise Media Holdings Ltd, both companies are listed in the main board of Hong Kong Stock Exchange. Mr Yan graduated from Shandong University in July 1994 with a bachelor's degree in engineering.

KEY EXECUTIVES

TONG YIPING

Chief Financial Officer

TONG YIPING was appointed as Chief Financial Officer since March 2016. He joined the Group as Group's Financial Controller in October 2013, and is responsible for the overall financial operations of the Group as well as corporate secretarial matters and investors relations. He has more than 15 years of experience as an accounting professional. Prior to joining the Company, Mr Tong was the Finance Manager of China Yuchai International Ltd, a company listed in New York Stock Exchange. Mr Tong is a fellow with the Association of Chartered Certified Accountants, and a member of Institute of Singapore Chartered Accountants. He obtained an honours bachelor degree in Accountancy from Oxford Brookes University, UK.

MA YUE BIN

Deputy General Manager

MA YUE BIN was appointed as Group's Deputy General Manager to oversee the whole Group's production in March 2016. He also oversees the operation of the Group's subsidiary, Shengtao Chemical. He joined the Group in 1986 and has over 25 years of experience in production, operation and management. From September 1995 to June 1998, he took the correspondence course of Shandong Economic Management Institute.

WANG BAOLI

General Manager Assistant

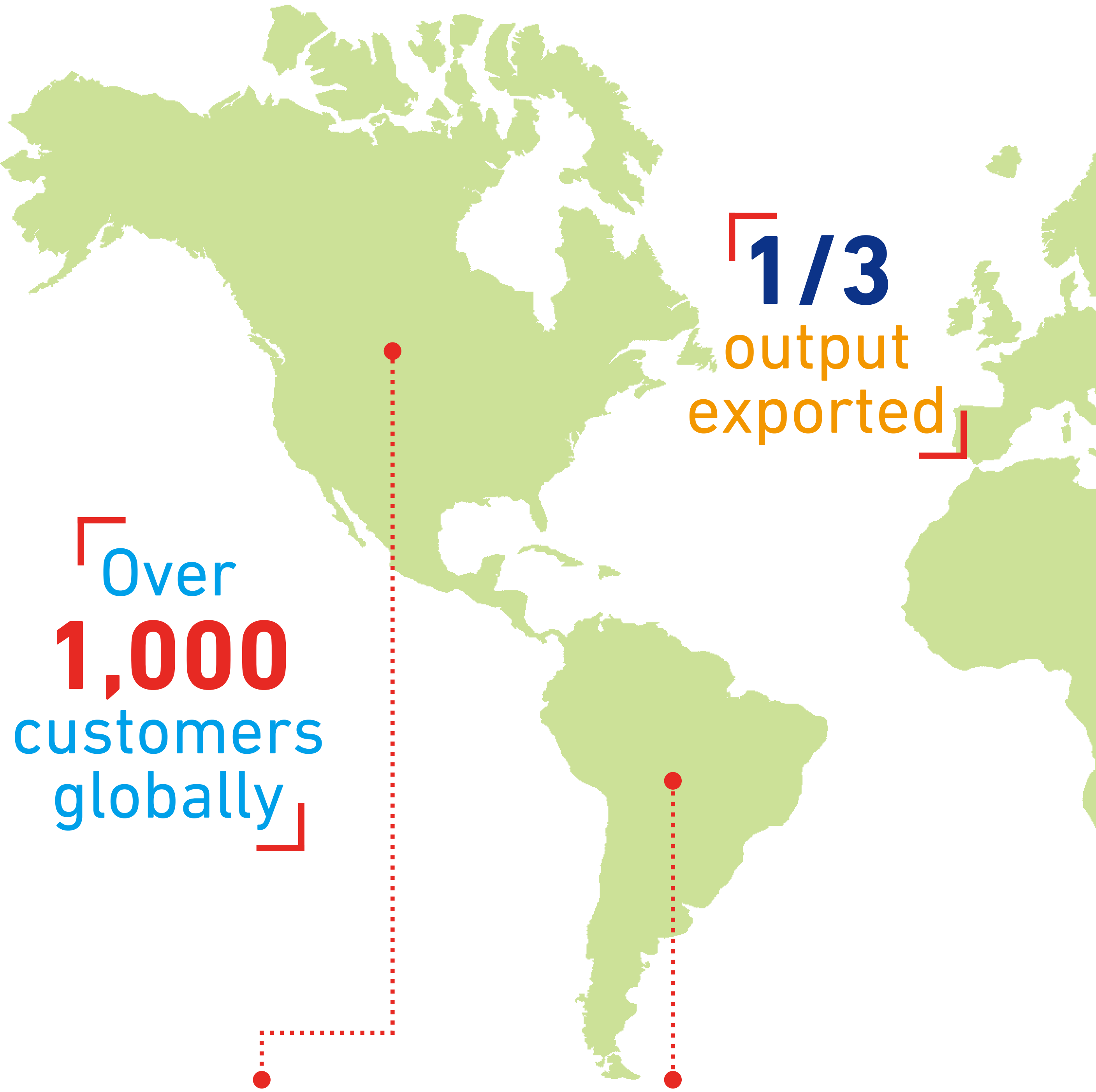
WANG BAOLI was appointed as General Manager Assistant in charge of the Group's Sales and Marketing in January 2018. Prior to that, Mr Wang was the Finance Manager of the Group's subsidiary, Shandong Sunsine Chemical Co., Ltd., in charge of the finance matters as well as the control of the product selling prices and terms. He has more than 25 years' finance, sales control and management experiences since he joined the Group in 1992. Mr Wang graduated from Shandong University of Finance and Economics with a Bachelor degree in Accounting.

LIU DE MING

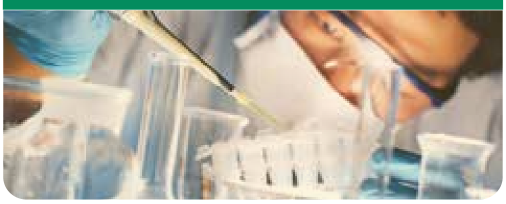
Deputy General Manager

LIU DE MING was appointed as Group's Deputy General Manager in March 2016. Mr Liu was also concurrently appointed as the General Manager of the Group's subsidiary, Weifang Sunsine, to oversee the whole operation of Weifang Sunsine. Prior to that, he was as the Deputy General Manager of Weifang Sunsine. Mr Liu joined the Group in 1995 since his graduation from Beijing Chemical University. Mr Liu has more than 30 years of working experiences in production, technology and management.

GLOBAL MARKETS



NORTH AMERICA



SOUTH AMERICA

Serving more than 2/3 of the Global Top 75 tire makers

EUROPE

Italy | Germany
France | Netherlands
Spain | Poland
Hungary | Russia | Slovak

ASIA-PACIFIC

India | Korea | Japan
Malaysia | Thailand
Indonesia | Vietnam
Australia | New Zealand

SUPERIOR PRODUCTS WE OFFER

NATURAL / SYNTHETIC RUBBER
Sticky | Soft | Brittle | Deteriorates quickly

RUBBER ACCELERATORS

VULCANISATION CURING PROCESS

INSOLUBLE SULPHUR

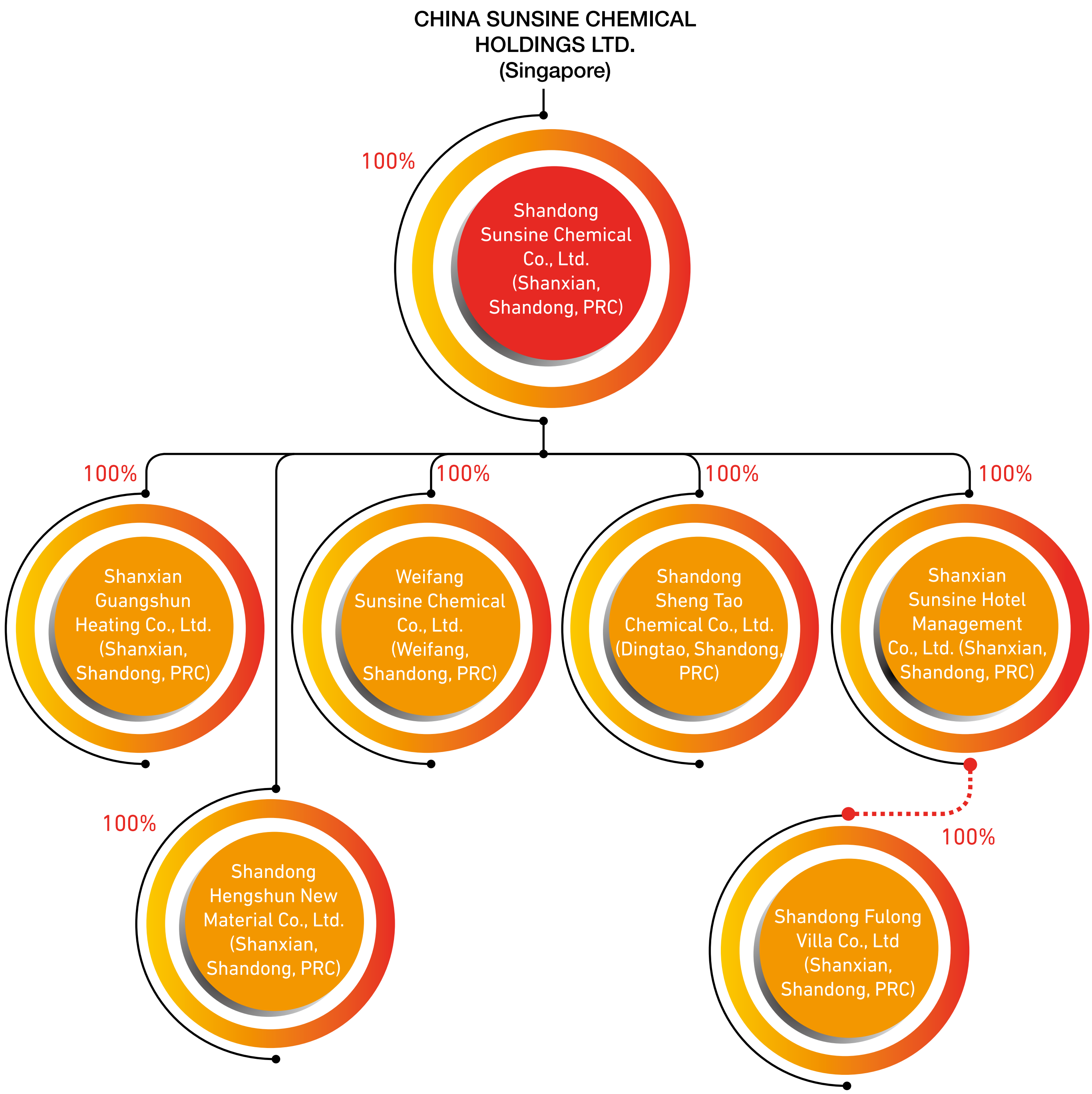
ANTI-OXIDANT

OTHER VULCANISING AGENTS

CURED RUBBER
Harder | More durable | Resistant to chemicals | Smoother surface material

RUBBER PRODUCTS

GROUP STRUCTURE



CORPORATE INFORMATION

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

Singapore Office
112 Robinson Road
#11-01 Singapore 068902
Tel: +65 6220 9070
Fax: +65 6223 9177
E-mail: info@ChinaSunsine.com
Website: www.ChinaSunsine.com

China Main Offices
Shandong Sunsine Chemical Co., Ltd.
Shandong Shanxian Economic Development Zone
Shandong Province
Post Code: 274300
The People's Republic of China

Weifang Sunsine Chemical Co., Ltd.
Lingang Chemical Zone South Area
Weifang Binhai Economic Development Zone
Shandong Province
Post Code: 262737
The People's Republic of China

BOARD OF DIRECTORS

Xu Cheng Qiu Executive Chairman
Liu Jing Fu Executive Director and CEO
Xu Jun Executive Director
Xu Xian Lei Executive Director
Lim Heng Chong Benny Lead Independent Director
Xu Chun Hua Independent Director
Koh Choon Kong Independent Director
Tan Lye Heng Paul Independent Director
Yan Tang Feng Independent Director

AUDIT COMMITTEE

Koh Choon Kong Chairman
Tan Lye Heng Paul
Yan Tang Feng

NOMINATING COMMITTEE

Lim Heng Chong Benny Chairman
Xu Cheng Qiu
Xu Chun Hua

REMUNERATION COMMITTEE

Xu Chun Hua Chairman
Koh Choon Kong
Yan Tang Feng

JOINT COMPANY SECRETARIES

Dai Lingna
Tong Yiping FCCA CA (Singapore)

BANKERS

China Construction Bank Corporation Heze/Shanxian/Weifang Branch
Agricultural Bank of China Shanxian/Weifang Branch
Bank of China Heze Branch
Industrial and Commercial Bank of China Shanxian Branch
Postal Savings Bank of China Shanxian Branch
DBS Bank Ltd

SHARE REGISTRAR

Tricor Barbinder Share Registration Services
(A division of Tricor Singapore Pte Ltd)
80 Robinson Road, #02-00
Singapore 068898

INDEPENDENT AUDITORS

Nexia TS Public Accounting Corporation
Public Accountants and Chartered Accountants
80 Robinson Road, #25-00
Singapore 068898
Tel: +65 6534 5700
Fax: +65 6534 5766

Director-in-charge:
Titus Kuan Tjian
(Appointed since financial year ended 31 December 2019)

China Sunsine Chemical Holdings Ltd. (the "**Company**") is committed to maintaining a high standard of corporate governance within the Company and its subsidiaries (collectively, the "**Group**") to ensure greater transparency and protection of shareholders' interests. The board of directors of the Company (the "**Board**") is pleased to confirm that the Company has complied with the principles and provisions of the Code of Corporate Governance 2018 (the "**Code**") and the accompanying Practice Guidance to the Code, where they are applicable and practical to the Group. Where there is any deviation, appropriate explanation has been provided within this report.

This report sets out the Company's corporate governance processes, practices and structures that were in place throughout the financial year ended 31 December 2019 ("**FY2019**"), with specific reference to the principles and provisions of the Code. The Board and the management of the Company (the "**Management**") will continue to uphold the highest standards of corporate governance within the Company in accordance with the Code.

(A) BOARD MATTERS

The Board's Conduct of Affairs

Principle 1: The company is headed by an effective Board which is collectively responsible and works with Management for the long-term success of the company.

Role of the Board

The Board assumes responsibility for stewardship of the Group, and puts in place a code of conduct and ethics, sets appropriate tone-from-the-top and desired organisational culture, and ensures proper accountability within the Company.

The Board's primary role is to protect and enhance long-term value and returns for shareholders. It provides entrepreneurial leadership, oversees the business and affairs of the Group, and approves the Group's financial and strategic plans, key business initiatives, major investments and divestments proposals, and funding decisions.

Additionally, the Board has direct responsibility for decision-making in respect of the following corporate events and actions:

(a) ensure that necessary financial and human resources are in place for the Group to meet its objectives;

(b) oversee the processes of risk management, financial reporting and compliance, and evaluate the adequacy of internal controls;

(c) establish, together with Management, the strategies and financial objectives to be implemented by Management;

(d) review the performance of Management, approve the nominations of the Board of Directors and appointment of key management personnel, as may be recommended by the Nominating Committee;

(e) review and endorse the framework of remuneration for the Board and key management personnel as may be recommended by the Remuneration Committee;

(f) assume responsibility for corporate governance; and

(g) consider sustainability issues, e.g. environmental and social factors, as part of its strategic formulation.

The Company has adopted internal guidelines setting forth matters which require Board approval. Matters which are specifically reserved to the full Board for decision include those involving interested person transactions (such as conflict of interest issues in relation to substantial shareholders and directors of the Company), material acquisitions and disposal of assets, annual budgets, corporate or financial restructuring, share issuance and dividends, and financial results and corporate strategies.

Each Director is required to promptly disclose any conflict or potential conflict of interest, whether direct or indirect, in relation to a transaction or proposed transaction with the Group as soon as is practicable after the relevant facts have come to his knowledge. Where a director faces a conflict of interest issue, he will disclose and declare his conflict of interest, and recuse himself from discussions and decisions involving the issues of conflict. Each Board member makes decisions objectively in the interests of the Group.

Board and Board Committees

To assist the Board in the execution of the Board's responsibilities, certain functions of the Board have been delegated to 3 Board committees, comprising an Audit Committee ("**AC**"), a Nominating Committee ("**NC**") and a Remuneration Committee ("**RC**"). Each of these committees functions within clearly defined terms of reference setting out their compositions, authorities and duties, and operating procedures (including reporting back to the Board) which are reviewed on a regular basis to ensure continued relevance and consistency with the Code. The effectiveness of each committee is also constantly being monitored.

The Board meets 4 times a year and as warranted by particular circumstances. Telephonic attendance and conference at the Board and Board committee meetings are allowed under the Constitution of the Company. The number of the Board and Board committee meetings held for the period from 1 January 2019 to 31 December 2019, as well as the attendance of each member at these meetings, are set out below:-

	Board	AC	NC	RC
	Number of Meetings Held: 4	Number of Meetings Held: 4	Number of Meetings Held: 1	Number of Meetings Held: 1
NAME OF DIRECTORS	Meetings Attended	Meetings Attended	Meetings Attended	Meetings Attended
Xu Cheng Qiu	4 out of 4	N.A.	N.A.	N.A.
Liu Jing Fu	4 out of 4	N.A	N.A.	N.A.
Xu Jun	4 out of 4	N.A.	N.A.	N.A.
Xu Xian Lei	4 out of 4	N.A.	N.A.	N.A.
Lim Heng Chong Benny	4 out of 4	4 out of 4	1 out of 1	1 out of 1
Xu Chun Hua	4 out of 4	4 out of 4	1 out of 1	1 out of 1
Koh Choon Kong	4 out of 4	4 out of 4	1 out of 1	1 out of 1
Tan Lye Heng Paul	4 out of 4	4 out of 4	1 out of 1	1 out of 1
Yan Tang Feng(1)	1 out of 4	1 out of 4	N.A.	N.A.

Note:

(1) Mr Yan Tang Feng was appointed as Independent Director on 26 September 2019. For the period from 26 September 2019 to 31 December 2019, there was one Board meeting and one AC meeting held.

Directors' Orientation and Development

The Company has an orientation program for all new Directors, and the Directors also have the opportunity to visit the Group's operating facilities in the People's Republic of China and meet with Management to gain a better understanding of the Group's business operations. Directors who are first-time directors, or who have no prior experience as directors of a listed company will undergo the Listed Entity Director Programme conducted by the Singapore Institute of Directors ("**SID**"), and will also undergo briefings on the roles and responsibilities as directors of a listed company.

All newly appointed Directors will receive a formal letter from the Company setting out the duties and responsibilities as a Director, along with an information pack containing the Company's annual report, Constitution, respective Board committees' terms of reference (where applicable), as well as a template director's disclosure form pertaining to his/her obligations in relation to disclosure of interests in securities and conflict of interests.

The Directors are provided with continuing education in areas such as directors' duties and responsibilities, corporate governance, changes in financial reporting standards, insider trading, as well as changes in the relevant provisions of the Singapore Companies Act (Chapter 50) ("**Companies Act**") and listing rules of the Singapore Exchange Securities Trading Limited (the "**SGX-ST**"), so as to update and refresh them on matters that affect or may enhance their performance as Board or Board committee members. They are also informed of and are encouraged to attend relevant seminars such as those organised by the SGX-ST, SID and other external professional organisations to keep abreast of developments relevant to their roles.

Access to Information

To assist the Board in fulfilling its responsibilities, Management provides the Board with complete and adequate information in a timely manner. As a general rule, Board papers are required to be sent to the directors at least 7 days before the Board meeting so that the members may better understand the matters prior to the Board meeting and discussion may be focused on questions that the Board has about the Board papers. However, sensitive matters may be tabled at the meeting itself or discussed without any papers being distributed. Key management personnel who can provide additional insight into the matters at hand would be present at the relevant time during the Board meeting.

Management also provides the Board members with background or explanatory information relating to matters to be brought before the Board, copies of disclosure documents, budgets, forecasts, internal financial statements, together with explanations for any material variance between the projections and actual results in respect of its financial performance.

Access to Management and Company Secretary

The Directors have separate and independent access to the Management and the Joint Company Secretaries at all times.

At least one Joint Company Secretary attends all Board meetings. The Joint Company Secretaries are responsible for preparing minutes of Board proceedings, and are responsible to the Board for advising on corporate and administrative matters, as well as facilitating orientation and assisting with professional development as required.

The appointment and removal of the Joint Company Secretaries are subject to the approval of the Board as a whole.

The Directors, whether as a group or individually, may seek and obtain independent professional advice to assist them in the discharge of their duties, at the expense of the Company.

Board Composition and Guidance

Principle 2: The Board has an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interests of the company.

Board Composition

The Board, through the NC, examines and reviews its structure, size and composition annually, taking into account the scope and nature of the Company's operations. The nature of the current directors' appointments and membership on the Board committees are as follows:-

Name of Directors	Position held on the Board	Board Committee Membership		
		AC	NC	RC
Xu Cheng Qiu(1)	Executive Chairman	–	Member	–
Liu Jing Fu	Executive Director and Chief Executive Officer	–	–	–
Xu Jun	Executive Director	–	–	–
Xu Xian Lei	Executive Director	–	–	–
Lim Heng Chong Benny(2)	Lead Independent Director	–	Chairman	–
Xu Chun Hua(3)	Independent Director	–	Member	Chairman
Koh Choon Kong(4)	Independent Director	Chairman	–	Member
Tan Lye Heng Paul(5)	Independent Director	Member	–	–
Yan Tang Feng(6)	Independent Director	Member	–	Member

Notes:

(1) Mr Xu Cheng Qiu was appointed as a member of the NC on 12 November 2019.

(2) Mr Lim Heng Chong Benny ceased to be a member of the AC and RC on 12 November 2019.

(3) Ms Xu Chun Hua ceased to be a member of the AC on 12 November 2019.

(4) Mr Koh Choon Kong ceased to be a member of the NC on 12 November 2019.

(5) Mr Tan Lye Heng Paul ceased to be a member of the NC and RC on 12 November 2019.

(6) Mr Yan Tang Feng was appointed as Independent Director on 26 September 2019, and was subsequently appointed as a member of the AC and member of the RC on 12 November 2019.

The Board presently comprises 9 directors, of whom 5 are independent non-executive directors. The present composition of the Board complies with Provision 2.2 of the Code that the independent directors should make up a majority of the Board where the Executive Chairman is part of the management team and not an independent director, and with Provision 2.3 of the Code that the majority of the Board comprises non-executive directors. Given that the Independent Directors make up a majority of the Board, the Board is thus able to exercise objective judgment on corporate affairs independently.

Board Diversity

The Board recognises that board diversity is an essential element contributing to a well-functioning and effective Board, as well as the sustainable development of the Group. As such, the objectives of its board diversity policy are to promote and enhance the decision-making process of the Board through the perspectives derived from the professional expertise, business experience, industry discipline, skills, knowledge, gender, age, educational background, ethnicity and culture, length of service, and other diverse qualities of the Board members. When reviewing and assessing the composition of the Board and making recommendations to the Board for the appointment of its members, the NC will consider the various aspects of board diversity, and set practical timelines to implement the policy. It will also report to the Board on an annual basis on the progress made in promoting and achieving its board diversity objectives.

The Board is of the view that its current structure, size and composition is appropriate for effective decision-making, provides balance and diversity of expertise, gender and knowledge of the Company's business, foster constructive debate, and avoid groupthink. The NC is also satisfied that the Board comprises directors who as a group provide core competencies such as accounting or finance, legal, business or management experience, industry knowledge, strategic planning experience and customer-based experience or knowledge, which are required for the Board to function effectively. In addition, the NC has noted that the Board comprises one female director out of a total of nine directors, in recognition of the importance and value of gender diversity. The Board also consists of directors with ages ranging from 41 to more than 70 years old, and who have served on the Board for different tenures. The NC is of the view that no individual or small group of individuals dominates the Board's decision-making process.

Board Independence

The NC conducts a review annually to determine whether or not a director is independent, adopting the Code's definition of an "independent director" and guidance as to relationships, including those provided in the Code, the Listing Manual and the Practice Guidance to the Code, that are relevant in its determination. Each Independent Director is required to complete an annual declaration to confirm his/her independence, and in particular, that he/she does not have any relationship with the Company and its related corporations, its substantial shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgement in the best interest of the Group. The independent directors must also confirm whether they consider themselves independent despite not having any relationship identified in the Code.

In assessing the independence of each Independent Director for FY2019, the NC noted that Mr Lim Heng Chong Benny, Mr Koh Choon Kong, Ms Xu Chun Hua and Mr Tan Lye Heng Paul, has each served on the Board for an aggregate period of more than 9 years from the respective dates of their first appointment. As such, the Board has subjected their independence to a particularly rigorous review.

The NC carried out the aforesaid review on the independence of each Independent Director in February 2020 (with Mr Lim Heng Chong Benny and Ms Xu Chun Hua as members of the NC abstaining from deliberation in respect of the review of his/her independence) based on the respective Independent Directors' self-declaration of his/her relationship with the Company and its related corporations, its substantial shareholders or its officers, and his/her confirmation of independence and non-conflict of interest. In particular, the NC also took into account the actual performance of Mr Lim Heng Chong Benny, Mr Koh Choon Kong, Ms Xu Chun Hua and Mr Tan Lye Heng Paul on the Board and Board committees, and their Individual Director Self-assessment of their contributions to the effectiveness of the Board, and was of the view that each of them has at all times exercised independent judgment in the best interests of the Company in the discharge of his/her director's duties and should therefore continue to be deemed an Independent Director, notwithstanding that they have served more than 9 years on the Board.

After due consideration and with the concurrence of the NC (with each Independent Director abstaining from the discussion and decision-making process with respect to the assessment of his/her independence), the Board has determined that each of the Independent Directors has continued to demonstrate strong independence in character and judgment in the manner in which he/she has discharged his/her responsibilities as a director of the Company. Each of them has continued to express his/her viewpoints, debated issues, sought clarifications where necessary, objectively scrutinised and challenged Management, and ask tough strategic and operational questions.

Taking into account the views of the NC and the annual confirmation from each of the Independent Directors of his/her independence, the Board considers each of the Independent Directors to be independent and will be able to exercise independent judgment in the best interest of the Company in discharging their duties as independent directors.

The Independent Non-Executive Directors constructively challenge Management's assumptions, help develop proposals on strategy, and assess performance of Management, in the best interest of the Group. During FY2019, the Independent Non-Executive Directors meet regularly without the presence of Management.

CORPORATE GOVERNANCE REPORT

Chairman and Chief Executive Officer

Principle 3: There is a clear division of responsibilities between the leadership of the Board and Management, and no one individual has unfettered powers of decision-making.

Division of the Roles of Executive Chairman and CEO

To ensure an appropriate balance of power, increased accountability and a clear division of the roles and responsibilities between the Chairman and the Chief Executive Officer ("**CEO**"), the position of the Chairman and CEO are held by separate individuals.

Currently, the Executive Chairman of the Company is Mr Xu Cheng Qiu. Mr Xu is the founder of the Group and plays a key role in developing the business of the Group and provides the Group with strong leadership and vision. He is responsible for the overall strategic planning and growth of the Group. He also exercises control over the quality, quantity and timeliness of information flow between the Board and Management.

As Executive Chairman of the Board, Mr Xu bears responsibility for the effective working of the Board. He is responsible for, amongst others, ensuring that Board meetings are held when necessary, setting the Board meeting agendas to enable the Board to carry out its duties effectively and responsibly, taking a leading role to ensure and maintain a high standard of corporate governance, acting as a facilitator at Board meetings and maintaining regular dialogue with Management on all operational matters.

Mr Liu Jing Fu is the CEO and Executive Director of the Company. He is not an immediate family member of the Executive Chairman, Mr Xu Cheng Qiu. He has a wealth of experience in the rubber chemicals industry. As CEO, Mr Liu is responsible for the overall management and day-to-day operations of the Group.

Role of Lead Independent Director

In line with the recommendations in the Code, Mr Lim Heng Chong Benny has been appointed as the Lead Independent Director of the Company to lead and coordinate the activities of the independent directors and to address the concerns, if any, of the Company's shareholders.

Led by the Lead Independent Director, the Independent Directors meet regularly without the presence of Management to discuss matters such as the changes that they would like to see in the Board processes, corporate governance initiatives, and matters which they wish to discuss during the Board meetings. After such meetings, the Lead Independent Director will provide feedback to the Executive Chairman and the Board.

Board Membership

Principle 4: The Board has a formal and transparent process for the appointment and re-appointment of directors, taking into account the need for progressive renewal of the Board.

The Company has established a NC to, *inter alia*, make recommendations to the Board on all Board appointments. The NC currently comprises the following independent directors, with the Lead Independent Director being the Chairman of the NC:

Lim Heng Chong Benny	–	Chairman
Xu Cheng Qiu	–	Member (appointed as member on 12 November 2019)
Xu Chun Hua	–	Member

Mr Koh Choon Kong and Mr Tan Lye Heng Paul, who were both members of the NC, ceased to be members on 12 November 2019.

The role of the NC is to establish a formal and transparent process for the appointment of new directors and the re-appointment of directors retiring by rotation, as well as to assess the effectiveness of the Board and the overall contribution of each director towards the effectiveness of the Board.

The principal functions of the NC include the following:

(a) to make recommendations to the Board on all Board appointments, and re-appointment of directors or alternate directors (if any), having regard to that director's contribution and performance (such as attendance, preparedness, participation and candour) where applicable;

(b) to review the independence of the directors annually;

(c) to decide whether the director is able to and has been adequately carrying out his duties as director, in particular, where a director has multiple board representations;

(d) to review and make recommendations to the Board on all candidates nominated (whether by the Board, shareholders or otherwise) for appointment to the Board, taking into account the candidate's track record, age, experience, capabilities and other relevant factors;

(e) to identify and nominate candidates for the approval of the Board to fill vacancies in the Board as and when they arise;

(f) to review succession plans for directors, in particular, the appointment and/or replacement of the Executive Chairman, the CEO and key management personnel;

(g) to make recommendations to the Board relating to the review of training and professional development programs for the Board and its directors;

(h) to decide how the Board's performance may be evaluated and propose objective performance criteria for the Board's approval; and

(i) to assess the effectiveness of the Board as a whole, and the contribution by each director to the effectiveness of the Board.

The NC has conducted an annual review of Directors' independence based on the Code's criteria for independence and is of the view that Mr Lim Heng Chong Benny, Mr Koh Choon Kong, Ms Xu Chun Hua, Mr Tan Lye Heng Paul and Mr Yan Tang Feng are independent. More details of the Board and NC's determination of the independence of the Independent Directors are set out under Principle 2 of this report in the section headed "*Board Independence*".

Other Principal Commitments and Board Representations

The NC determines annually whether a director with multiple board representations is able to and has been adequately carrying out his duties as a director of the Company. The NC has taken into account the respective director's actual conduct and effectiveness on the Board, and the time and attention given by each of them to the affairs of the Company, in making this determination, and is satisfied that all the directors having multiple board representations have been able to and have adequately carried out their duties as director.

The Board has also adopted an internal guideline that each director should hold not more than 5 listed company board representations to address competing time commitments when directors serve on multiple boards. The NC believes a director's commitment and contributions to the Company, and his attendance at and contributions during Board and Board committee meetings are relevant factors to be taken into consideration in assessing whether a director has adequately discharged his duties.

The following key information regarding all directors is set out in the following pages of this Annual Report:

(a) pages 14 to 17 – Academic and professional qualifications;

(b) page 46 – Key information (including each of the Director's board representations on other listed companies and other principal commitments (if any)); and

(c) pages 47 to 48 – Shareholding in the Company and its related corporations.

The Company currently has no alternate directors on its Board. The Board is of the view that the appointment of alternate directors should only be appointed for limited periods in exceptional cases such as when a director has a medical emergency. An alternate director, when appointed, should be subject to the same criteria and process for selection of directors, and be appropriately qualified.

The NC has in place a formal process for the selection and appointment of new directors, and re-appointment of directors to increase transparency of the nominating process in identifying and evaluating nominees or candidates for appointment or re-appointment, as well as to advance the Company's objective of promoting board diversity.

Process for selection of new directors

The NC has recommended, and the Board has approved, a formal process for the selection of new directors as follows:

(a) The NC evaluates the balance of skills, knowledge and experience on the Board and, in the light of such evaluation and in consultation with Management, prepares a description of the role and the essential and desirable competencies for a particular appointment;

(b) Directors and Management may suggest suitable potential candidates. If necessary, the NC may enlist external help (for example, from the Singapore Institute of Directors, search consultants, advertisements) to source for potential candidates;

(c) The NC assesses suitability of short-listed candidates, meets and discusses with them, if necessary, to ensure that the candidate(s) are aware of the expectations and the level of commitment required; and

(d) The NC makes recommendations to the Board for approval.

Criteria for appointment of new directors

All new appointments are subject to the recommendation of the NC based on, *inter alia*, the following objective criteria:

(a) Integrity;

(b) Independent mindedness;

(c) Possess core competencies which meet the current needs of the Company and complement the skills and competencies of the existing directors on the Board;

(d) Able to commit time and effort to carry out duties and responsibilities effectively;

(e) Experience in the relevant field of business of the Company or industries in which it operates; and

(f) Financially literate.

Re-appointment of directors

All directors are to submit themselves for re-nomination and re-election at regular intervals of at least once every 3 years. Under the Company's existing Constitution, one-third of the directors (except for the managing director, if any) for the time being (or if their number is not a multiple of 3, the number nearest to but not less than one-third) shall retire from office by rotation at each annual general meeting ("**AGM**") of the Company. In addition, a newly appointed director must also submit himself or herself for re-election at the AGM immediately following his or her appointment.

At the forthcoming AGM, Mr Liu Jing Fu, Mr Xu Jun and Mr Tan Lye Heng Paul are due for retirement by rotation under Article 104 of the Constitution of the Company. Mr Liu Jing Fu and Mr Xu Jun had submitted themselves for re-nomination and re-election, and the NC reviewed and recommended their re-election However, as part of the Board renewal process, Mr Tan Lye Heng Paul will not be seeking re-election at the forthcoming AGM.

Mr Yan Tang Feng, who was appointed as Independent Director on 29 September 2019, will cease to hold office at the forthcoming AGM in accordance with Article 114 of the Constitution of the Company, and has offered himself for re-election at the forthcoming AGM. Mr Yan Tang Feng has no relationship, whether familial, business, financial, employment or otherwise, with the Company, its related corporations, substantial shareholders, or any officers, which could interfere or be perceived to interfere with his independent judgment.

Mr Xu Jun is the son of the Executive Chairman of the Company, Mr Xu Cheng Qiu, who is deemed to be interested in the 60.25% shareholding (excluding treasury shares) in the Company held by Success More Group Limited, by virtue of his controlling interest in Success More Group Limited, and 0.59% shareholding in the Company (excluding treasury shares) held by UOB Kay Hian Pte Ltd as nominee. Mr Xu Jun is also the cousin of Mr Xu Xian Lei, the Executive Director of the Company.

The Board (save for Mr Liu Jing Fu, Mr Xu Jun and Mr Yan Tang Feng (collectively, the "**Retiring Directors**") who had abstained from the deliberation process in respect of their own re-election) has accepted the NC's recommendation and proposes that the Retiring Directors be re-elected at the forthcoming AGM.

Additional information in respect of the Retiring Directors seeking re-election at the forthcoming AGM pursuant to Rule 720(6) of the Listing Manual read with Appendix 7.4.1 of the Listing Manual, which are not otherwise disclosed in this Annual Report, will be provided to shareholders together with the Notice of Annual General Meeting in due course.

Board Performance

Principle 5: The Board undertakes a formal annual assessment of its effectiveness as a whole, and that of each of its board committees and individual directors.

The Board has implemented a formal process for assessing the effectiveness of the Board as a whole and the Board committees, as well as the contribution by each director to the effectiveness of the Board.

The assessment of the Board and the Board committees provided an opportunity to obtain constructive feedback from each director on whether the Board's procedures and processes allowed him/her to discharge his/her duties effectively and the changes that should be made to enhance the effectiveness of the Board as a whole.

The individual director's assessment exercise allowed each director to reflect upon his/her own performance on the Board so that the overall quality of the board members may be improved upon and enhanced. It also assisted the NC in determining whether to re-nominate directors who are due for retirement by rotation at the next AGM, and in determining whether directors with multiple board representations are nevertheless able to and have adequately discharged their duties as directors of the Company. More details of the Board and NC's assessment and determination exercise are set out under Principle 4 of this report in the sections headed "*Other Principal Commitments and Board Representation*" and "*Re-appointment of Directors*".

The NC determines how the Board's performance may be evaluated and proposes objective performance criteria. Such performance criteria is approved by the Board and addresses how the Board has enhanced long-term shareholders' value.

Evaluation processes

(a) *Board and Board committees*

Each Board member is required to complete a Board and Board Committees Assessment Checklist ("**Checklist**"). Based on the returns from each of the directors, the Chairman of the NC prepares a consolidated report and thereafter presents the report to the Board for discussion on the changes which should be made to help the Board and Board committees discharge their respective duties more effectively.

(b) *Individual directors*

In the case of the assessment of individual directors, each director is required to complete an individual director's assessment form by way of a self-assessment of his contribution to the effectiveness of the Board. Based on the returns from each of the directors, the Chairman of the NC prepares a consolidated report and thereafter presents the report to the Board. The Chairman of the Board then provides the necessary feedback on the respective Board performance of each director, with a view to improving their respective performance on the Board.

Performance criteria

The performance criteria for the Board evaluation are in respect of the Board size, composition and independence, conduct of meetings, corporate strategy and planning, risk management and internal control, Board performance in relation to discharging its principal functions, Board committee performance in relation to discharging their responsibilities set out in their respective terms of reference, achievement of financial targets which includes return on equity, improvement of performance of the Company's share price vis-à-vis the Singapore Straits Times Index, recruitment policy, process for determining remuneration and compensation of directors and key management personnel, financial reporting, and communication with shareholders.

The individual director's performance criteria are categorised into (1) attendance at Board and related activities, (2) adequacy of preparation for Board meeting, (3) contribution in strategic/business decision, finance/accounting, risk management, legal/regulatory, human resource management, or any other specialist area of each director, (4) area of experience, (5) generation of constructive debate, (6) maintenance of independence, (7) disclosure of related party transactions, and (8) overall assessment.

(B) REMUNERATION MATTERS

<u>Procedures for Developing Remuneration Policies</u>

Principle 6: The Board has a formal and transparent procedure for developing policies on director and executive remuneration, and for fixing the remuneration packages of individual directors and key management personnel. No director is involved in deciding his or her own remuneration.

Composition and Role of the RC

The RC currently comprises entirely independent directors as follows:

Xu Chun Hua	–	Chairman
Koh Choon Kong	–	Member
Yan Tang Feng	–	Member (appointed as a member on 12 November 2019)

Mr Lim Heng Chong Benny and Mr Tan Lye Heng Paul, who were both members of the RC, ceased to be members on 12 November 2019.

The RC is responsible for ensuring a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of each individual director, the CEO and key management personnel (who are not directors or the CEO).

The principal functions of the RC include the following:

(a) to review and recommend to the Board for endorsement a framework of remuneration for the Board and key management personnel, and the specific remuneration packages for each director as well as for the key management personnel of the Company. The framework will cover all aspects of remuneration, including without limitation, directors' fees, salaries, allowances, bonuses, options, share-based incentives, benefits-in-kind, and termination terms to ensure they are fair;

(b) to review the remuneration packages of all managerial staff who are related to any of the executive directors;

(c) to review and approve the annual increments and/or variable bonus to be granted to the Executive Directors and key management personnel of the Company;

(d) in the case of directors' service agreements, to consider what compensation or commitments the directors' service agreements, if any, would entail in the event of early termination; and

(e) to recommend to the Board, in consultation with senior management and the Executive Chairman, any long-term incentive scheme (including share schemes) and to consider the eligibility of directors for benefits under such long-term incentive schemes.

The recommendations of the RC would be submitted to the Board for endorsement. Each member of the RC will refrain from voting on any resolution in respect of the assessment of his remuneration. No director will be involved in determining his own remuneration.

The RC has access to expert advice in the field of executive remuneration outside the Company with regards to remuneration matters wherever necessary. The RC should ensure that existing relationships, if any, between any of its directors or the Company and its appointed remuneration consultants, will not affect the independence and objectivity of the remuneration consultants. In FY2019, the Company did not seek any expert advice outside the Company on remuneration of its Directors.

Level and Mix of Remuneration

Principle 7: The level and structure of remuneration of the Board and key management personnel are appropriate and proportionate to the sustained performance and value creation of the company, taking into account the strategic objectives of the company.

The RC assists the Board by ensuring that remuneration policies and practices are sound in that they are able to attract, retain and motivate without being excessive, and thereby maximise shareholders' value. The RC reviews and recommends to the Board the remuneration package, determines the overall annual increment and bonus for each of the Executive Directors and key management personnel, and ensures that they are appropriate and proportionate to the sustained performance and value creation of the Group.

In setting remuneration packages, the RC takes into consideration the pay and employment conditions within the industry and in comparable companies, as well as the costs of living in the cities in which the Company operates. As part of its review, the RC ensures that the performance related elements of remuneration form a significant and appropriate part of the total remuneration package of executive directors and key management personnel, and is designed to align the directors' and key management personnel's interests with those of shareholders and link rewards to corporate and individual performance, taking into account industry benchmarks.

The RC also reviews all matters concerning the remuneration of independent directors by ensuring that the remuneration is commensurate with the level of contribution, taking into account factors such as effort and time, and responsibilities of these directors. The Company will submit the quantum of directors' fees of each year to the shareholders for approval at each AGM.

Only the executive directors have entered into service agreements with the Company, which are for a fixed appointment period. The RC reviews and recommends to the Board what compensation commitments the executive directors' service agreements would entail in the event of early termination, and aims to be fair and avoid rewarding inadequate performance. The terms of the executive directors' service agreements were approved by the Board.

Pursuant to the terms thereof, the service agreements may be terminated by either party giving not less than six (6) months' notice in writing. Each of the key management personnel were issued a letter of appointment, the terms of which were reviewed by the RC, and approved by the Board. The RC is satisfied that the termination clauses set out in the service agreements and the letters of appointment are fair and reasonable to the parties, and are not overly generous.

The Company has not adopted the use of contractual provisions to allow the Company to reclaim incentive components of remuneration from its Executive Directors and key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Group. The Company will review the feasibility of having such contractual provisions in future renewals of service agreements and/or employment contracts of its Executive Directors and key management personnel as recommended by the Practice Guidance.

Disclosure on Remuneration

Principle 8: The company is transparent on its remuneration policies, level and mix of remuneration, and the procedure for setting remuneration, and the relationships between remuneration, performance and value creation.

Policy in respect of independent directors' remuneration

The independent directors do not enter into service agreements with the Company. They are paid directors' fees, the amount of which is dependent on their level of responsibilities. Each independent director is paid a basic fee. In addition, independent directors who perform additional services through Board committees are paid an additional fee for such services. The Lead Independent Director and Chairman of each Board committee are paid a higher fee as compared to members of the committee in view of the greater responsibility carried by that office. The amount of directors' fees payable to independent directors is subject to shareholders' approval at the Company's AGM.

Remuneration policy in respect of executive directors and other key management personnel

The Company advocates a performance-based remuneration system that is flexible and responsive to the market and the performance of the Company and the individual employee. This allows the Company to better align executive compensation with shareholders' value creation. The total remuneration mix comprises annual fixed cash and annual performance incentive. The annual fixed cash component comprises the annual basic salary plus any other fixed allowances. The annual performance incentive is tied to the performance of the Company and the individual employee.

For the purpose of assessing the performance of Executive Directors and other key management personnel, key performance targets are clearly set out at the beginning of each financial year. These targets include, where applicable, revenue, gross profit margin, net profit after tax, return on shareholders' equity, total shareholders return (i.e. dividend plus share price movement over the year), and safety production and environmental protection related targets.

Disclosure on Remuneration

The level and mix of each of the directors' remuneration, and that of each of the key management personnel (who are not also directors or the CEO) for FY2019, are set out as follows:

Name of Directors and CEO	**Salary**	**Bonus**	**Director's fees**	**Other benefits**	**Total Remuneration**	
	%	%	%	%	%	S$'000
Xu Cheng Qiu	7	93	–	–	100	5,307
Liu Jing Fu	50	50	–	–	100	110
Xu Jun	50	48	–	2	100	88
Xu Xian Lei	50	48	–	2	100	106
Lim Heng Chong Benny	–	–	100	–	100	50
Xu Chun Hua	–	–	100	–	100	45
Koh Choon Kong	–	–	100	–	100	45
Tan Lye Heng Paul	–	–	100	–	100	40
Yan Tang Feng[(1)]	–	–	100	–	100	10

Remuneration Band & Name of Key Management Personnel	**Salary**	**Bonus**	**Other benefits**	**Total**
	%	%	%	%
S$250,000 and below S$500,000				
Nil				
Below S$250,000				
Tong Yiping	67	24	9	100
Wang Bao Li	27	70	3	100
Miao Jing[(2)]	100	–	–	100
Ma Yue Bin	31	67	2	100
Liu De Ming	29	69	2	100

Notes:

(1) Mr Yan Tang Feng was appointed as Independent Director on 26 September 2019.

(2) Ms Miao Jing resigned as Group's Chief Engineer on 15 March 2019.

The Company has not disclosed the exact amount of the remuneration of its key management personnel as it is not in the best interests of the Company and the employees to disclose such details due to the sensitive nature of such information. The aggregate remuneration paid to key management personnel (who are not Directors or the CEO) in FY2019 is S$532,000.

There was no employee of the Company or its subsidiaries who is a substantial shareholder, or an immediate family member of any director, the CEO or a substantial shareholder of the Company and whose remuneration exceeded S$100,000 for FY2019. "Immediate family member" means the spouse, child, adopted child, step-child, brother, sister or parent.

The Company has no share option plans for FY2019. Accordingly, no share option has been granted to the above directors or key management personnel. The Company may consider to have such a scheme to align the interests of key executives with that of shareholders, improving performance and achieving sustainable growth for the Company.

There are no termination, retirement and post-employment benefits that may be granted to directors, CEO or the top five key management personnel (who are not directors or the CEO).

(C) ACCOUNTABILITY AND AUDIT

Risk Management and Internal Controls

Principle 9: The Board is responsible for the governance of risk and ensures that Management maintains a sound system of risk management and internal controls, to safeguard the interests of the company and its shareholders.

Risk Governance Structure

The Board is overall responsible for the governance of risk. The Board oversees the Group's risk management framework and policies, reviews the Group's business, financial and operational risks, and formulates strategies and measures to manage and mitigate these risks with the assistance of internal and external auditors.

The Board ensures that Management reviews and seeks to identify areas of significant business risks on an ongoing basis, and takes appropriate measures to control and mitigate such risks. Management also reviews all significant control policies and procedures and highlights all significant matters to the Board. The Board oversees Management in the design, implementation and monitoring of the risk management and internal control systems of the Group, to safeguard the interests of the Company and its shareholders.

Enterprise Risk Management

The Company has set up a Risk Management Advisory Committee ("**RMAC**") to oversee the Group's risk management framework and policies, review the Group's business, financial and operational risks, and to advise the Board on strategies and measures to manage and mitigate these risks. The RMAC is headed by the Executive Chairman of the Company, together with 6 executives (including a director and the Chief Financial Officer ("**CFO**")), whose names are set out below:

Xu Cheng Qiu	–	Chairman
Xu Xian Lei	–	Member
Tong Yiping	–	Member
Ma Yue Bin	–	Member
Wang Bao Li	–	Member
Liu Kun	–	Member
Zheng Huai Yu	–	Member

In order to ensure and maintain a sound system of risk management and internal controls to safeguard shareholders' interests and the Company's assets, an Enterprise Risk Management ("**ERM**") programme was developed with the assistance of the Company's previous internal auditor, Messrs MS Risk Management Pte Ltd, and has been implemented to identify, prioritise, assess, manage and monitor key risks faced by the Group. In 2015, the Company appointed a new internal auditor, Messrs Baker Tilly Consultancy (Singapore) Pte. Ltd., which refreshed the ERM programme. In 2019, the Company undertook a fresh round of review of its ERM programme with the assistance of a new ERM consultant, Messrs BDO LLP. The risk management system covers, *inter alia*, financial, operational, compliance and information technology controls of the Group. The key risks identified are deliberated by Management, and reported to the RMAC, which is responsible for the effective implementation of risk management strategy, policies and processes within the framework of the ERM programme. The RMAC will also follow up on the actions required to be taken by Management to mitigate such identified risks. The RMAC also reviews the adequacy and effectiveness of the ERM programme periodically, and reports its findings to the AC and the Board at least once a year or as and when new significant risks are identified.

Internal Control and Risk Management Systems

To ensure that its internal control and risk management systems are adequate and effective, the Company has also requested its internal auditor to take such identified risks into consideration in drawing up the annual internal audit plan. The Company's internal auditor also assists the Company to conduct an annual review of the adequacy and effectiveness of the Company's internal controls. The external auditor, during the conduct of their normal audit procedures, may also report on matters relating to internal controls. Any material non-compliance or failures in internal control, and recommendations for improvements, are reported to the AC. The AC also reviews the effectiveness of the actions taken by Management on the recommendations made by the internal and external auditors in this respect, and holds regular discussions with Management to ensure the timely and proper implementation of such recommendations. Based on the reports submitted by the internal and external auditors received by the AC and the Board, nothing material has come to the attention of the AC and the Board to cause the AC and the Board to believe that the internal control and risk management processes of the Group are inadequate or ineffective, or there are non-compliance of the Company's system of internal control and processes.

Based on the internal control and risk management systems established and maintained by the Group, the work conducted by the internal and external auditors as set out in their respective reports, the review by the AC of the implementation of the recommendations of the internal and external auditors as aforesaid, and the report of the RMAC to the Board, the Board, with the concurrence of AC, is of the opinion that the system of internal control and risk management procedures maintained by Management are adequate and effective to meet the needs of the Company in addressing the financial, operational, compliance and information technology risks to the Company and the Group as at 31 December 2019.

The Board has also received a letter of assurance from the CEO and the CFO confirming, *inter alia*, that:

(a) the financial records of the Company have been properly maintained, and the financial statements give a true and fair view of the Company's operations and finances; and

(b) the Company's risk management and internal control systems are adequate and effective.

The Board notes that no system of internal controls can provide absolute assurance against or eliminate the occurrence of material errors, poor judgment in decision-making, human error, fraud or other irregularities. However, by identifying and managing risks that may arise on a regular basis, the Group believes that it will be better placed to mitigate risks such as material financial misstatements or losses, and to ensure the safeguarding of assets, the maintenance of proper accounting records, the reliability of financial information, compliance with appropriate legislation, regulations and best practices, and the identification and management of business risks.

Audit Committee

Principle 10: The Board has an Audit Committee ("AC") which discharges its duties objectively.

Composition and Role of AC

The AC currently comprises the following directors, all of whom are independent non-executive directors:

Koh Choon Kong	–	Chairman
Tan Lye Heng Paul	–	Member
Yan Tang Feng	–	Member (appointed as a member on 12 November 2019)

Mr Lim Heng Chong Benny and Ms Xu Chun Hua, who were both members of the AC, ceased to be members on 12 November 2019.

All the members bring with them invaluable industry knowledge and professional expertise in the financial, legal and business spheres, and have adequate financial management knowledge and experience to discharge their responsibilities as members of the AC.

The primary functions of the AC include the following:

(a) to discuss and review at least annually any significant financial reporting issues and judgments in relation to the financial statements and how the issues are addressed so as to ensure the integrity of the financial statements;

(b) to discuss and review at least annually the adequacy and effectiveness of the internal controls and risk management system of the Group with respect to financial, operational, compliance and information technology risks;

(c) to review any announcements relating to the Company's financial performance before submission to the Board for approval;

(d) review the assurance from the CEO and the CFO who are responsible for the financial records and financial statements;

(e) to assess and review at least annually the adequacy, effectiveness, independence, scope and results of the external audit and the Company's internal audit functions;

(f) to discuss and review with auditors regarding, *inter alia*, the assistance given by Management to the auditors;

(g) to assess and review at least annually the independence and objectivity of the external auditors, taking into consideration to the aggregate fees paid for audit and non-audit services provided by the external auditors;

(h) to recommend to the Board on the proposals to the shareholders on the appointment, re-appointment and removal of the external auditor, and the terms of engagement and remuneration payable to the external auditor taking into consideration the quality of work carried out by the external auditors and the basis of such assessment;

(i) to review interested person transactions to ensure that they are carried out on normal commercial terms and are not prejudicial to the interests of shareholders, and are in compliance with the then prevailing rules and regulations of the SGX-ST (in particular, Chapter 9 of the Listing Manual);

(j) to review the internal audit plan and findings of the internal auditor;

(k) to commission and review the major findings of internal investigations into matters where there is any suspected fraud or irregularity or failure of internal controls or infringement of any relevant law, rule or regulation which has or is likely to have a material impact on the Company's operating results and/or financial position; and

(l) to undertake such other functions and duties as may be required by statute or the Listing Manual and by such amendments made thereto from time to time.

The AC has explicit authority to investigate any matter within its terms of reference, full access to and co-operation by Management and full discretion to invite any director or executive officer to attend its meetings, and reasonable resources to enable it to discharge its functions properly.

In addition, the AC has independent access to the internal and external auditors, who report independently their findings and recommendations to the AC. The AC met with the internal and external auditors, without the presence of Management, at least once during the year.

During the year, the AC performed independent reviews of the financial statements of the Company before the announcement of the Company's quarterly and full-year results. The AC also reviewed and approved both the Company's internal and external auditors' plans to ensure that the plans covered sufficiently the terms of audit scope in reviewing the significant internal controls of the Company. Such significant controls comprise financial, operational, compliance and information technology controls. All audit findings and recommendations put up by the internal and the external auditors were forwarded to the AC. Significant issues were discussed at these meetings.

The AC is briefed by the external auditor of changes to accounting standards and issues which have a direct impact on financial statements during the presentation of the audit planning memorandum and the audit report.

External Auditor

In evaluating the quality of the work carried out by the external auditor, Messrs Nexia TS Public Accounting Corporation ("**Nexia TS**"), the AC's assessment of the performance of Nexia TS was based on Nexia TS's firm-wide audit quality framework, which is in line with the requirements of the Singapore Standards on Quality Control 1 (Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Service Engagements) ("**Nexia AQI Framework**"). The key elements of the Nexia AQI Framework include assessment on the experience and involvement of senior audit team members, training programmes and independence requirements of the team members, regular inspections by both internal and external parties (e.g. the Accounting and Corporate Regulatory Authority Practice Monitoring Programme inspections), human resources (e.g. attrition rates of the audit team).

In evaluating the nomination of Nexia TS for re-appointment for the financial year ending 31 December 2020, the AC has considered the adequacy of the resources, experience and competence of Nexia TS. The AC also undertook a review of the independence and objectivity of the external auditor through discussions with the external auditor. It is noted that the aggregate amount of fees paid to the external auditor for FY2019 is S$203,000. No non-audit fees were paid to the external auditor for financial year ended 31 December 2019 which may affect their independence. None of the members of the AC were partners of Nexia TS or has any financial interest in Nexia TS.

Upon such evaluation, the AC recommended to the Board that Nexia TS be nominated for re-appointment as external auditor of the Company at the forthcoming AGM of the Company. The Company has complied with the requirements of Rules 712 and 715 of the SGX-ST Listing Manual in relation to the appointment of auditing firms.

Internal Auditor

The role of the internal auditor is to assist the AC by ensuring that the Company maintains a sound system of internal controls by regular monitoring of key controls and procedures and ensuring their effectiveness, undertaking investigations as directed by the AC, and conducting regular in-depth audits of high risk areas.

The Company's internal audit functions are out-sourced to Messrs Baker Tilly Consultancy (Singapore) Pte. Ltd. (the "**Internal Auditor**"), which is staffed with professionals with relevant qualifications and experience. The Internal Auditor has unrestricted direct access to the AC. The AC approves the hiring, removal, evaluation and compensation of the Internal Auditor, which meets the professional standards set out in the Code.

The Internal Auditor's primary line of reporting is to the Chairman of the AC, although the Internal Auditor also liaise with the CEO and the CFO on administrative matters.

During the year, the Internal Auditor adopted a risk-based auditing approach that focuses on material internal controls, including financial, operational, compliance and information technology controls. Audits were carried out on all significant business units in the Company. All findings and recommendations of the Internal Auditor are submitted to the AC for deliberation with copies of these reports extended to the Executive Chairman, the CEO and the relevant senior management officers.

The AC also reviews annually the adequacy, effectiveness and independence of the internal audit function, and is satisfied that it is adequately resourced and has appropriate standing within the Company.

Whistle-Blower Policy

The AC also reviewed the Company's "Whistle-Blower Policy" ("**Policy**") which provides for the mechanisms by which employees and other persons may, in confidence, raise concerns about possible improprieties in financial reporting or other matters, and was satisfied that arrangements are in place for the independent investigation of such matters and for appropriate follow-up action.

Following the launch of the Policy, a set of guidelines which was reviewed by the AC and approved by the Board, was issued to assist the AC in managing allegations of fraud or other misconduct which may be made pursuant to the Policy, so that investigations may be carried out in an appropriate and timely manner, and disciplinary or civil actions that may be initiated following completion of investigations, are appropriate, balanced, and fair. The Company publicly discloses, and clearly communicates to employees, the existence of the Policy and procedures for raising such concerns. During the year, the AC received one whistle-blowing complaint, and after careful and thorough investigations, the Board concluded that there was no evidence to substantiate the allegations stated in the complaint.

(D) SHAREHOLDER RIGHTS AND ENGAGEMENT

Shareholder Rights and Conduct of General Meeting

Principle 11: The company treats all shareholders fairly and equitably in order to enable them to exercise shareholders' rights and have the opportunity to communicate their views on matters affecting the company. The company gives shareholders a balanced and understandable assessment of its performance, position and prospects.

The Company is committed to maintaining and improving its level of corporate transparency, providing timely, fair and adequate disclosure of relevant information to shareholders so that they will be apprised of the developments that may have a material impact on the Company's securities. The Company does not practice selective disclosure. Such information is published through the SGXNET. The Company is open to meetings with investors and analysts, and in conducting such meetings, the Company is mindful of the need to ensure fair disclosure.

Conduct of General Meetings

The Company ensures that true and fair information is delivered adequately to all shareholders, and that shareholders have the opportunity to participate effectively in and vote at general meetings of shareholders.

To encourage more shareholder participation, the Company's general meetings are held in the city centre of Singapore, which is easily accessible to most shareholders. Notices of general meetings are published through the SGXNET, and in the newspapers, as well as despatched to shareholders, together with the Appendix, Annual Report and Sustainability Report within the prescribed time period. Any shareholder who is not a relevant intermediary (as defined in the Companies Act) and who is unable to attend any general meeting is allowed to appoint up to two proxies to vote on his behalf at the meeting through proxy forms sent in advance. Pursuant to the Companies Act, the Central Provident Fund Board and relevant intermediaries may appoint more than two proxies. At shareholders' meetings, each distinct issue is proposed as a separate resolution. Shareholders are invited to put forth any questions they may have on the motions tabled and to be decided upon.

All directors, in particular the chairman of each Board committee, are required to be present at general meetings of shareholders to address shareholders' questions. The External Auditors are also present to address shareholders' queries (if any) about the conduct of audit and the preparation and content of the auditors' report. All the Directors (except Mr Xu Cheng Qiu, Mr Liu Jing Fu and Mdm Xu Chun Hua) had attended the AGM and the extraordinary general meeting of the Company held on 30 April 2019 and 8 November 2019, respectively.

The Company is not implementing absentia voting methods such as voting via mail, e-mail or fax until security, integrity and other pertinent issues are satisfactorily resolved.

At the forthcoming AGM, the Company will put all resolutions to vote by poll so as to better reflect shareholders' interest and ensure greater transparency. A scrutineer will also be appointed to count and validate the votes cast at the forthcoming AGM. Votes cast, for or against and the respective percentages, on each resolution are tallied and informed to shareholders immediately at the general meetings. The total number of votes cast for or against the resolutions and the respective percentages are also announced on SGXNet after the general meetings.

At general meetings, the appointed independent scrutineer will explain to the shareholders the rules, including the poll voting procedures that govern such general meetings.

The results of general meetings are also disclosed by way of Company announcement on the SGX-ST. The Company Secretary prepares minutes of general meetings, which incorporate substantial and relevant comments or queries from shareholders relating to the agenda of the general meeting, if any, and responses from the Board and Management. These minutes are published on the Company's corporate website.

Dividend Policy

The Company has declared and paid dividends every year since its initial public offering in 2007. However, in view of the uncertain economic conditions and the anticipated capital expenditure for the Group's expansion plans as announced in February and March 2020, it is difficult for the Company to commit to a fixed dividend policy. Nevertheless, the Board will discuss recommendations for dividend payments, whether in the form of final dividends or interim dividends, during Board meetings, taking into consideration the availability of the Company's retained earnings, the Group's profitability and financial position, capital expenditure requirements, future expansion or investment plans, and other relevant factors as may be determined by the Board.

The Board has recommended a one-tier tax exempt final dividend of S$0.01 per ordinary share for FY2019.

Engagement with Shareholders

Principle 12: The company communicates regularly with its shareholders and facilitates the participation of shareholders during general meetings and other dialogues to allow shareholders to communicate their views on various matters affecting the company.

The Board is mindful of its obligations to provide timely and fair disclosure of material information to the SGX-ST in accordance with the Corporate Disclosure Policy as set out in the Listing Manual. The Board's policy is that all shareholders should be equally and timely informed of all major developments that impact the Group.

The Board has embraced openness and transparency in the conduct of the Company's affairs, whilst preserving the commercial interests of the Company.

Material information is communicated to shareholders in a timely manner through:

(a) announcements of full year and quarterly financial results which are published via the SGXNET;

(b) annual reports or circulars of the Company that are prepared and sent to all shareholders;

(c) notices of AGMs and extraordinary general meetings published in the newspapers;

(d) press releases on major developments of the Group; and

(e) the Company's website at www.ChinaSunsine.com at which shareholders can access information on the Group.

The Company has an investor relations policy which provides for a mechanism through which shareholders may contact the Company with questions and through which the Company may respond to such questions. The Company has an investor relations ("**IR**") manager who communicates with its shareholders, analysts and potential investors regularly and attends to their queries. Together with the CFO, the IR manager also manages the dissemination of corporate information to the public as well as institutional investors, and promotes relations with and act as liaison for such parties. The contact details of the CFO and IR manager are provided in the Company's website and in its press releases.

The Board establishes and maintains regular dialogue with its shareholders through analyst briefings and at general meetings. The AGM of the Company is the principal forum for dialogue and interaction with all shareholders. During FY2019, the Company held quarterly public briefings for shareholders, investors, analysts and the media on its financial results after each release of its results announcement, and it was noted that many shareholders participated in these briefings.

(E) MANAGING STAKEHOLDER RELATIONSHIPS

Engagement with Stakeholders

Principle 13: The Board adopts an inclusive approach by considering and balancing the needs and interests of material stakeholders, as part of its overall responsibility to ensure that the best interests of the company are served.

The Board adopts an inclusive approach by considering and balancing the needs and interests of material stakeholders, as part of its overall responsibility to ensure that the best interests of the Company are served.

The Group's key focus areas during FY2019 are ensuring sales and production equilibrium, and environmentally friendly and safe production, improving production process through automation and investing in R&D, enhancing customer satisfaction and employees' well-being, and contributing to community development.

The Group engages and manages its relationships with key stakeholders through various means. Full details of the Group's strategy, key areas of focus, and methods of engagement can be found in the Company's Sustainability Report 2019.

The Company maintains and updates its corporate website regularly with various information on the Group and the Company which serves as an important resource for investors and all stakeholders. The CFO and IR manager are the contact persons with whom the stakeholders may directly communicate, and their contact details are provided in the Company's corporate website and in its press releases.

(F) OTHER CORPORATE GOVERNANCE MATTERS

Dealings in Securities

The Group has adopted and implemented policies in line with Rule 1207(19) of the Listing Manual in relation to the dealing of shares of the Company. The policies have been made known to directors, executive officers and any other persons as determined by Management who may possess unpublished material price-sensitive information of the Group.

The Group and its officers and employees are prohibited from trading in the Company's securities, during the period beginning 1 month and 2 weeks before the date of the announcement of the full year or quarterly results respectively and ending on the date of the announcement of the relevant results ("**Prohibited Periods**"). Directors and employees are also advised against dealing in the securities when they are in possession of any unpublished material price-sensitive information of the Group.

Directors and officers are required to comply with and observe the laws on insider trading even if they trade in the Company's securities outside the Prohibited Periods. They are discouraged from dealing in the Company's securities on short-term considerations and should be mindful of the law on insider trading.

Interested Person Transactions

The Company has adopted an internal policy governing procedures for the identification, approval and monitoring of interested person transactions ("**IPTs**"). All IPTs are subject to review by the AC to ensure that they are carried out on an arm's length basis, on normal commercial terms and will not be prejudicial to the interests of the shareholders. On a quarterly basis, Management reports findings of IPTs, if any, during AC meetings.

In the event that a member of the AC is interested in any IPT, he or she will abstain from reviewing that particular transaction.

The Board will ensure that all disclosure, approval and other requirements on IPTs, including those required by prevailing legislation, the Listing Manual and accounting standards are complied with.

There were no IPTs of aggregate value exceeding S$100,000 conducted during FY2019.

Material Contracts

Pursuant to Rule 1207(8) of the Listing Manual, save for the Service Agreements entered into with the executive directors, no material contracts, not being contracts entered into in the ordinary course of business, had been entered into by the Company and its subsidiaries involving the interest of the CEO, each director or controlling shareholder, which are either still subsisting at the end of the financial year or if not then subsisting, entered into since the end of the previous financial year.

PARTICULARS OF DIRECTORS

Name of Director	Age	Board Appointment Executive/ Non-Executive/ Independent	Date of First Appointment	Date of Last Re-appointment	Current Directorship / Chairmanship in other Listed Companies & Other Principal Commitments	Past (three years) Directorship in other Listed Companies
Xu Cheng Qiu	76	Executive Chairman	11 October 2006	30 April 2019	None	None
Liu Jing Fu	68	Executive Director and CEO	18 May 2007	26 April 2018	None	None
Xu Jun	50	Executive Director	18 May 2007	28 April 2017	None	None
Xu Xian Lei	41	Executive Director	18 April 2018	30 April 2019	None	None
Lim Heng Chong Benny	49	Lead Independent Director	18 May 2007	30 April 2019	Directorship in other Listed Companies - Alliance Healthcare Group Limited Other Principal Commitments - Chris Chong & C T Ho LLP	BM Mobility Ltd. (f.k.a. Ziwo Holdings Ltd.)
Xu Chun Hua	77	Independent Director	18 May 2007	30 April 2019	Other Principal Commitments - China Rubber Industry Association Rubber Chemical Commission	None
Koh Choon Kong	49	Independent Director	15 November 2009	26 April 2018	Other Principal Commitments - Summit Power International Limited	None
Tan Lye Heng Paul	55	Independent Director	18 May 2007	26 April 2018	Directorship in other Listed Companies - Serial System Ltd - Second Chance Properties Ltd Other Principal Commitments - CA Trust PAC	Sin Ghee Huat Corporation Ltd.
Yan Tang Feng	50	Independent Director	26 September 2019	N.A.	Other Principal Commitments - Sinolion Holdings Pte. Ltd.	None

The directors present their statement to the members together with the audited financial statements of the Group for the financial year ended 31 December 2019 and the balance sheet of the Company as at 31 December 2019.

In the opinion of the directors,

(a) the balance sheet of the Company and the consolidated financial statements of the Group as set out on pages 54 to 101 are drawn up so as to give a true and fair view of the financial position of the Company and of the Group as at 31 December 2019 and the financial performance, changes in equity and cash flows of the Group for the financial year covered by the consolidated financial statements and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

Directors

The directors of the Company in office at the date of this statement are as follows:

Xu Chengqiu
Liu Jingfu
Xu Jun
Xu Xianlei
Lim Heng Chong Benny
Xu Chunhua
Koh Choon Kong
Tan Lye Heng Paul
Yan Tangfeng (Appointed on 26 September 2019)

Arrangements to enable directors to acquire shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object was to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' interests in shares or debentures

According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year had any interest in the shares or debentures of the Company or its related corporations, except as follows:

	Holdings registered in name of director		Holdings in which a director is deemed to have an interest	
	At 31.12.2019*	At 1.1.2019 or date of appointment, if later	**At 31.12.2019***	At 1.1.2019 or date of appointment, if later
China Sunsine Chemical Holdings Ltd.				
(No. of ordinary shares)				
Xu Chengqiu [(a),(b)]	**–**	–	**593,023,100**	296,511,550
Liu Jingfu	**1,440,000**	720,000	**–**	–
Xu Xianlei	**4,813,200**	2,406,600	**–**	–
Lim Heng Chong Benny	**200,000**	100,000	**–**	–
Koh Choon Kong [(c)]	**1,900,000**	950,000	**6,552,000**	3,276,000
Tan Lye Heng Paul	**400,000**	200,000	**–**	–
Yan Tangfeng [(d)]	**–**	–	**1,892,000**	946,000

Directors' interests in shares or debentures (continued)

	Holdings registered in name of director		Holdings in which a director is deemed to have an interest	
	At 31.12.2019	At 1.1.2019 or date of appointment, if later	**At 31.12.2019**	At 1.1.2019 or date of appointment, if later
Immediate and Ultimate Holding Corporation - Success More Group Ltd				
(No. of ordinary shares)				
Xu Chengqiu [(a)]	**7,427**	7,427	**–**	–
Xu Jun	**812**	812	**–**	–

* The increase of shares was arising from the Company's 1 to 2 share split completed on 29 November 2019.

(a) Xu Chengqiu owns 74.27% of the issued share capital of Success More Group Ltd which owns 587,285,100 shares in the Company, and as such, by virtue of Section 7 of the Singapore Companies Act, is deemed to have an interest in the Company and its subsidiary corporations.

(b) 5,738,000 shares in the deemed interests of Xu Chengqiu arises from shares held by the nominee, UOB Kay Hian Pte. Ltd.

(c) The deemed interests of Koh Choon Kong arises from shares held by the nominee, DBS Nominee (Private) Limited.

(d) The deemed interests of Yan Tangfeng arises from shares held by the nominee, DBS Nominee (Private) Limited.

The directors' interests in the ordinary shares of the Company as at 21 January 2020 were the same as those as at 31 December 2019.

Share options

No options were granted during the financial year to subscribe for unissued shares of the Company or its subsidiary corporations.

No shares have been issued during the financial year by virtue of the exercise of options to take up unissued shares of the Company or its subsidiary corporations.

There were no unissued shares of the Company or its subsidiary corporations under option at the end of the financial year.

Audit committee

The members of the Audit Committee at the end of the financial year were as follows:

Koh Choon Kong (Chairman)
Tan Lye Heng Paul
Yan Tangfeng

Audit committee (continued)

All members of the Audit Committee were independent non-executive directors. The Audit Committee carried out its functions in accordance with Section 201B(5) of the Singapore Companies Act. In performing those functions, the Committee reviewed:

- the scope and the results of internal audit procedures with the internal auditor;
- the audit plan of the Company's independent auditor and any recommendations on internal accounting controls arising from the statutory audit;
- the assistance given by the Company's management to the independent auditor; and
- the balance sheet of the Company and the consolidated financial statements of the Group for the financial year ended 31 December 2019 before their submission to the Board of Directors.

The Audit Committee has recommended to the Board that the independent auditor, Nexia TS Public Accounting Corporation, be nominated for re-appointment at the forthcoming Annual General Meeting of the Company.

Independent auditor

The independent auditor, Nexia TS Public Accounting Corporation, has expressed its willingness to accept re-appointment.

On behalf of the directors

Xu Chengqiu
Director

Liu Jingfu
Director

25 March 2020

INDEPENDENT AUDITOR'S REPORT

To the Members of China Sunsine Chemical Holdings Ltd.

Report on the Audit of the Financial Statements

Our opinion

We have audited the accompanying consolidated financial statements of China Sunsine Chemical Holdings Ltd. (the "Company") and its subsidiary corporations (the "Group"), which comprise the consolidated balance sheet of the Group and the balance sheet of the Company as at 31 December 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards (International) ("SFRS(I)s") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2019 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the financial year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority ("ACRA") *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year ended 31 December 2019. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of property, plant and equipment and intangible assets

Refer to Note 3, 16 and 17 to the financial statements

As at 31 December 2019, the carrying amount of property, plant and equipment and intangible assets were RMB649,743,000 and RMB38,948,000 which accounted for 22% and 1% of the Group's total assets respectively.

Management assessed that there is objective evidence or indication that certain assets may be impaired and carried out an impairment exercise on those assets during the financial year. The impairment made was based on the valuation performed by an independent valuer. The valuation process involved significant judgement in determining the appropriate valuation methodologies to be used, and in estimating the underlying inputs and assumptions to be applied.

Key Audit Matters (continued)

Credit loss allowance for trade receivables

Refer to Note 2.9 (b) (Significant accounting policies), Note 3 and Note 27(b) to the financial statements.

The allowance for credit losses on trade receivables is considered to be a key audit matter because of the significant judgements applied, subjective assumptions used by management and the related estimation uncertainty involved in determining the adequacy of impairment loss for individual debtors.

The significance of this is further elevated by the current overall economic outlook in China and in the region, which has increased the risk of default of the Group's customers.

The carrying amount of trade receivables at the end of the financial year was RMB358,084,000. This represents 12% of the Group's total assets.

How our audit addressed the Key Audit Matters:

In obtaining sufficient audit evidence, the following procedures were carried out:

Impairment of property, plant and equipment and intangible assets

- Evaluated the competence, capabilities and objectivity of the independent valuer.
- Critically evaluated whether the valuation methodology used to determine the recoverable amount of non-financial assets complies with the requirements of SFRS(I) 1-36 *Impairment of Assets.*
- Evaluated the appropriateness of the inputs and assumptions used, taking into consideration the auditor's overall knowledge of the business and the results of other audit procedures.
- Reviewed management's disclosures in the consolidated financial statements.

Credit loss allowance for trade receivables

- Reviewed the aging analysis of trade receivables and tested the ageing report.
- Discussed with management on the recoverability of long outstanding receivables and impairment of these receivables, if any, in accordance with SFRS(I) 9.
- Assessed the appropriateness of the estimates and judgments used by management in the estimation of credit losses and consequently the allowances required.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and SFRS(I)s, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that was of most significance in the audit of the financial statements of the current financial year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company has been properly kept in accordance with the provisions of the Act.

The engagement director on the audit resulting in this independent auditor's report is Titus Kuan Tjian.

Nexia TS Public Accounting Corporation
Public Accountants and Chartered Accountants

Singapore
25 March 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2019

	Note	**2019**	2018
		RMB'000	RMB'000
Revenue	4	**2,691,656**	3,283,260
Cost of sales		**(1,910,829)**	(2,157,360)
Gross profit		**780,827**	1,125,900
Other income	7	**24,256**	21,169
Other gains and losses - net	8	**21,356**	19,602
Expenses			
- Distribution and marketing		**(96,655)**	(99,517)
- Administrative		**(185,943)**	(253,249)
- Research and development		**(90,758)**	(102,321)
- Finance	9	**(477)**	–
Profit before income tax		**452,606**	711,584
Income tax expense	10(a)	**(63,707)**	(70,308)
Net profit		**388,899**	641,276
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Currency translation gains arising from consolidation		**2,262**	2,409
Other comprehensive income, net of tax		**2,262**	2,409
Total comprehensive income		**391,161**	643,685
Net profit attributable to:			
Equity holders of the Company		**388,899**	641,276
Total comprehensive income attributable to:			
Equity holders of the Company		**391,161**	643,685
Earnings per share for net profit attributable to equity holders of the Company (RMB cents per share)			
Basic and diluted earnings per share	11	**39.72**	65.23

The accompanying notes form an integral part of these financial statements.

BALANCE SHEETS

As at 31 December 2019

	Note	Group 2019 RMB'000	Group 2018 RMB'000	Company 2019 RMB'000	Company 2018 RMB'000
ASSETS					
Current assets					
Cash and cash equivalents	12	**1,279,908**	1,038,593	**41,609**	48,953
Trade and other receivables	13	**692,625**	760,503	**75,555**	206,013
Inventories	14	**247,092**	217,332	**–**	–
		2,219,625	2,016,428	**117,164**	254,966
Non-current assets					
Investments in subsidiary corporations	15	**–**	–	**350,010**	350,010
Property, plant and equipment	16	**649,743**	690,808	**–**	–
Intangible assets	17	**38,948**	40,085	**–**	–
Right-of-use asset	18	**9,873**	–	**–**	–
		698,564	730,893	**350,010**	350,010
Total assets		**2,918,189**	2,747,321	**467,174**	604,976
LIABILITIES					
Current liabilities					
Trade and other payables	19	**323,074**	341,123	**37,542**	71,906
Lease liability	20	**899**	–	**–**	–
Deferred grants	21	**–**	–	**–**	–
Current income tax liabilities	10(b)	**23,449**	80,622	**4,333**	7,759
		347,422	421,745	**41,875**	79,665
Non-current liability					
Lease liability	20	**9,172**	–	**–**	–
Total liabilities		**356,594**	421,745	**41,875**	79,665
NET ASSETS		**2,561,595**	2,325,576	**425,299**	525,311
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	22(a)	**313,471**	313,471	**313,471**	313,471
Treasury shares	22(b)	**(21,712)**	(2,078)	**(21,712)**	(2,078)
Other reserves	23	**526,501**	453,847	**55,088**	52,826
Retained profits	24	**1,743,335**	1,560,336	**78,452**	161,092
Total equity		**2,561,595**	2,325,576	**425,299**	525,311

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2019

	Note	Share capital RMB'000	Treasury shares RMB'000	Currency translation reserve RMB'000	Merger reserve RMB'000	Capital reserve RMB'000	Statutory common reserve RMB'000	Voluntary common reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
2019										
Beginning of financial year		**313,471**	**(2,078)**	**(2,115)**	**305**	**54,627**	**200,515**	**200,515**	**1,560,336**	**2,325,576**
Total comprehensive income for the financial year		–	–	2,262	–	–	–	–	388,899	391,161
Transfer to statutory and voluntary reserves		–	–	–	–	–	35,196	35,196	(70,392)	–
Purchase of treasury shares	22(b)	–	(19,634)	–	–	–	–	–	–	(19,634)
Dividend relating to 2018 paid	25	–	–	–	–	–	–	–	(135,508)	(135,508)
End of financial year		**313,471**	**(21,712)**	**147**	**305**	**54,627**	**235,711**	**235,711**	**1,743,335**	**2,561,595**
2018										
Beginning of financial year		**313,471**	**–**	**(4,524)**	**305**	**54,627**	**183,152**	**156,133**	**1,039,337**	**1,742,501**
Total comprehensive income for the financial year		–	–	2,409	–	–	–	–	641,276	643,685
Transfer to statutory and voluntary reserves		–	–	–	–	–	17,363	44,382	(61,745)	–
Purchase of treasury shares	22(b)	–	(2,078)	–	–	–	–	–	–	(2,078)
Dividend relating to 2017 paid	25	–	–	–	–	–	–	–	(58,532)	(58,532)
End of financial year		**313,471**	**(2,078)**	**(2,115)**	**305**	**54,627**	**200,515**	**200,515**	**1,560,336**	**2,325,576**

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
Cash flows from operating activities			
Net profit		**388,899**	641,276
Adjustments for:			
- Income tax expense	10(a)	**63,707**	70,308
- Amortisation and depreciation	5	**114,162**	97,605
- Loss on disposal of property, plant and equipment	8	**–**	154
- Write-off of property, plant and equipment	5	**1,512**	2,075
- Interest income	7	**(13,151)**	(5,304)
- Interest expense	9	**477**	–
- Unrealised currency exchange gains		**(6,610)**	(12,972)
		548,996	793,142
Change in working capital			
- Inventories		**(29,760)**	(5,182)
- Trade and other receivables		**67,878**	(47,607)
- Trade and other payables		**(18,049)**	50,821
Cash generated from operations		**569,065**	791,174
Income tax paid	10(b)	**(121,058)**	(84,131)
Net cash generated from operating activities		**448,007**	707,043
Cash flows from investing activities			
Additions to property, plant and equipment	16	**(72,375)**	(129,742)
Disposal of property, plant and equipment		**–**	222
Interest received		**13,151**	5,304
Net cash used in investing activities		**(59,224)**	(124,216)
Cash flows from financing activities			
Cash deposits restricted in use pledged in banks		**2,393**	(158)
Purchase of treasury shares	22(b)	**(19,634)**	(2,078)
Proceeds from notes payables/bank borrowings		**–**	9,000
Repayment of notes payables/bank borrowings		**–**	(9,000)
Repayment of lease liability		**(1,376)**	–
Government grants received		**–**	1,200
Dividends paid to equity holders of the Company	25	**(135,508)**	(58,532)
Net cash used in financing activities		**(154,125)**	(59,568)
Net increase in cash and cash equivalents		**234,658**	523,259
Cash and cash equivalents			
Beginning of financial year		**1,034,850**	496,044
Effects of currency translation on cash and cash equivalents		**9,050**	15,547
End of financial year	12	**1,278,558**	1,034,850

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1 General information

China Sunsine Chemical Holdings Ltd. (the "Company") is listed on the Singapore Exchange and incorporated and domiciled in Singapore. The registered office and the principal place of business is located at 112 Robinson Road, #11-01, Singapore 068902.

The immediate and ultimate holding corporation of the Company is Success More Group Ltd ("Success More"), a company incorporated in the British Virgin Islands.

The principal activity of the Company is that of an investment holding company. The principal activities of its subsidiary corporations are set out in Note 15 to the financial statements.

2 Significant accounting policies

2.1 Basis of preparation

These financial statements have been prepared in accordance with Singapore Financial Reporting Standards (International) ("SFRS(I)s") under the historical cost convention, except as disclosed in the accounting policies below. The financial statements are presented in Chinese Renminbi ("RMB") and have been rounded to the nearest thousand, unless otherwise stated.

The preparation of financial statements in conformity with SFRS(I)s requires management to exercise its judgement in the process of applying the Group's accounting policies. It also requires the use of certain critical accounting estimates and assumptions. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3 to the financial statements.

Interpretations and amendments to published standards effective in 2019

On 1 January 2019, the Group has adopted the new or amended SFRS(I)s and Interpretations of SFRS(I)s ("INT SFRS(I)s") that are mandatory for application for the financial year. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective SFRS(I) and INT SFRS(I)s.

The adoption of these new or amended SFRS(I)s and INT SFRS(I)s did not result in substantial changes to the Group's accounting policies and had no material effect on the amounts reported for the current or prior financial years except for the adoption of SFRS(I) 16 Leases:

Adoption of SFRS(I) 16 Leases

When the Group is the lessee

Prior to the adoption of SFRS(I) 16, non-cancellable operating lease payments were not recognised as liabilities in the balance sheet. These payments were recognised as rental expenses over the lease term on a straight-line basis.

The Group's accounting policy on leases after the adoption of SFRS(I) 16 is as disclosed in Note 2.13.

2 Significant accounting policies (continued)

2.1 Basis of preparation (continued)

Adoption of SFRS(I) 16 Leases (continued)

When the Group is the lessee (continued)

On initial application of SFRS(I) 16, the Group has elected to apply the following practical expedients:

(i) For all contracts entered into before 1 January 2019 and that were previously identified as leases under SFRS(I) 1-17 Lease, the Group has not reassessed if such contracts contain leases under SFRS(I) 16; and

(ii) On a lease-by-lease basis, the Group has:

   (a) applied a single discount rate to a portfolio of leases with reasonably similar characteristics;

   (b) relied on previous assessments on whether leases are onerous as an alternative to performing an impairment review;

   (c) accounted for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;

   (d) excluded initial direct costs in the measurement of the right-of-use (“ROU”) asset at the date of initial application; and

   (e) used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

There were no onerous contracts as at 1 January 2019.

There were no leases previously classified as operating leases on 1 January 2019, and hence the Group has not applied any transition provisions.

The effects of adoption of SFRS(I) 16 on the Group’s financial statements as at 1 January 2019 is not material.

There were no operating lease commitments previously disclosed in the Group’s financial statements as at 31 December 2018 and hence no explanation of the differences between the operating lease commitments and the lease liability recognised in the balance sheet as at 1 January 2019.

2.2 Revenue

Revenue comprise the fair value of the consideration received or receivable for the sale of goods and rendering of services in the ordinary course of the Group’s activities. Revenue are presented, net of value-added tax, rebates and discounts, and after eliminating sales within the Group.

Revenue from sale of goods and services in the ordinary course of business is recognised when the Group satisfies a performance obligation (PO) by transferring control of a promised good or service to the customer. The amount of revenue recognised is the amount of the transaction price allocated to the satisfied PO.

2 Significant accounting policies (continued)

2.2 Revenue (continued)

(a) Sale of rubber chemicals

Local sales revenue are recognised at a point in time when the products are delivered to the customer and are accepted by the customer.

Export sales revenue are recognised at a point in time when the products are loaded on board, based on the incoterms, namely free on board ("FOB") and cost, insurance and freight ("CIF").

(b) Provision of heating power

Revenue is recognised at a point in time when the steam has been supplied to the customer and the customer has used it. The consumption of steam is measured by meters installed.

(c) Hospitality income

Revenue is recognised at a point in time when goods and services has been delivered and consumed by the customer.

(d) Interest income

Interest income is recognised using the effective interest rate method.

(e) Dividend income

Dividend income is recognised when the right to receive payment is established, it is probable that the economic benefits associated with the dividend will flow to the Group, and the amount of the dividend can be reliably measured.

2.3 Government grants

Grants from the government are recognised as a receivable at their fair value when there is reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants receivable are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Government grants relating to expenses are shown separately as other income.

Government grants relating to assets are deducted against the carrying amount of the assets.

2 Significant accounting policies (continued)

2.4 Group accounting

Subsidiary corporations

(a) Consolidation

Subsidiary corporations are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiary corporations are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date on that control ceases.

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment indicator of the transferred asset. Accounting policies of subsidiary corporations have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition method of accounting is used to account for business combinations entered into by the Group.

(b) Acquisitions

The consideration transferred for the acquisition of a subsidiary corporation or business comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes any contingent consideration arrangement and any pre-existing equity interest in the subsidiary corporation measured at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree at the date of acquisition either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The excess of (a) the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the (b) fair value of the identifiable net assets acquired is recorded as goodwill. If the amount in (b) exceeds the aggregate amounts specified in (a), the acquirer shall recognise the resulting gain in profit or loss on the acquisition date. The gain shall be attributed to the acquirer.

2 Significant accounting policies (continued)

2.4 Group accounting (continued)

Subsidiary corporations (continued)

(b) Acquisitions (continued)

Acquisitions of entities under common control have been accounted for using the pooling-of-interest method. Under this method:

- The consolidated financial statements of the Group have been prepared as if the Group structure immediately after the transaction has been in existence since the earliest date the entities are under common control;

- The assets and liabilities are brought into the consolidated financial statements at their existing carrying amounts from the perspective of the controlling party;

- The consolidated statement of comprehensive income includes the results of the acquired entities since the earliest date the entities are under common control;

- The cost of investment is recorded at the aggregate of the nominal value of the equity shares issued, cash and cash equivalents and fair values of other consideration; and

- On consolidation, the difference between the cost of investment and the nominal value of the share capital of the merged subsidiary is taken to merger reserve.

(c) Disposals

When a change in the Group's ownership interest in a subsidiary corporation results in a loss of control over the subsidiary corporation, the assets and liabilities of the subsidiary corporation including any goodwill are derecognised. Amounts previously recognised in other comprehensive income in respect of that entity are also reclassified to profit or loss or transferred directly to retained profits if required by a specific Standard.

Any retained equity interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained interest at the date when control is lost and its fair value is recognised in profit or loss.

Please refer to the paragraph "Investments in subsidiary corporations" for the accounting policy on investments in subsidiary corporations in the separate financial statements of the Company.

2 Significant accounting policies (continued)

2.5 Property, plant and equipment

(a) Measurement

(i) Property, plant and equipment

Property, plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

(ii) Components of costs

The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Grants received or receivable for the acquisition of property, plant and equipment are deducted from the cost of the asset acquired to which the grant relates in arriving at the carrying amount of the asset.

(b) Depreciation

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their depreciable amounts over their estimated useful lives as follows:

	Useful lives
Plant and machinery	10 years
Buildings	12 to 20 years
Motor vehicles	5 to 8 years
Office equipment	5 years

Assets under construction included in property, plant and equipment are not depreciated as these assets are not yet available for use.

Fully depreciated property, plant and equipment still in use are retained in the financial statements.

The residual values, estimated useful lives and depreciation method of property, plant and equipment are reviewed, and adjusted as appropriate, at each reporting date. The effects of any revision are recognised in profit or loss when the changes arise.

(c) Subsequent expenditure

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. All other repair and maintenance expenses are recognised in profit or loss when incurred.

(d) Disposal

On disposal of an item of property, plant and equipment, the difference between the disposal proceeds and its carrying amount is recognised in profit or loss within “other gains and losses”.

2 Significant accounting policies (continued)

2.6 Intangible assets

Land use rights

Land use rights are initially recognised at cost and are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised to profit or loss using the straight-line method over 35 years and 50 years respectively, which is the shorter of their estimated useful lives and periods of contractual rights.

2.7 Investments in subsidiary corporations

Investments in subsidiary corporations are carried at cost less accumulated impairment losses in the Company's balance sheet. On disposal of such investments, the difference between the disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

2.8 Impairment of non-financial assets

Property, plant and equipment
Right-of-use asset
Intangible assets
Investments in subsidiary corporations

Property, plant and equipment, right-of-use asset, intangible assets and investments in subsidiary corporations are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash inflows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the cash-generating units ("CGU") to which the asset belongs.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

The difference between the carrying amount and recoverable amount is recognised as an impairment loss in profit or loss.

An impairment loss for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of this asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset is recognised in profit or loss.

2 Significant accounting policies (continued)

2.9 Financial assets

(a) Classification and measurement

The Group classifies its financial assets at amortised cost. The classification depends on the Group's business model for managing the financial assets as well as the contractual terms of the cash flows of the financial asset.

The Group reclassifies debt instruments when and only when its business model for managing those assets changes.

At initial recognition

At initial recognition, the Group measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial assets.

At subsequent measurement

Debt instruments

Debt instruments mainly comprise of cash and cash equivalents and trade and other receivables.

There are three subsequent measurement categories, depending on the Group's business model for managing the asset and the cash flow characteristic of the assets.

Debt instruments that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt instrument that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is recognised using the effective interest rate method.

(b) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by the SFRS(I) 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(c) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

On disposal of a debt instrument, the difference between the carrying amount and the sale proceeds is recognised in profit or loss. Any amount previously recognised in other comprehensive income relating to that asset is reclassified to profit or loss.

2 Significant accounting policies (continued)

2.10 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.11 Borrowings

Borrowings are presented as current liabilities unless the Group has an unconditional right to defer settlement for at least 12 months after the balance sheet date, in which case they are presented as non-current liabilities.

Borrowings are initially recognised at fair value (net of transaction costs) and subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

2.12 Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. They are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). Otherwise, they are presented as non-current liabilities.

Trade and other payables are initially recognised at fair value, and subsequently carried at amortised cost using the effective interest method.

2.13 Leases

(a) The accounting policy for leases before 1 January 2019 are as follows:

The Group leases land, properties and offices under operating leases from non-related parties.

Lessee – Operating leases

Leases where substantially all risks and rewards incidental to ownership are retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are recognised in profit or loss on a straight-line basis over the period of the lease.

Contingent rents are recognised as an expense in profit or loss when incurred.

2 Significant accounting policies (continued)

2.13 Leases (continued)

(b) The accounting policy for leases from 1 January 2019 are as follows:

When the Group is the lessee:

At the inception of the contract, the Group assesses if the contract contains a lease. A contract contains a lease if the contract convey the right to control the use of an identified asset for a period of time in exchange for consideration. Reassessment is only required when the terms and conditions of the contract are changed.

- Right-of-use assets

  The Group recognised a right-of-use asset and lease liability at the date which the underlying asset is available for use. Right-of-use assets are measured at cost which comprises the initial measurement of lease liabilities adjusted for any lease payments made at or before the commencement date and lease incentive received. Any initial direct costs that would not have been incurred if the lease had not been obtained are added to the carrying amount of the right-of-use assets.

  This right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

- Lease liability

  The initial measurement of lease liability is measured at the present value of the lease payments discounted using the implicit rate in the lease, if the rate can be readily determined. If that rate cannot be readily determined, the Group shall use its incremental borrowing rate.

  Lease payments include the following:

  – Fixed payment (including in-substance fixed payments), less any lease incentives receivables;
  – Variable lease payment that are based on an index or rate, initially measured using the index or rate as at the commencement date;
  – Amount expected to be payable under residual value guarantees
  – The exercise price of a purchase option if is reasonably certain to exercise the option; and
  – Payment of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

  For contract that contain both lease and non-lease components, the Group allocates the consideration to each lease component on the basis of the relative stand-alone price of the lease and non-lease component. The Group has elected to not separate lease and non-lease component for property leases and account these as one single lease component.

2 Significant accounting policies (continued)

2.13 Leases (continued)

(b) *The accounting policy for leases from 1 January 2019 are as follows:* (continued)

When the Group is the lessee: (continued)

- Lease liability (continued)

  Lease liability is measured at amortised cost using the effective interest method. Lease liability shall be remeasured when:

  – There is a change in future lease payments arising from changes in index or rate;
  – There is a changes in the Group's assessment of whether it will exercise an extension option; or
  – There are modification in the scope or the consideration of the lease that was not part of the original term.

  Lease liability is remeasured with a corresponding adjustment to the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

- Short term and low value leases

  The Group has elected to not recognised right-of-use assets and lease liabilities for short-term leases that have lease terms of 12 months or less and leases of low value leases, except for sublease arrangements. Lease payments relating to these leases are expensed to profit or loss on a straight-line basis over the lease term.

2.14 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using weighted average method. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and applicable variable selling expenses.

2.15 Income taxes

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profit or loss at the time of the transaction.

2 Significant accounting policies (continued)

2.15 Income taxes (continued)

A deferred income tax liability is recognised on temporary differences arising on investments in subsidiary corporations, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

Deferred income tax is measured:

(i) at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date; and

(ii) based on the tax consequence that will follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income taxes are recognised as income or expense in profit or loss, except to the extent that the tax arises from a business combination or a transaction which is recognised directly in equity. Deferred tax arising from a business combination is adjusted against goodwill on acquisition.

The Group accounts for investment tax credits (for example, productivity and innovative credit) similar to accounting for other tax credits where deferred tax asset is recognised for unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax credit can be utilised.

2.16 Employee compensation

Employee benefits are recognised as an expense, unless the cost qualifies to be capitalised as an asset.

(a) Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities such as the Central Provident Fund on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid.

(b) Defined contribution plans – retirement benefits

Pursuant to the relevant regulations of the People's Republic of China ("PRC") government, the PRC subsidiary corporations of the Group ("PRC Subsidiary Corporations") have participated in central pension schemes ("the Schemes") operated by local municipal government whereby the PRC Subsidiary Corporations are required to contribute a certain percentage of the basic salaries of their employees to the Schemes to fund its retirement benefits. The local municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the PRC Subsidiary Corporations. The only obligation of the PRC Subsidiary Corporations with respect to the Schemes is to pay the ongoing required contributions under the Schemes mentioned above. Contributions under the Schemes are charged to profit or loss when incurred.

2 Significant accounting policies (continued)

2.17 Currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The Company's functional currency is Singapore Dollars. The financial statements are presented in Chinese Renminbi as the functional currency of the Group's operating subsidiary corporations is Chinese Renminbi.

(b) *Transactions and balances*

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates at the dates of the transactions. Currency exchange differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the balance sheet date are recognised in profit or loss. Monetary items include primarily financial assets and financial liabilities. However, in the consolidated financial statements, currency translation differences arising from borrowings in foreign currencies and other currency instruments designated and qualifying as net investment hedges and net investment in foreign operations, are recognised in other comprehensive income and accumulated in the currency translation reserve.

When a foreign operation is disposed of or any loan forming part of the net investment of the foreign operation is repaid, a proportionate share of the accumulated currency translation differences is reclassified to profit or loss, as part of the gain or loss on disposal.

Foreign exchange gains and losses impacting profit or loss are presented in the income statement within "other gains and losses".

Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined.

(c) *Translation of Group entities' financial statements*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities are translated at the closing exchange rates at the reporting date;

(ii) income and expenses are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated using the exchange rates at the dates of the transactions); and

(iii) all resulting currency translation differences are recognised in other comprehensive income and accumulated in the currency translation reserve. These currency translation differences are reclassified to profit or loss on disposal or partial disposal with loss of control of the foreign operation.

2 Significant accounting policies (continued)

2.18 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Directors whom are responsible for allocating resources and assessing performance of the operating segments.

2.19 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash on hand and deposits with financial institutions which are subject to an insignificant risk of change in value. For cash subjected to restriction, assessment is made on the economic substance of the restriction and whether they meet the definition of cash and cash equivalents.

2.20 Share capital and treasury shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

When any entity within the Group purchases the Company's ordinary shares ("treasury shares"), the carrying amount which includes the consideration paid and any directly attributable transaction cost is presented as a component within equity attributable to the Company's equity holders, until they are cancelled, sold or reissued.

When treasury shares are subsequently cancelled, the cost of treasury shares are deducted against the share capital account if the shares are purchased out of capital of the Company, or against the retained profits of the Company if the shares are purchased out of earnings of the Company.

When treasury shares are subsequently sold or reissued, the cost of treasury shares is reversed from the treasury share account and the realised gain or loss on sales or reissue, net of any directly attributable incremental transaction costs and related income tax, is recognised in the capital reserve.

2.21 Dividends to Company's shareholders

Dividends to the Company's shareholders are recognised when the dividends are approved for payment.

3 Critical accounting estimates, assumptions and judgements

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3 Critical accounting estimates, assumptions and judgements (continued)

Credit loss allowance for trade receivables

Expected credit losses (ECL) on trade receivables are probability-weighted estimates of credit losses which are determined by evaluating a range of possible outcomes and taking into account past events, current conditions and assessment of future economic conditions.

The Group has used relevant historical information and loss experience to determine the probability of default of the instruments and incorporated forward looking information, including significant changes in external market indicators which involved significant estimates and judgements.

In determining the ECL of trade receivables, the Group has used four years of historical losses data to determine the loss rate and applied an adjustment against the historical loss rate based on the default rate to reflect the current and forward looking information.

Notwithstanding the above, the Group evaluates the expected credit loss on customers in financial difficulties separately.

As at 31 December 2019, the Group's trade receivables amounted to RMB370,772,000 (2018: RMB468,006,000) which arose from the Group's different revenue segments - sale of rubber chemicals and provision of heating power. The loss allowance of trade receivables amounts to RMB12,688,000 (2018: RMB15,979,000).

The carrying amounts of trade receivables at the end of each financial year are disclosed in Note 13.

The Group's and the Company's credit risk exposure for trade receivables are set out in Note 27(b).

Impairment of property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

During the financial year, the Group carried out a valuation exercise on certain property, plant and equipment and intangible assets due to presence of impairment indicators. As a result of that exercise, there is no impairment loss recognised for the financial year ended 31 December 2019 and 2018 respectively.

The recoverable amount of the property, plant and equipment and intangible assets were determined by an independent external valuer. In performing the impairment assessment of the carrying amount of the property, plant and equipment, significant judgements were used to estimate the depreciated replacement costs of those assets, based on their physical inspection of the condition of the property, plant and equipment.

The carrying amounts of the Group's property, plant and equipment and intangible assets at the balance sheet date amounted to RMB649,743,000 (2018: RMB690,808,000) and RMB38,948,000 (2018: RMB40,085,000) respectively.

4 Revenue

The Group derives revenue from the transfer of goods and services at a point in time for the following operating segments and geographical regions. Revenue is attributed to countries by location of customers.

	Group	
	2019	2018
	RMB'000	RMB'000
Sale of rubber chemicals		
- People's Republic of China	**1,640,111**	2,009,449
- Rest of Asia	**599,248**	814,497
- America	**83,200**	73,296
- Europe	**305,141**	284,420
- Others	**46,577**	80,559
	2,674,277	3,262,221
Provision of heating power		
- People's Republic of China	**16,708**	20,119
Hospitality income		
- People's Republic of China	**671**	920
	2,691,656	3,283,260

5 Expenses by nature

	Group	
	2019	2018
	RMB'000	RMB'000
Purchases of inventories	**1,581,474**	1,761,199
Amortisation of intangible assets (Note 17)	**1,137**	1,192
Depreciation of property, plant and equipment (Note 16)	**111,928**	96,413
Depreciation of right-of-use asset (Note 18(a))	**1,097**	–
Total amortisation and depreciation	**114,162**	97,605
(Reversal of impairment)/impairment of trade and other receivables, net (Note 27(b))	**(3,291)**	3,546
Directors' fees	**961**	882
Employee compensation (Note 6)	**235,036**	303,118
Fees on audit services paid/payable to		
- Auditor of the Company	**1,028**	949
- Other auditor	**133**	82
Total audit fees	**1,161**	1,031
Freight charges	**56,384**	54,855
Port charges	**17,814**	15,729
Research expense (excluding salaries and depreciation)	**76,065**	94,621
Utilities	**132,236**	199,057
Write off of property, plant and equipment	**1,512**	2,075
Rental expense (Note 18)	**170**	1,575
Other expenses	**100,261**	82,336
Changes in inventories	**(29,760)**	(5,182)
Total cost of sales, distribution and marketing costs, administrative expenses and research and development expenses	**2,284,185**	2,612,447

6 Employee compensation

	Group 2019 RMB'000	Group 2018 RMB'000
Salaries	**201,460**	268,943
Employer's contribution to defined contribution plans including Central Provident Fund	**33,576**	34,175
	235,036	303,118

7 Other income

	Group 2019 RMB'000	Group 2018 RMB'000
Interest income on financial assets measured at amortised cost - bank deposits	**13,151**	5,304
Gain on sale of scrap materials	**3,777**	5,604
Government grants (Note 21)	**6,326**	8,078
Others	**1,002**	2,183
	24,256	21,169

8 Other gains and losses - net

	Group 2019 RMB'000	Group 2018 RMB'000
Currency exchange gains – net	**21,356**	19,755
Loss on disposal of property, plant and equipment	**–**	(154)
Others	**–**	1
	21,356	19,602

9 Finance expense

	Group 2019 RMB'000	Group 2018 RMB'000
Interest expense - lease liability	**477**	–

10 Income taxes

(a) Income tax expense

	Group	
	2019	2018
	RMB'000	RMB'000
Tax expense attributable to profit is made up of:		
Profit for the financial year:		
- Current income tax	**84,477**	118,245
Over provision in prior financial years:		
- Current income tax	**(20,770)**	(47,937)
	63,707	70,308

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of the principal place of operation of the Group as follows:

	Group	
	2019	2018
	RMB'000	RMB'000
Profit before income tax	**452,606**	711,584
Tax calculated at tax rate of 25% (2018: 25%)	**113,152**	177,896
Effects of:		
- different tax rates in other country	**(4,475)**	(10,535)
- different tax rates for HNTE concessionary rate (1)	**(38,787)**	(68,667)
- income not subject to tax	**–**	(6,254)
- expenses not deductible for tax purposes	**10,939**	1,950
- foreign withholding tax	**3,069**	12,923
- deferred income tax assets not recognised	**700**	10,932
- over provision of tax in prior financial years	**(20,770)**	(47,937)
- others	**(121)**	–
Tax charge	**63,707**	70,308

(1) One of the subsidiary corporation of the Group has obtained the High and New-Technology Enterprise ("HNTE") status certificate, effective for a 3 years period from 28 December 2017. Under the HNTE programme, the subsidiary corporation qualified for a preferential corporate income tax rate of 15% instead of the headline corporate income tax rate of 25%.

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefits through future taxable profit is probable. The Group has unrecognised tax losses of RMB128,829,000 (2018: RMB126,028,000) at the balance sheet date which can be carried forward and used to offset against future taxable income subject to meeting certain statutory requirements by those companies with unrecognised tax losses in Singapore. The tax losses have no expiry date.

Deferred income tax liabilities of approximately RMB83,244,000 (2018: RMB69,962,000) have not been recognised for withholding taxes that would be payable on unremitted earnings of the Group's subsidiary corporations (established in PRC) as the Group is in a position to control the timing of the remittance of earning and it is not probable that these subsidiary corporations will distribute such earnings in the foreseeable future.

10 Income taxes (continued)

(b) Movements in current income tax liabilities

	Group		Company	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
Beginning of financial year	**80,622**	94,279	**7,759**	1,199
Currency translation differences	**178**	166	**178**	166
Income tax paid	**(121,058)**	(84,131)	**(6,673)**	(6,530)
Tax expense	**84,477**	118,245	**3,069**	12,924
Over provision in prior financial years	**(20,770)**	(47,937)	**–**	–
End of financial year	**23,449**	80,622	**4,333**	7,759

11 Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

	2019	2018
Net profit attributable to equity holders of the Company (RMB'000)	**388,899**	641,276
Weighted average number of ordinary shares outstanding for basic and diluted earnings per share ('000)*	**979,109**	983,152
Basic and diluted earnings per share (RMB cents)*	**39.72**	65.23

* the weighted average number of ordinary shares and earnings per share for 2018 have been adjusted retrospectively due to 1 to 2 share split completed on 29 November 2019.

There are no dilutive potential ordinary shares during the financial year.

12 Cash and cash equivalents

	Group		Company	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and on hand	**680,393**	781,329	**41,609**	48,953
Short-term bank deposits	**599,515**	257,264	**–**	–
	1,279,908	1,038,593	**41,609**	48,953

12 Cash and cash equivalents (continued)

For the purpose of presenting the consolidated statement of cash flows, cash and cash equivalents comprise the following:

	Group	
	2019	2018
	RMB'000	RMB'000
Cash and cash equivalents (as above)	**1,279,908**	1,038,593
Less: Bank deposits pledged	**(1,350)**	(3,743)
Cash and cash equivalents per consolidated statement of cash flows	**1,278,558**	1,034,850

Bank deposits are pledged in relation to the security granted for the issuance of letters of credit.

13 Trade and other receivables

	Group		Company	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
Notes receivables	**167,107**	238,539	**–**	–
Trade receivables				
- Non-related parties	**370,772**	468,006	**–**	–
Less: Loss allowance (Note 27(b))	**(12,688)**	(15,979)	**–**	–
Trade receivables - net	**358,084**	452,027	**–**	–
Non-trade receivables				
- Subsidiary corporations	**–**	–	**75,536**	205,993
- Non-related parties	**13,873**	18,283	**19**	20
	13,873	18,283	**75,555**	206,013
Advances to suppliers	**122,473**	49,590	**–**	–
Deposits	**28,668**	168	**–**	–
Prepayments	**2,420**	1,896	**–**	–
	692,625	760,503	**75,555**	206,013

The non-trade receivables due from subsidiary corporations are unsecured, interest-free and are repayable on demand.

14 Inventories

	Group	
	2019	2018
	RMB'000	RMB'000
Raw materials	**126,336**	145,730
Finished/trading goods	**120,756**	71,602
	247,092	217,332

The cost of inventories recognised as an expense and included in "cost of sales" amounted to RMB1,551,714,000 (2018: RMB1,756,017,000).

15 Investments in subsidiary corporations

	Company	
	2019	2018
	RMB'000	RMB'000
Equity investments at cost		
Beginning and end of financial year	**350,010**	350,010

The Group had the following subsidiary corporations as at 31 December 2019 and 2018:

Name	Principal activities	Country of business/ incorporation	Proportion of ordinary shares directly held by parent and the Group	
			2019	2018
			%	%
Held by Company				
Shandong Sunsine Chemical Co.,Ltd [(a),(b)]	Manufacturing and sale of rubber chemicals, comprising rubber accelerators, anti-oxidant agents, anti-scorching agents and insoluble sulphur	People's Republic of China	**100**	100
Held by Shandong Sunsine Chemical Co.,Ltd				
Weifang Sunsine Chemical Co., Ltd [(b),(c)]	Manufacturing and sale of rubber chemicals, including rubber accelerators	People's Republic of China	**100**	100
Shandong Sheng Tao Chemical Co., Ltd [(b),(c)]	Manufacturing and sale of rubber chemicals, including insoluble sulphur	People's Republic of China	**100**	100
Shanxian Sunsine Hotel Management Co., Ltd [(c),(d)]	Hotel investment and management (dormant)	People's Republic of China	**100**	100
Shanxian Guangshun Heating Co., Ltd [(b),(c)]	Production and supply of heating power, including preparation and implementation of the project	People's Republic of China	**100**	100

15 Investments in subsidiary corporations (continued)

The Group had the following subsidiary corporations as at 31 December 2019 and 2018: (continued)

Name	Principal activities	Country of business/ incorporation	Proportion of ordinary shares directly held by parent and the Group	
			2019	2018
			%	%
Held by Shandong Sunsine Chemical Co.,Ltd (continued)				
Shandong Hengshun New Material Co., Ltd [(b),(c),(e)]	Manufacturing of chemical agent and rubber chemicals	People's Republic of China	**100**	–
Held by Shanxian Sunsine Hotel Management Co., Ltd				
Shandong Fulong Villa Co., Ltd [(b),(c)]	Hotel and restaurant	People's Republic of China	**100**	100

(a) Audited by Shan Dong He Hua United Certified Public Accountants for local statutory purposes.

(b) For the purposes of preparing the consolidated financial statements of the Group, these financial statements have been audited by Shanghai Nexia TS Certified Public Accountants.

(c) Not required to be audited under the laws of the country of incorporation.

(d) The company was dormant during the financial year.

(e) The company was incorporated on 14 May 2019.

In accordance to Rule 716 of The Singapore Exchange Securities Trading Limited – Listing Rules, the Audit Committee and Board of Directors of the Company confirmed that they are satisfied that the appointment of different auditors for its subsidiary corporations would not compromise the standard and effectiveness of the audit of the Group.

Significant restrictions

Cash and short-term deposits of RMB1,238,299,000 (2018: RMB989,640,000) are held in the People's Republic of China and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

16 Property, plant and equipment

	Plant and machinery RMB'000	Buildings RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Assets under construction RMB'000	Total RMB'000
Group						
2019						
Cost						
Beginning of financial year	719,103	448,769	11,071	25,034	159,807	1,363,784
Additions	15,635	8,011	3,089	1,736	43,904	72,375
Written off	(7,536)	(191)	(1,075)	(2,054)	–	(10,856)
Reclassification	148,848	19,052	328	5,035	(173,263)	–
End of financial year	876,050	475,641	13,413	29,751	30,448	1,425,303
Accumulated depreciation and impairment losses						
Beginning of financial year	490,247	159,470	6,094	15,255	1,910	672,976
Depreciation charge (Note 5)	78,225	26,934	1,377	5,392	–	111,928
Written off	(6,470)	(18)	(907)	(1,949)	–	(9,344)
End of financial year	562,002	186,386	6,564	18,698	1,910	775,560
Net book value						
End of financial year	**314,048**	**289,255**	**6,849**	**11,053**	**28,538**	**649,743**

16 Property, plant and equipment (continued)

	Plant and machinery RMB'000	Buildings RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Assets under construction RMB'000	Total RMB'000
Group						
2018						
Cost						
Beginning of financial year	639,681	433,958	10,217	20,859	148,599	1,253,314
Additions	14,484	8,792	1,630	2,071	102,765	129,742
Grants received (Note 21)	–	–	–	–	(1,903)	(1,903)
Disposals	(1,300)	–	(708)	–	–	(2,008)
Written off	(12,549)	(1,060)	(68)	(1,684)	–	(15,361)
Reclassification	78,787	7,079	–	3,788	(89,654)	–
End of financial year	719,103	448,769	11,071	25,034	159,807	1,363,784
Accumulated depreciation and impairment losses						
Beginning of financial year	434,255	135,608	5,728	13,980	1,910	591,481
Depreciation charge (Note 5)	68,380	24,214	935	2,884	–	96,413
Disposals	(1,107)	–	(525)	–	–	(1,632)
Written off	(11,281)	(352)	(44)	(1,609)	–	(13,286)
End of financial year	490,247	159,470	6,094	15,255	1,910	672,976
Net book value						
End of financial year	**228,856**	**289,299**	**4,977**	**9,779**	**157,897**	**690,808**

17 Intangible assets

	Group	
	2019	2018
	RMB'000	RMB'000
Land use rights		
Cost		
Beginning and end of financial year	**53,287**	53,287
Accumulated amortisation and impairment losses		
Beginning of financial year	**13,202**	12,010
Amortisation charge (Note 5)	**1,137**	1,192
End of financial year	**14,339**	13,202
Net book value	**38,948**	40,085

The amortisation charged is included in the statement of comprehensive income as part of the administrative expenses.

Land use rights are related to the following parcels of land:

Location	Period	Land area (sq m)
Facility 1		
Intersection of Beiyuan Road and East Outer Ring Road, Shanxian	50 years (expiring on 5 Sep 2056)	162,087
Intersection of Beiyuan Road and East Outer Ring Road, Shanxian	50 years (expiring on 31 Oct 2059)	89,109
Intersection of Beiyuan Road and East Outer Ring Road, Shanxian	NA(1)	110,514
Intersection of Beiyuan Road and East Outer Ring Road, Shanxian	NA(1)	45,187
		406,897
Facility 2		
Bin Hai Economic Development Area, Weifang	50 years (expiring on 13 Mar 2061)	187,852
Facility 3		
Zhuji County, Changjiang Road North, Chenji, Dingtao	50 years (expiring on 2 Sep 2064)	59,942
Zhuji County, Changjiang Road North, Chenji, Dingtao	NA(2)	126,725
		186,667
Facility 4		
Economic and Technological Development Zone, Shanxian	50 years (expiring on 26 Dec 2063)	46,175
Economic and Technological Development Zone, Shanxian	NA(3)	80,492
		126,667
Facility 5		
Fulong Lake, Fugang Village, Shanxian	35 years (expiring on 7 Sep 2050)	33,618

17 Intangible assets (continued)

(1) The land for Facility 1 is where Shandong Sunsine Chemical Co., Ltd's ("Shandong Sunsine") chemical factories are built. However, its full rights to the properties (comprising building and land) is subject to the grant of the land use rights for the land on which the buildings are erected. Shandong Sunsine has obtained construction permission from the local authority of Shanxian County in prior financial year but has yet to receive the land use rights certificates as at the date of authorisation of these financial statements.

(2) The land for Facility 3 is where Shandong Sheng Tao Chemical Co., Ltd's ("Shandong Sheng Tao") factory is built. However, its full rights to the properties (comprising building and land) is subject to the grant of the land use rights for the land on which the buildings are erected. Shandong Shengtao has obtained construction permission from the local authority of Dingtao County in prior financial year but has yet to receive the land use rights certificates as at the date of authorisation of these financial statements.

(3) The land for Facility 4 is where Shanxian Guangshun Heating Co., Ltd's ("Guangshun") factory is built. However, its full rights to the properties (comprising building and land) is subject to the grant of the land use rights for the land on which the buildings are erected. Guangshun has obtained construction permission from the local authority of Shanxian County in prior financial year but has yet to receive the land use rights certificates as at the date of authorisation of these financial statements.

Notwithstanding the fact that the Group has not obtained the relevant legal title of the land use rights, management considers that the Group has obtained the right to use through contractual arrangement with the local government agency.

18 Leases – The Group as a lessee

Nature of the Group's leasing activities

Land and properties

The Group leases land and properties for its production operations. There are no externally imposed covenant on these lease arrangements.

(a) Right-of-use asset - carrying amount and depreciation charged during the year

	Group 2019 RMB'000
Cost	
Beginning of financial year	–
Additions	10,970
End of financial year	10,970
Accumulated depreciation	
Beginning of financial year	–
Depreciation charge (Note 5)	1,097
End of financial year	1,097
Carrying amount	
End of financial year	**9,873**

18 Leases – The Group as a lessee (continued)

(b) Interest expense

	Group 2019 RMB'000
Interest expense on lease liability (Note 9)	**477**

(c) Lease expense not capitalised in lease liabilities

	Group 2019 RMB'000
Lease expense – short-term leases (Note 5)	**170**

(d) Total cash outflow for all the leases in 2019 was RMB1,546,000.

(e) Future cash outflow which are not capitalised as lease liabilities

Extension options

The leases for land and properties contain extension period, for which the related lease payments had not been included in lease liabilities as the Group is not reasonably certain to exercise the extension option. The Group negotiates extension options to optimise operational flexibility in terms of managing the assets used in the Group's operations. The extension option is exercisable by the Group and not by the lessor.

19 Trade and other payables

	Group		Company	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables - Non-related parties	**63,934**	63,214	**–**	–
Non-trade payables - Non-related parties	**112,057**	103,878	**7,883**	7,990
Accruals for operating expenses	**147,083**	174,031	**29,659**	63,916
	323,074	341,123	**37,542**	71,906

20 Lease liability

	Group 2019 RMB'000
Current	**899**
Non-current	**9,172**
Total	**10,071**

Reconciliation of lease liability arising from financing activities

		Non-cash changes		
1 January 2019	**Principal and interest repayments**	**Addition during the financial year**	**Interest expense**	**31 December 2019**
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
–	(1,376)	10,970	477	10,071

21 Deferred grants

	Group	
	2019 RMB'000	2018 RMB'000
Beginning of financial year	**–**	703
Amount received from government agencies	**6,326**	9,278
Recognised directly into profit or loss (Note 7)	**(6,326)**	(8,078)
Deducted against the carrying amount of the assets (Note 16)	**–**	(1,903)
End of financial year	**–**	–

Deferred grants relate to government grants received from government agencies for the recognition of the contribution toward national building as well as the research activities undertaken by the Group's subsidiary in the People's Republic of China.

22 Share capital and treasury shares

(a) *Share capital*

	No. of ordinary shares	Amount SGD'000	Amount RMB'000
Group and Company			
2019			
Beginning of financial year	491,694,000	62,649	313,471
Share split [(1)]	491,694,000	–	–
End of financial year	**983,388,000**	**62,649**	**313,471**
2018			
Beginning and end of financial year	**491,694,000**	**62,649**	**313,471**

All issued ordinary shares are fully paid. There is no par value for these ordinary shares.

The holders of ordinary shares (except for treasury shares) are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

(1) On 29 November 2019, the Company completed the proposed share split of every one existing ordinary share into two ordinary shares with no additional considerations.

All shares after the share split rank pari passu with one another.

(b) *Treasury shares*

	No. of ordinary shares	Amount SGD'000	Amount RMB'000
Group and Company			
2019			
Beginning of financial year	382,300	(418)	(2,078)
Treasury shares purchased before share split	3,087,000	(3,484)	(17,522)
Balance before share split	3,469,300	(3,902)	(19,600)
Effect of share split	3,469,300	–	–
Treasury shares purchased after share split	806,700	(408)	(2,112)
End of financial year	**7,745,300**	**(4,310)**	**(21,712)**
2018			
Beginning of financial year	–	–	–
Treasury shares purchased	382,300	(418)	(2,078)
End of financial year	**382,300**	**(418)**	**(2,078)**

Treasury shares held by the Company relates to ordinary shares of the Company.

In 2019, the Company purchased 3,893,700 treasury shares in the open market. The cost of the treasury shares purchased amounted to SGD3,892,000 (equivalent to RMB19,634,000).

In 2018, the Company purchased 382,300 treasury shares in the open market. The cost of the treasury shares purchased amounted to SGD418,000 (equivalent to RMB2,078,000).

23 Other reserves

	Group		Company	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
(a) Composition:				
Merger reserve	**305**	305	**–**	–
Capital reserve	**54,627**	54,627	**54,627**	54,627
Statutory common reserve	**235,711**	200,515	**–**	–
Voluntary common reserve	**235,711**	200,515	**–**	–
Currency translation reserve	**147**	(2,115)	**461**	(1,801)
	526,501	453,847	**55,088**	52,826

(b) Movements:

	Group		Company	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
(i) Merger reserve				
Beginning and end of financial year	**305**	305	**–**	–
(ii) Capital reserve				
Beginning and end of financial year	**54,627**	54,627	**54,627**	54,627
(iii) Statutory common reserve				
Beginning of financial year	**200,515**	183,152	**–**	–
Transfer from retained profits	**35,196**	17,363	**–**	–
End of financial year	**235,711**	200,515	**–**	–
(iv) Voluntary common reserve				
Beginning of financial year	**200,515**	156,133	**–**	–
Transfer from retained profits	**35,196**	44,382	**–**	–
End of financial year	**235,711**	200,515	**–**	–

23 Other reserves (continued)

(b) Movements: (continued)

	Group		Company	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
(v) Currency translation reserve				
Beginning of financial year	**(2,115)**	(4,524)	**(1,801)**	(4,210)
Net currency translation differences of financial statements of holding company	**2,262**	2,409	**2,262**	2,409
End of financial year	**147**	(2,115)	**461**	(1,801)

Other reserves are non-distributable.

Merger reserve

The merger reserve arose from the difference between the purchase consideration and the carrying value of the entire interest acquired under the pooling-of-interests method of consolidation in the restructuring process carried out in 2007.

Currency translation reserve

The currency translation reserve represents exchange differences arising from the translation of the financial statements of the Company whose functional currency is different from that of the Group's presentation currency.

Statutory and Voluntary reserves

According to the Company Law of People's Republic of China ("PRC") and Articles of Association of PRC Subsidiary Corporations, the subsidiary corporations are required to provide the following statutory reserves which are appropriated from the net profit as reported in the PRC statutory financial statements:

(i) Statutory common reserve

A company is required to transfer 10% of the net profit as reported in its PRC statutory financial statements to statutory common reserve annually, except where the fund has reached 50% of the company's registered capital. This fund can be used to make up for any losses incurred or be converted into paid-up capital, provided that the fund does not fall below 25% of the registered capital.

(ii) Voluntary common reserve

In accordance with the relevant laws and regulations in the People's Republic of China, the subsidiary corporation is allowed to appropriate a minimum of 10% of the net profit reported in the statutory accounts to the voluntary common reserve which serves as staff welfare fund until the balance of such reserve reached 50% of its registered share capital.

The amount to be set aside is determined by the Board of Directors annually in accordance with the relevant regulations. This reserve cannot be used for purposes other than those for which is created and is not distributable as cash dividends.

24 Retained profits

(a) Retained profits of the Group and the Company are distributable.

(b) Movement in retained profits for the Company is as follows:

	Company	
	2019	2018
	RMB'000	RMB'000
Beginning of financial year	**161,092**	100,857
Net profit	**52,868**	118,767
Dividends paid (Note 25)	**(135,508)**	(58,532)
End of financial year	**78,452**	161,092

25 Dividends

	Group	
	2019	2018
	RMB'000	RMB'000
Ordinary dividends (Note 24)		
Final dividends paid in respect of the previous financial year of SGD 0.055 (2018: SGD 0.025) per share	**135,508**	58,532

At the forthcoming Annual General Meeting on 29 April 2020, a final dividend of SGD0.01 per share amounting to SGD9,756,000 (equivalent to approximately RMB48,782,000) will be recommended. These financial statements do not reflect this dividend, which will be accounted for in shareholder's equity as an appropriation of retained profits in the financial year ending 31 December 2020.

26 Commitments

Capital expenditures contracted for at the balance sheet date but not recognised in the financial statements are as follows:

	Group	
	2019	2018
	RMB'000	RMB'000
Property, plant and equipment	**26,052**	6,959

27 Financial risk management

Financial risk factors

The Group's activities expose it to market risk (including currency risk and interest rate risk), credit risk, liquidity risk and capital risk. The Group's overall risk management strategy seeks to minimise any adverse effects from the unpredictability of financial markets on the Group's financial performance.

27 Financial risk management (continued)

The Board of Directors is responsible for setting the objectives and underlying principles of financial risk management for the Group. The Board of Directors establishes the detailed policies such as authority levels, oversight responsibilities, risk identification and measurement.

The overall business strategies of the Group, its tolerance for risk and its general risk management philosophy are determined by the management in accordance with prevailing economic and operating conditions. In determining its risk management policies, the management ensures that an acceptable balance is made between the cost of risks occurring and the cost of managing the risks.

The Board of Directors reviews and agrees policies for managing each of these risks and they are summarised below:

(a) Market risk

(i) Currency risk

The Group operates in People's Republic of China ("PRC"). Entities in the Group regularly transact in currencies other than their respective functional currencies ("foreign currencies"). Currency risk arises within entities in the Group when transactions are denominated in foreign currencies such as the Singapore Dollar ("SGD"), United States Dollar ("USD") and Euro ("EUR").

There is no formal hedging policy with respect to foreign currency exposure. Exposure to foreign currency risk is monitored on an ongoing basis and the Group endeavours to keep the net exposure at an acceptable level.

Currently, the PRC government imposes control over foreign currencies. Chinese Renminbi ("RMB"), the official currency of PRC is not freely convertible. Enterprises operating in the PRC can enter into exchange transactions through the People's Bank of China or other authorised financial institutions.

The Company's operation does not expose itself to significant currency risk.

The Group's currency exposure based on the information provided to key management is as follows:

	RMB	USD	EUR	SGD	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2019					
Financial assets					
Cash and cash equivalents	591,766	645,864	1,356	40,922	1,279,908
Trade and other receivables	456,839	110,471	403	19	567,732
Receivables from inter-company	254,051	–	–	75,536	329,587
	1,302,656	756,335	1,759	116,477	2,177,227
Financial liabilities					
Trade and other payables	(285,532)	–	–	(37,542)	(323,074)
Payables to inter-company	(254,051)	–	–	(75,536)	(329,587)
Lease liability	(10,071)	–	–	–	(10,071)
	(549,654)	–	–	(113,078)	(662,732)

27 Financial risk management (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

The Group's currency exposure based on the information provided to key management is as follows: (continued)

	RMB RMB'000	USD RMB'000	EUR RMB'000	SGD RMB'000	Total RMB'000
At 31 December 2019					
Net financial assets	753,002	756,335	1,759	3,399	1,514,495
Less: Net financial assets denominated in the respective entities' functional currencies	(753,002)	–	–	(3,344)	(756,346)
Currency exposure of financial assets net of those denominated in the respective entities' functional currencies	**–**	**756,335**	**1,759**	**55**	**758,149**
At 31 December 2018					
Financial assets					
Cash and cash equivalents	506,577	482,539	3,902	45,575	1,038,593
Trade and other receivables	533,294	175,703	–	20	709,017
Receivables from inter-company	193,758	–	–	205,993	399,751
	1,233,629	658,242	3,902	251,588	2,147,361
Financial liabilities					
Trade and other payables	(269,217)	–	–	(71,906)	(341,123)
Payables to inter-company	(193,758)	–	–	(205,993)	(399,751)
	(462,975)	–	–	(277,899)	(740,874)
Net financial assets/ (liabilities)	770,654	658,242	3,902	(26,311)	1,406,487

27 Financial risk management (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

The Group's currency exposure based on the information provided to key management is as follows: (continued)

	RMB RMB'000	USD RMB'000	EUR RMB'000	SGD RMB'000	Total RMB'000
Less: Net financial (assets)/liabilities denominated in the respective entities' functional currencies	(770,654)	–	–	26,311	(744,343)
Currency exposure of financial assets net of those denominated in the respective entities' functional currencies	**–**	**658,242**	**3,902**	**–**	**662,144**

If the USD and EUR change against the RMB by 2% (2018: 5%) and 1% (2018: 1%) respectively with all other variables including tax rate being held constant, the effects arising from the net financial liabilities/assets position will be as follow:

	Increase/(decrease)	
	2019	2018
	Net profit	Net profit
	RMB'000	RMB'000
USD against RMB		
- Strengthened	**11,345**	24,684
- Weakened	**(11,345)**	(24,684)
EUR against RMB		
- Strengthened	**13**	29
- Weakened	**(13)**	(29)

27 Financial risk management (continued)

(a) Market risk (continued)

(ii) Cash flow and fair value interest rate risks

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates.

For the financial year ended 31 December 2019, the Group is not exposed to significant cash flow and fair value interest rate risk as the Group's exposure on interest rate risk is primarily from short-term bank deposits placed.

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The major class of financial assets of the Group is trade receivables. For trade receivables, the Group adopts the policy of dealing only with customers of appropriate credit standing and history to mitigate credit risk. For other financial assets, the Group adopts the policy of dealing only with high credit quality counterparties.

Credit exposure to an individual counterparty is restricted by credit limits that are approved by the Group's Executive Chairman based on ongoing credit evaluation. The counterparty's payment pattern and credit exposure are continuously monitored by the directors.

As the Group does not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the balance sheet.

There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions.

The credit risk for trade receivables based on the information provided to key management is as follows:

	2019	2018
	RMB'000	RMB'000
By geographical areas		
People's Republic of China	**256,518**	276,522
Overseas market	**101,566**	175,505
	358,084	452,027

The movement in the credit loss allowance is as follows:

	2019	2018
	RMB'000	RMB'000
Beginning of financial year	**(15,979)**	(12,433)
Allowance made	**(7,062)**	(7,609)
Reversal of unutilised amount	**10,353**	4,063
End of financial year (Note 13)	**(12,688)**	(15,979)

Trade receivables that are individually determined to be impaired at the balance sheet date relate to debtors that have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

27 Financial risk management (continued)

(b) Credit risk (continued)

The Group uses a provision matrix to measure the lifetime expected credit loss allowance for trade receivables. In measuring the expected credit losses, trade receivables are grouped based on shared credit risk characteristics and days past due.

In calculating the expected credit loss rates, the Group considers historical loss rates for each category of customers and adjusts to reflect current and forward-looking macroeconomic factors affecting the ability of the customers to settle the receivables.

Trade receivables are written off when there is no reasonable expectation of recovery, such as a debtor significantly delay in payments, or a debtor will probably enter bankruptcy. The Group considers a financial asset as in default if the counterparty fails to make contractual payments within 6 months after the invoices are issued, and writes off or impairs the financial asset. Where receivables are written off or impaired, the company continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognised in profit or loss.

The Group's credit risk exposure in relation to trade receivables under SFRS(I) 9 are set out in the provision matrix as follows:

			Aging		
	1 - 3 months RMB'000	**3 - 6 months RMB'000**	**6 months - 1 year RMB'000**	**More than 1 year RMB'000**	**Total RMB'000**
2019					
Domestic customers					
Expected loss rate	0%	0%	100%	100%	
Trade receivables	252,390	4,128	5	12,683	269,206
Loss allowance	**–**	**–**	**(5)**	**(12,683)**	**(12,688)**
Oversea customers					
Expected loss rate	0%	0%	0%	100%	
Trade receivables	91,940	8,608	1,018	–	101,566
Loss allowance	**–**	**–**	**–**	**–**	**–**
2018					
Domestic customers					
Expected loss rate	0%	0%	100%	100%	
Trade receivables	270,037	6,484	5,597	10,185	292,303
Loss allowance	**–**	**–**	**(5,597)**	**(10,185)**	**(15,782)**
Oversea customers					
Expected loss rate	0%	0%	100%	100%	
Trade receivables	160,527	14,979	197	–	175,703
Loss allowance	**–**	**–**	**(197)**	**–**	**(197)**

27 Financial risk management (continued)

(b) Credit risk (continued)

Cash and cash equivalents

The Group and the Company held cash and cash equivalents with banks of high credit ratings and considered to have low credit risk. The cash balances are measured on 12-month expected credit losses and subject to immaterial credit loss.

Loan to subsidiary corporations

The Company has assessed that its subsidiary corporations have strong financial capacity to meet the contractual obligation of RMB75,536,000 (2018: RMB205,993,000) and considered to have low credit risk. The loans are measured on 12-month expected credit losses and subject to immaterial credit loss.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligation as they fall due. The Group's approach in managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Prudent liquidity risk management includes maintaining sufficient cash and cash equivalents. At the balance sheet date, assets held by the Group and the Company for managing liquidity risk included cash and short-term deposits as disclosed in Note 12.

The Group monitors its liquidity risk and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows.

The Group monitors working capital projections regularly, taking into account the available banking facilities to ensure that the Group has adequate working capital to meet current requirement.

The table below analyses non-derivative financial liabilities of the Group and the Company into relevant maturity groupings based on the remaining period from the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

	Less than 1 year	**Between 1 and 2 years**	**Between 2 to 5 years**	**Over 5 years**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Group				
At 31 December 2019				
Trade and other payables	**323,074**	**–**	**–**	**–**
Lease liability	**1,376**	**1,376**	**4,128**	**5,504**
At 31 December 2018				
Trade and other payables	341,123	–	–	–

27 Financial risk management (continued)

(c) Liquidity risk (continued)

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 to 5 years RMB'000	Over 5 years RMB'000
Company				
At 31 December 2019				
Trade and other payables	**37,542**	**–**	**–**	**–**
At 31 December 2018				
Trade and other payables	71,906	–	–	–

(d) Capital risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholder value. In order to maintain or achieve an optimal capital structure, the Group may adjust the amount of dividend payment, return capital to shareholders, issue new shares, buy back issued shares, obtain new borrowings or sell assets to reduce borrowings.

The Group and the Company are not subject to any externally imposed capital requirements.

(e) Fair value measurements

The fair values of current financial assets and financial liabilities carried at amortised cost approximate their carrying amounts.

(f) Financial instruments by category

The carrying amounts of the different categories of financial instruments are as follows:

	Group		**Company**	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets, at amortised cost	**1,847,640**	1,747,610	**117,164**	254,966
Financial liabilities measured at amortised cost	**333,145**	341,123	**37,542**	71,906

28 Related party transactions

Key management personnel compensation (representing compensation to executive directors and executive officers of the Group) is as follows:

	Group	
	2019	2018
	RMB'000	RMB'000
Wages and salaries	**31,907**	65,483
Employer's contribution to defined contribution plans including Central Provident Fund	**135**	123
	32,042	65,606

Included in the above is total compensation to directors of the Company amounting to RMB29,351,000 (2018: RMB63,096,000).

29 Segment information

The Board of Directors ("BOD") is the Group's chief operating decision-makers. Management determined the operating segments based on the reports reviewed by the BOD that are used to make strategic decision, allocate resources, and assess performance. The BOD assesses the Group's performance mainly from business segment perspective.

The Group has two reportable business segments, namely (1) the manufacturing and sale of rubber chemicals, and (2) the production and supply of heating power.

Other segments included investment holding in Singapore and hotel and restaurant in People's Republic of China. These are not included within the reportable operating segments as the segments do not meet the quantitative thresholds required by SFRS(I) 8 for reportable segments. The results of these operations are included in the "Others" column.

The segment information for the reportable business segments is as follows:

	Rubber Chemicals RMB'000	**Heating Power RMB'000**	**Others RMB'000**	**Total RMB'000**
2019				
Sales				
Total segment sales	3,379,786	131,711	1,279	3,512,776
Inter-segment sales	(705,509)	(115,003)	(608)	(821,120)
Sales to external parties	2,674,277	16,708	671	2,691,656
Adjusted EBITDA	542,373	16,221	(4,500)	554,094
Depreciation	(98,904)	(13,117)	(1,004)	(113,025)
Amortisation	(569)	(149)	(419)	(1,137)
Segment assets	2,623,382	213,925	80,882	2,918,189
Segment assets include:				
Additions to property, plant and equipment	69,011	3,364	–	72,375
Additions to right-of-use asset	10,970	–	–	10,970
Segment liabilities	228,684	61,436	66,474	356,594

29 Segment information (continued)

The segment information for the reportable business segments is as follows: (continued)

	Rubber Chemicals RMB'000	Heating Power RMB'000	Others RMB'000	Total RMB'000
2018				
Sales				
Total segment sales	4,062,135	121,670	1,508	4,185,313
Inter-segment sales	(799,914)	(101,551)	(588)	(902,053)
Sales to external parties	3,262,221	20,119	920	3,283,260
Adjusted EBITDA	856,686	15,443	(68,244)	803,885
Depreciation	(83,296)	(11,886)	(1,231)	(96,413)
Amortisation	(615)	(158)	(419)	(1,192)
Segment assets	2,435,979	221,778	89,564	2,747,321
Segment assets include:				
Additions to property, plant and equipment	101,890	27,852	–	129,742
Segment liabilities	247,218	70,681	103,846	421,745

Sales between segments are carried out at agreed terms. The revenue from external parties reported to the BOD is measured in a manner consistent with that in the statement of comprehensive income.

The BOD assesses the performance of the operating segments based on a measure of earnings before interest, tax, depreciation and amortisation ("Adjusted EBITDA") for continuing operations. This measurement basis excludes the effects of expenditure from the operating segments such as restructuring costs and impairment loss that are not expected to recur regularly in every period which are separately analysed. Interest income and finance expenses are not allocated to segments, as this type of activity is driven by the Board of Directors, which manages the cash position of the Group.

(a) Reconciliations

Segment profits

A reconciliation of adjusted EBITDA to profit before income tax is as follows:

	2019 **RMB'000**	2018 RMB'000
Adjusted EBITDA for reportable segments	**554,094**	803,885
Depreciation	**(113,025)**	(96,413)
Amortisation	**(1,137)**	(1,192)
Interest expense	**(477)**	–
Interest income	**13,151**	5,304
Profit before income tax	**452,606**	711,584

29 Segment information (continued)

(b) Geographical Segment

Currently, the Group's business operates only in PRC. For geographical segment information, the revenue is based on where the customers are located.

	Revenue		Non-current assets	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
People's Republic of China	**1,657,490**	2,030,488	**698,564**	730,893
Rest of Asia	**599,248**	814,497	**–**	–
America	**83,200**	73,296	**–**	–
Europe	**305,141**	284,420	**–**	–
Other countries	**46,577**	80,559	**–**	–
	2,691,656	3,283,260	**698,564**	730,893

There are no customers individually contributing more than 10% to the revenue of the Group.

(c) Changes in accounting policy

(i) The adoption of the new leasing standard described in Note 2.1 had the following impact on the adjusted EBITDA in the current year:

	Adjusted EBITDA before adoption of SFRS(I) 16	Rental expenses under SFRS(I) 1-17, when the Group is a lessee	Adjusted EBITDA after adoption of SFRS(I) 16
	RMB'00	**RMB'000**	**RMB'000**
Rubber chemicals	540,997	1,376	542,373

(ii) The adoption of the new leasing standard resulted in the recognition of right-of-use asset and lease liability, which increased the segment assets and liabilities as at 31 December 2019 as follows:

	Segment assets	Segment liabilities
	RMB'000	**RMB'000**
Rubber chemicals	9,873	10,071

(iii) The recognition of right-of-use asset and lease liability on the balance sheet resulted in an increase in depreciation and finance expenses in the consolidated statement of comprehensive income in the current financial year as follows:

	Depreciation	Finance expense
	RMB'000	**RMB'000**
Rubber chemicals	1,097	477

30 New or revised accounting standards and interpretations

Below are the mandatory standards, amendments and interpretations to existing standards that have been published, and are relevant for the Group's accounting periods beginning on or after 1 January 2020 and which the Group has not early adopted:

Description	*Effective for annual periods beginning on or after*
Amendments to SFRS(I) 3 – Business Combinations – definition of a business	1 Jan 2020
Amendments to SFRS(I) 1-1 and SFRS(I) 8: Definition of material	1 Jan 2020
Amendments to SFRS(I) 9, SFRS(I) 1-39 and SFRS(I) 7: Interest Rate Benchmark Reform	1 Jan 2020
Amendments to References to the Conceptual Framework in SFRS(I) standards	1 Jan 2020
Amendments to illustrative examples, implementation guidance and SFRS(I) practice statements	1 Jan 2020
SFRS(I) 17 Insurance Contracts	1 Jan 2021
Amendments to SFRS(I) 10 and SFRS(I) 1-28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

- Amendments to SFRS(I) 3 Business Combination (effective for annual periods beginning on or after 1 January 2020)

  The amendments provide new guidance on the assessment of whether an acquisition meets the definition of a business under SFRS(I) 3. To be considered a business, an acquisition would have to include an output and a substantive process that together significantly contribute to the ability to create outputs. A framework is introduced to evaluate when an input and substantive process are present. To be a business without outputs, there will now need to be an organised workforce.

  The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits.

  It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets.

  Entities can apply a 'concentration test' that, if met, eliminates the need for further assessment. Under this optional test, where substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets), the assets acquired would not represent a business.

  These amendments are applied to business combinations and asset acquisitions with acquisition date on or after 1 January 2020. Early application is permitted.

  The directors do not anticipate that the adoption of the above SFRS(I) in future financial periods will have a material impact on the financial statements of the Group.

31 Events occurring after balance sheet date

The emergence of COVID-19 subsequent to the financial year end may impact the financial performance and operating environment of the Group in 2020. The Group is aware of the challenges posed by these developing events. As the situation is still evolving and remains uncertain, the Group is unable to quantify the full magnitude of the outbreak and has not considered the impact, if any, on the financial performance of the Group in 2020.

32 Authorisation of financial statements

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of China Sunsine Chemical Holdings Ltd. on 25 March 2020.

STATISTICS OF SHAREHOLDINGS

As at 18 March 2020

SHARE CAPITAL

Number of Issued Shares	:	983,388,000
Number of Issued Shares (excluding Treasury Shares and Subsidiary Holdings[(1)])	:	974,668,700
Number and Percentage of Treasury Shares	:	8,719,300 (0.90%)[(2)]
Number and Percentage of Subsidiary Holdings	:	0
Class of Shares	:	Ordinary Shares
Voting Rights (excluding Treasury Shares and Subsidiary Holdings)	:	One vote per share

Notes:

(1) "Subsidiary Holdings" is defined in the Listing Manual of the Singapore Exchange Securities Trading Limited to mean shares referred to in Sections 21(4), 21(4B), 21(6A) and 21(6C) of the Companies Act, Chapter 50 of Singapore.

(2) Percentage calculated against the number of Issued Shares (excluding Treasury Shares and Subsidiary Holdings).

DISTRIBUTION OF SHAREHOLDINGS

Size of Holdings	No. of Shares	% of Shares	No. of Shareholders	% of Shareholders
No. of ordinary shares held				
1 - 99	72	0.00	1	0.05
100 - 1,000	47,400	0.01	87	4.53
1,001 - 10,000	4,821,592	0.49	780	40.58
10,001 - 1,000,000	75,898,013	7.79	1,017	52.91
1,000,001 and above	893,901,623	91.71	37	1.93
Grand Total	**974,668,700**	**100.00**	**1,922**	**100.00**

TWENTY LARGEST ORDINARY SHAREHOLDERS

(As shown in the Register of Members and Depository Register)

No.	Name of Shareholders	No. of Shares	%
1	SUCCESS MORE GROUP LIMITED	587,285,100	60.25
2	CITIBANK NOMINEES SINGAPORE PTE LTD	72,008,693	7.39
3	DBS NOMINEES PTE LTD	54,764,384	5.62
4	UOB KAY HIAN PTE LTD	31,463,824	3.23
5	CHIA KEE KOON	27,332,900	2.80
6	OCBC SECURITIES PRIVATE LTD	13,054,700	1.34
7	UNITED OVERSEAS BANK NOMINEES PTE LTD	11,742,700	1.20
8	RAFFLES NOMINEES (PTE) LTD	9,596,434	0.98
9	LEOW EK HUA	6,953,900	0.71
10	YEO KHEE CHYE	5,680,000	0.58
11	DBSN SERVICES PTE LTD	5,299,888	0.54
12	LEE YOW FEE	5,240,000	0.54
13	MORGAN STANLEY ASIA (SINGAPORE) SECURITIES PTE LTD	5,111,000	0.52
14	PHILLIP SECURITIES PTE LTD	4,994,600	0.51
15	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	4,846,500	0.50
16	XU XIANLEI	4,813,200	0.49
17	MAYBANK KIM ENG SECURITIES PTE LTD	4,198,600	0.43
18	ABN AMRO CLEARING BANK N.V.	3,445,000	0.35
19	LIM SOON HWEE (LIN SHUNHUI)	3,444,000	0.35
20	HAN WEIDONG	3,060,000	0.31
	TOTAL	**864,335,423**	**88.64**

SHAREHOLDINGS HELD IN THE HANDS OF THE PUBLIC

Based on the information available to the Company as at **18 March 2020**, approximately 37.39% of the issued ordinary shares of the Company excluding treasury shares are held by the public. Accordingly, the Company has complied with Rule 723 of the Listing Manual issued by the Singapore Exchange Securities Trading Limited.

SUBSTANTIAL SHAREHOLDERS

(As shown in the Register of Substantial Shareholders)

	Direct Interest		Deemed Interest	
Name of Substantial Shareholders	**No. of Shares**	**%**	**No. of Shares**	**%**
Success More Group Limited [(1)]	587,285,100	60.25	–	–
Xu Cheng Qiu [(1) (2)]	–	–	593,023,100	60.84

Notes:

(1) By virtue of Section 7 of the Companies Act, Chapter 50 of Singapore, Mr Xu Cheng Qiu is deemed to be interested in the 587,285,100 Shares held by Success More Group Limited.

(2) Mr Xu Cheng Qiu is deemed to be interested in the 5,738,000 Shares held by the nominees, UOB Kay Hian Pte Ltd.

尚舜化工
SUNSINE

CHINA SUNSINE CHEMICAL HOLDINGS LTD.
(Incorporated in the Republic of Singapore on 28 June 2006)
(Company Registration Number: 200609470N)

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