China Sunsine Chemical Holdings Ltd.
16 Raffles Quey #15-08 Hong Leong Building, Singapore 048581
Tel: (65) 6220-6686   Website: www.ChinaSunsine.com

Company Registration No.: 200609470N

RESPONSE TO QUESTIONS FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

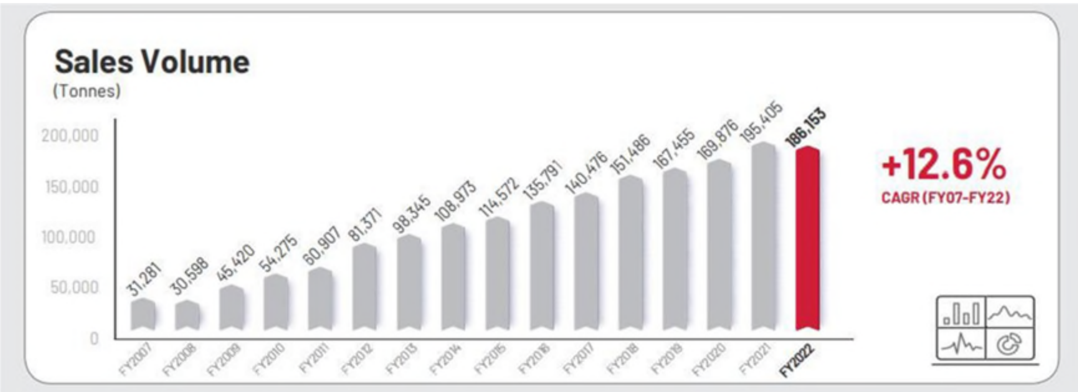
The Board of Directors (the "**Board**") of China Sunsine Chemical Holdings Ltd. (the "**Company**" or "**China Sunsine**" and together with its subsidiaries, collectively the "**Group**") wishes to provide the following information in response to questions from the Securities Investors Association (Singapore) ("**SIAS**") published on its website with regards to our annual report for the financial year ended 31 December 2022 ("**AR2022**").

<u>Question 1</u>

The company marked the 15th anniversary of its listing on the Singapore Exchange in 2022, in which the group also achieved record revenue and net profit. Total capacity has increased to 254,000 tonnes in 2022, from just 44,000 tonnes in 2007.

To celebrate the anniversary, a special interim dividend of 0.5 Singapore cents per share was declared. The company also noted that it has been paying dividends every year since its IPO.

On a 12-month basis, the group's sales volume for accelerators decreased by 12% to 89,434 tonnes due to the weak domestic demand and intensified competition, whereas the sales volume for anti-oxidant products increased by 6% to 58,058 mainly due to the completion of the TMQ project. Sales volume for insoluble sulphur (IS) remained stable.



(Source: company annual report)

(i) **Can management help shareholders better understand if the group has maintained or increased its market share in the accelerators segment? Did the intensified competition happen because of the demand-supply imbalance due to the lockdowns in the past year, or is there an industry-wide oversupply?**

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

As disclosed in our Sustainability Report 2022, our rubber accelerators market share in 2022 is set out below:

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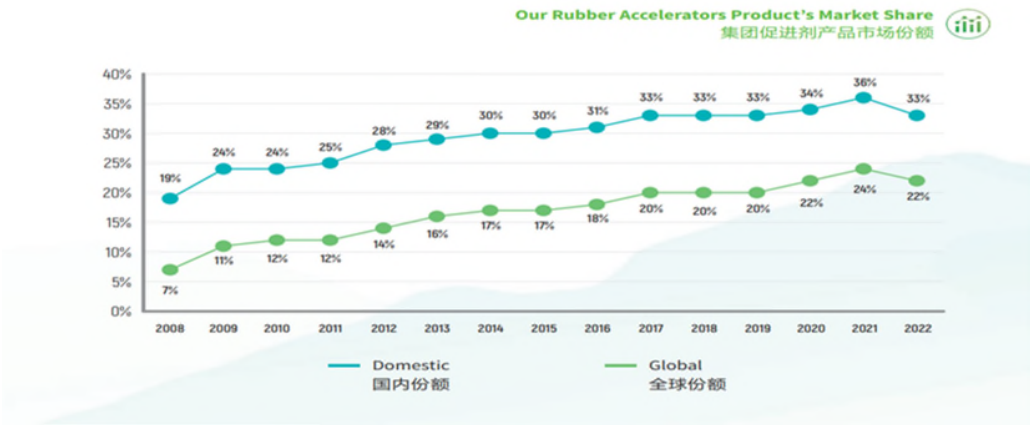

In 2022, the market share of our rubber accelerators in China decreased by 3 percentage points from 36% in 2021 to 33%, while the global market share decreased by 2 percentage points from 24% to 22%. As explained in Operaional and Financial Review on Page 16 of our AR2022, the decline was mainly due to the decrease in sales of TBBS. TBBS is our major accelerator product, which accounts for approximately 43% of the total accelerators' production capacity. TBBS is mainly used in the production of all-steel tyres for trucks and heavy vehicles. Due to the strict Covid-19 control measures implemented in China in 2022, supply chain and logistics business in China were badly disrupted, which also affected the sales of our TBBS product.

Currently, the rubber chemicals market still faces an oversupply situation, and some big players are gradually expanding their production capacities. We expect intense market competition to continue for an extended period of time.

(ii) **How sticky are the group's customers in general and does management track customer retention rate?**

Company's response:

Our main target customers are tyre manufacturers which account for more than 70% of total sales, with the top 10 customers contributing more than 30% of the total sales.

Customers have relatively high loyalty to our products. It is because rubber chemicals products usually need to be certified by tyre manufacturers through an accreditation process before they admit a company as their certified supplier. The quality of our products has received a very high level of recognition and acceptance amongst our customers. However, the quantity of orders placed by tyre makers is also determined by their utilization rate, pricing and market demand for tyres.

(iii) TBBS (an accelerator) is mainly used in the production of all-steel tires which are mainly utilised by trucks or heavy vehicles. **Based on management's knowledge, are the logistics and infrastructure construction markets in China operating at pre-COVID levels, or better?**

Company's response:

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Based on the sales figures for the first quarter of this year, we have observed a slight improvement in TBBS sales compared to the corresponding period and the previous quarter. However, based on our observation, the logistics and infrastructure construction markets in China have not recovered to pre-COVID levels.

We anticipate a gradual improvement in TBBS sales as economic activity picks up steam. However, market competition remains intense, and the export market is recovering slower than expected.

Thus, the Company holds a cautious view towards the sales of TBBS product.

(iv) **In the anti-oxidants segment, what factors contributed to the relatively strong performance, as volume (in tonnes) increased by 6%, but the sales value increased by 26%? Is the higher average selling price sustainable?**

Company's response:

*The average selling price ("**ASP**") of anti-oxidants was at a high level in the first half of last year. This was mainly due to the high pricing set by a dominant market player, from which we also benefited. However, with more supply of anti-oxidants entering the market, the ASP of anti-oxidant in the second half of 2022 started to decrease. We do not expect the higher ASP to be sustainable.*

Question 2

The group successfully completed the new Anti-oxidant TMQ project, HTMQ project and the controlled landfill project. Phase 2 of the IS project and Phase 1 of the high-quality MBT project are ongoing.

	2022	2021	2020	2019	2018
As At 31 December (RMB' million)					
Total Assets	**4,224.5**	3,923.4	3,172.1	2,918.2	2,747.3
Total Liabilities	**532.7**	747.2	451.4	356.6	421.7
Shareholders' Equity	**3,691.8**	3,176.2	2,720.7	2,561.6	2,325.6
Cash and Cash Equivalents	**1,364.9**	1,377.3	1,326.2	1,279.9	1,038.6
Bank Borrowings	**-**	-	-	-	-
Treasury Shares	**40.8**	30.2	29.3	21.7	2.1
No of Shares ('million)					
No of Ordinary Shares	**965.7**	970.4	970.7	975.7	491.3
No of Treasury Shares	**17.7**	13.0	12.7	7.7	0.4

(Source: company annual report)

Despite continued investments into the business, cash and cash equivalents have increased to RMB1.365 billion as at 31 December 2022. The group does not utilise bank borrowings.

(i) **Can management help shareholders better understand if the pandemic has altered the group's expansion plans? Is there any silver lining?**

Company's response:

The pandemic has not affected the Group's expansion plan.

In the past few years, the Group had been running at almost full capacities as a result of strong market demand for our products. As such, the Company made plans to grow our production capacity organically. The addition of new capacity not only allows the Group to further enhance its scale of production, but also allow it to better meet the market demand for our products, and further expand our market share. We believe it will benefit the Group's long-term and sustainable development and growth.

(ii) Are there any major uses of cash planned in the near future?

Company's response:

The Company believes that it is necessary to maintain sufficient cash given the global economic uncertainties, high interest rate environment, our existing expansion projects as well as possible future projects, and working capital requirements. The planned funds usage is as follows:

- *Working capital: RMB 300-400 million;*
- *R&D: RMB 120 million;*
- *Facility maintenance and upgrading: RMB 100 million;*
- *Dividend: RMB 150 million;*
- *Expansion projects: RMB 250 million;*
- *The rest will be reserved for unforeseen circumstances*

Cash and cash equivalents have averaged RMB1.36 billion in the past three years.

(iii) **Has the board been actively monitoring and tracking the group's return on equity (ROE) and utilising it as a critical performance metric? If so, has the board identified strategies that could lead to sustainable increases in ROE?**

Company's response:

ROE is one of the yardsticks by which the Board evaluates the performance of the Group and achievement of its financial targets on an annual basis. However, the Board is mainly focused on the long term development and sustainable growth of the Group in its core markets. The Board will continue with its current strategies of "Higher sales volume leads to higher production, which in turn stimulates even higher sales" (also called "Sales and Production Equilibrium"), expanding production capacity based on demand and market conditions, improving efficiency and reducing wastage, to achieve higher ROE in a sustainable manner. The Company will also continue its share buyback program to increase shareholder value.

(iv) **Would the current balance sheet possibly be deemed over-capitalised, resulting in a negative impact on the group's return on equity (ROE)?**

Company's response:

While some shareholders may be of the view that the current balance sheet may be deemed to be over-capitalised, the Board has always been conservative and prudent in its cash management, and with its strong balance sheet, the Group will be able to position itself for long term sustainable growth, amidst the short term challenges and global economic uncertainties.

Question 3

The independent directors are Mr Lim Heng Chong Benny (also lead independent director), Ms Xu Chun Hua, Mr Koh Choon Kong and Mr Yan Tang Feng. The directors were first appointed on 18 May 2007, 18 May 2007, 15 November 2009 and 26 September 2019 respectively.

In addition, Mr Liang Cheng, the newly appointed independent director, joined the board on 30 March 2023. The announcement of appointment of the director can be found here: https://links.sgx.com/1.0.0/corporate-announcements/YQBXGJ1TLCLB6I5B/a6506b981fd958f6ad4f164c4e73eded97211e26feb220ce3dc04b63f03a0b87

(i) **Would the board, particularly the nominating committee (NC), elaborate further on the selection criteria, board diversity considerations and the search and nomination process, that led to the appointment of Mr Liang Cheng, as required in the SGX template?**

Company's response:

The process for selection of new directors, the criteria for appointment of new directors, and the Company's Board Diversity Policy are set out in pages 38, 39 and 34, respectively of the AR2022. Mr Liang Cheng has more than 30 years of experience in the China chemicals industry and is also an expert in the rubber and fine chemicals industries in China. He has private sector experience, having worked at Sinopec Nanjing Chemical Indstries Co., Ltd for more than 20 years, rising through the ranks and holding senior management positions in the company. Mr Liang has also been involved in designing and planning blueprints for chemical parks in many Chinese cities, which will be helpful to the Group in its expansion plans. He is an editorial board member of several major Chinese journals and has published more than 260 papers in domestic and foreign journals, and delivered more than 80 keynote speeches at domestic and foreign fine chemicals conferences.

Mr Liang's appointment provides the Board with independent and relevant industry perspective, and subject matter expertise and experience, and balances the skill sets of the existing directors on the Board. His appointment is also the first step towards the renewal of the Board which will see the eventual exit of 3 of the independent directors, one of whom is an expert in the rubber and rubber chemicals industry in China.

The NC had met and discussed the role and expectations of an independent director with Mr Liang, assessed his qualifications and suitability, and after being satisfied that he met the Board's criteria for appointment of new directors, recommended his appointment to the Board for approval.

At the annual general meeting scheduled to be held on 27 April 2023, Mr Lim Heng Chong Benny, Mdm Xu Chun Hua and Mr Koh Choon Kong would retire as directors under Regulation 104(2) of the company's constitution and would be seeking shareholders' approval for their re-election. As mentioned above, directors have tenures of approximately 16 years, approximately 16 years and 12 years respectively.

The company will use the transition period afforded by the new SGX rules on the 9-year limit of independent directors to refresh the board by appointing new directors to replace Mr Lim, Mr Koh and Mdm Xu as independent directors of the company no later than the AGM for FY2023.

In January 2023, Mr Tan Boon Gin, CEO of SGX RegCo, noted that the limit on tenure of IDs provides an opportunity for companies to inject new skills, experience and knowledge into their boards, all of which will be invaluable in guiding the business for the long term.

(ii) **Has the NC reviewed the current competency matrix of the board and identified any gaps in skills or competencies that need to be addressed in future director appointments?**

Company's response:

The NC and the Board examine and review the Board structure, size and composition annually. The NC also evaluates the balance of skills, knowledge and experience on the Board from time to time. The current Board comprises directors who as a group provide core competencies in accounting, finance, legal, business and management experience, industry knowledge and experience, strategic planning experience, and customer-based experience.

While the Board is of the view that the current competency matrix, experience and diversity of its members is appropriate for it to function effectively given the scope and nature of its business operations, the Board, through the NC, will continue to review the core competencies of its members as a whole to ensure that there is appropriate balance of skills and experience on the Board, especially during the Board renewal process.

(iii) **Can the NC elaborate further on the search and nomination process for directors and clarify if new director(s) who have been appointed to the board were based on recommendations from directors and management?**

Company's response:

As stated above, please refer to the AR2022 for a detailed description of the process for selection and the criteria for appointment of new directors.

The recent appointment of Mr Tong Yiping and Mr Liang Cheng were recommended by the directors and management.

(iv) **If so, has the NC evaluated if the use of directors/management's personal network as a source of candidate might impair or compromise the level of diversity and independence in the board?**

Company's response:

Although the directors and management may suggest suitable potential candidates for appointment as directors, the NC is free to enlist external help to source for other potential candidates if necessary, and is also not bound by the recommendations of *the directors or management. All candidates, whether sourced from within or outside the personal network of directors or management, would have to be subject to assessment and review based on the Company's existing set of objective criteria for appointment of directors. The NC will evaluate each potential candidate's competency, work experience, gender, age, educational qualifications, cultural background, and other complementary factors that will bring diversity to the Board.*

While there are merits in reaching out to a wider pool of potential candidates through third party search services, there are also advantages in turning to the personal contacts of directors or management in identifying potential candidates. An argument may be made that potential candidates recommended by directors or management who have first-hand knowledge of the candidate's personality, professionalism, and performance on other boards or organisations may offer a better clue as to his/her independent-mindedness, integrity, cultural fit, level of competence, and willingness and ability to contribute to the success of the Group.

BY ORDER OF THE BOARD

Xu Chengqiu
Executive Chairman
26 April 2023