China Sunsine Chemical Holdings Ltd.

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

The Board of Directors (the "**Board**") of China Sunsine Chemical Holdings Ltd. (the "**Company**" or "**China Sunsine**" and together with its subsidiaries, collectively the "**Group**") wishes to provide the following information in response to questions from our shareholders (whose names are set out in brackets next to their questions) received by the Company between the period from 11 April to 18 April 2024 ("**Q&As**") for the purposes of our annual general meeting ("**AGM**") to be held on 26 April 2024.

1. Tyre production in Southeast Asia (Teo Kheng Lin)

Sunsine's 29% year-on-year rise in international sales volume in 2H23 was mainly from higher sales to Chinese-owned tyre factories in Southeast Asia.

More tyre factories in the region are on the cards, for example 拟2.51亿美元在印尼建厂加速全球化赛轮轮胎：主要面对本地市场|子午线_网易订阅 (163.com), 又一中国轮胎出海，720万套轮胎产能落户东南亚|车轮|子午线|柬埔寨|轮胎有限公司_网易订阅 (163.com)

In 2023, how many tyres were produced in Southeast Asia, where natural rubber is abundant? (From slide 39 of the presentation deck, 988m units were made in China that year, of the global output of 2,388m.)

Company's response:

The Company does not have first-hand information about how many tyres were produced in Southeast Asia in 2023. To our knowledge, an increasing number of Chinese tyre companies are establishing factories overseas, especially in Southeast Asia. This should lead to higher growth in the volume of tyre production in Southeast Asia. The majority of these tyre companies are our customers and purchase products from us. This also explains the reason for the continuous growth in the Group's international sales in recent years. As Sunsine continue to work on increasing its sales volume, these new tyre plants of Chinese tyre manufacturers within/outside China are one of our growth targets.

2. Tyre production in Africa (Teo Kheng Lin)

Chinese tyremaker Sentury is building a factory with an annual output of 6 mln tyres in Morocco. 森麒麟投资3亿美元建摩洛哥工厂 – Tyrepress 中国 (tyrepresschina.com)

If Sentury is served by Sunsine now, will its Morrocan factory ride on the existing business relationship?

Company's response:

Sentury Tire is an existing customer of the Group, with small purchase volume currently. We do not comment on the business plans of our customers. Naturally, we hope to broaden our business relationship with all our customers as we believe the Group is well-positioned to support our customers' expansion within and outside China.

3. Export to U.S. (Teo Kheng Lin)

China-made rubber accelerators TBBS, DCBS, and CBS enter the U.S. tariff-free. The tyre output from the U.S. is three-fourths of Europe's (330m units vs 437m annually), but Sunsine's sales to the U.S. were only one-third of those to Europe. What are the reasons for the disparity?

Company's response:

The Group has placed more focus on China and Southeast Asia markets, where we sell directly to our end-customers, in view of the growth potential in tyre production in these regions. Sales to the United States are conducted through distributors in the country, as there are regulations requiring companies to have a physical presence in the United States in order to sell there. In contrast, Europe does not have such a requirement, so sales to Europe are handled by our own sales team.

4. Rising importance of international sales (Teo Kheng Lin)

Sunsine's international sales volume as a percentage of the overall has been creeping up:

Year International sales volume (tonnes)....% of overall sales volume (%)

2017.................44,916...32.0

2018.................49,778...32.9

2019.................56,723...33.9

2020.................49,439...29.1

2021.................70,404...36.0

2022..................66,091..35.5

2023..................76,449..38.9

Will the trend continue?

Company's response:

Growing sales volume has always been the company's goal. However, we cannot guarantee continuous growth in international sales.

As explained in the answer to Q1 above, we have observed that in recent years, more and more Chinese tyre manufacturers have chosen to set up plants in Southeast Asia, resulting in an increase in orders from the Southeast Asia market. This is also reflected in our 1Q2024 international sales volume which has also increased year-on-year.

5. Productivity (Teo Kheng Lin)

It is regrettable that performance indicators, such as productivity improvement, is not addressed by the management.

Sunsine's productivity rose by 78% between 2015 and 2023:

Year.....Headcount....Rubber chemical output (tonnes)....Per-capita output (tonnes)

2015.....2,084............. 114,572..55.0

2016.....2,098..............135,791..64.7

2021..... 2,249..............195,405..86.8

2022......2,193..............186,153..84.9

2023......2,116...............206,996...97.8

Is there scope for further improvement? If so, what are the promising areas? Is wider use of robotic arms one of them?

Company's response:

The Group has invested heavily in R&D, where the main focus areas are the continuous upgrading and innovation of its technological processes, production automation including the use of robotic arms, as well as continuous production process. These are promising areas that not only facilitate green production but also play an important role in reducing labor costs. The management expect that our productivity will continue to improve as a result of these ongoing efforts to automate its manufacturing process.

6. Rubber accelerators (Goh Chin Tong)

Has demand for rubber accelerators continued to pick up after dipping in 2022?

Period.......Sales vol (tonnes)

1H21......49,660
2H21......52,310
1H22......45,715
2H22......43,719
1H23......46,789
2H23......53,020

2H23 sales volume translated into a utilisation rate of 90% of the 117,000-tonne annual capacity. Is new rubber accelerator capacity being planned?

Company's response:

The growth in sales volume is driven by increasing market demand for our products, as well as our marketing efforts which is bolstered by our production expansion over the years.

The Group's capacity expansion follows an organic growth trajectory. We are currently in the preliminary feasibility study stage for new capacity expansion. The Company will make appropriate announcements in due course.

7. MBT (Goh Chin Tong)

30,000 tonnes of the existing 45,000-tonne MBT capacity are in Weifang, where Aniline and other raw materials are sourced for lower transportation and warehousing costs. To what extent is this advantage nullified when 60,000 tonnes of MBT are to be produced in Shanxian?

The output of Phase One would replace the purchase of 20,000 tonnes of MBT costing RMB 320m annually. How much will the move save?

From whom Sunsine buy MBT? Are they small companies primarily serving the manufacturers of high-end rubber accelerators? The IPO prospectus reported that in 2006, MBT purchases from Jiangxi Kaili Chemical accounted for 7.7% of the total expenditure on raw materials.

Will the existing 45,000-tonne MBT capacity operate alongside the ultimate 60,000 tonnes from Phase One and Two of the continuous method, giving rise to 105,000 tonnes?

Company's response:

MBT is an intermediate product used for further production of other accelerators, such as MBTS, CBS, TBBS, etc. The new 60,000-tonne per annum continuous production project for high-quality MBT is being constructed in two phases. Phase I, with a capacity of 20,000 tonnes per annum, is expected to commence its commercial production in the second half of this year. Phase II, with an additional 40,000 tonnes, will commence construction in 2025. The existing 45,000-tonne MBT capacity located in Weifang and Shanxian plants are still in use. Currently, we do not have any plan to phase them out.

Based on our internal assessment, with the implementation of Phase I, 20,000-tonne MBT capacity, it will help to reduce the MBT unit cost by approximately RMB1,800 - 2,000 per tonne.

Most of the MBTs which the Group purchases are from smaller producers in the nearby Henan Province. These producers also manufacture various small-volume rubber chemicals.

8. Hospitality business (Goh Chin Tong)

Is Sunsine divesting the hospitality business as this segment had no revenue in 2H2023?

Company's response:

As the hospitality business is not a core business of the Group, we do not focus on this segment. However, annual assessment is conducted in order to ensure that there are no indication of impairment in asset valuation. The Group is open to the possibility of divesting this hospitality business, should the opportunity arise.

9. Electric vehicles (Tan Han Meng)

According to Why Tire Companies Love EVs (youtube.com), tyres for electric vehicles are larger than those for internal combustion engine cars as the batteries are heavier. They also wear out faster.

Has the demand for rubber chemicals risen as 31.6% of the 30m cars sold in China in 2023 were electric?

Company's response:

We do not have statistical records to prove that the increased demand for rubber chemicals is directly linked to the rise in EV sales. However, based on anecdotal evidence, it appears that the increased sales of EVs have led to higher demand for larger and wider tyres, which consume more rubber chemicals.

10. Notes receivables (Tan Han Meng)

End of Period.....Notes receivables (RMB'm)

1H21.....................82

2021.....................184

1H22.....................434

2022.....................530

1H23.....................498

2023......................439

During the AGM in April 2023, the management clarified that granting extended payment terms to a company seeking a listing on the Shanghai Stock Exchange gave rise to the high notes receivables as of the end of 2022.

What is the most recent outstanding position of notes receivables?

Company's response:

The tyre company seeking IPO in China is one of our major customers. We have already negotiated with them to shorten the credit term.

As of 31 March 2024, the Group's notes receivables remain at about the same level as those of 31 December 2023.

11. Flexible Pricing (Khoo Kay Leng)

The flexible Sale Pricing to its customers adopted by CSS has been key to maintain increasing volume of sales to keep factories and production lines at near 100%. Appreciate the basis and risks of adopting this sales strategy including lowering ASP as compared to maintaining the selling price for a higher profit margin.

Are there underlying merits of CSS which enable adoption of this strategy which has sustain profits over the years including the covid pandemic in 2020?

Company's response:

To cope with intensified market competition, the Group has adopted a "flexible pricing" strategy to maintain competitiveness over the years. The benefits of this strategy are:

- *Enhancement of the Group's price competitiveness. Leveraging its reputation built over 40 years of deep involvement in the rubber chemicals industry, along with superior quality, variety of product range, and stable delivery, the Group has gained the trust of numerous customers. With the competitive pricing advantage, customer demand for our products has increased. It helps the Group to further improve its market share and strengthen its market leadership position.*

- *Positive impact on the overall profitability of the Group. With a relatively large production capacity and guided by the "Sales and Production Equilibrium" strategy, increased production further increases capacity utilisation while reducing production costs and improving efficiency. Therefore, implementing a flexible pricing strategy can stimulate sales volume, which is most beneficial to the overall profitability of the Group.*

- *Underpinned by the Group's comprehensive competitive strength. With a cash reserve of RMB 1.688 billion and no debt, the Group has strong financial resources. This allows greater flexibility in the Group's operation and investment activities, thus maximising economic benefits amid intense market competition.*

12. Dividend (Tan Han Meng)

After achieving a net cash position (RMB 196 mln) in 2015, cash has been building up fast to reach RMB 1,688 mln eight years later, in 2023. Had notes receivables been kept low, cash would have been around RMB 2,000 mln.

For perspective, RMB 2,000 mln is:

7.8 times 2023 employment benefits of RMB 257 mln; almost the same as 2023 raw material purchases of RMB 2,040 mln; and also higher than capital expenditures (RMB 1,255 mln) plus incremental working capital (RMB 629 mln) over seven years between 2017 and 2023.

Helped by the "flexible pricing" strategy that pursues sales volume growth, Sunsine has been profitable every year since listing in 2007 despite shifting Aniline prices.

In the past seven years, profit peaked at RMB 606 mln in 2022 for a 15.8% net margin. When COVID-19 was at its worst in 2020, sales volume still edged up 1% with a profit of RMB 219 mln. When product prices were brought down by weak Aniline prices in 2023, sales volume grew 11% with a good profit of RMB 372 mln. The net margins for 2020 and 2023 were both a respectable 9.4% and 10.7% respectively. In 2020, only 0.4% of revenue was impaired.

With such solid foundations and resilience to weather unexpected headwinds, why can't the management be more liberal in dividend payout? For perspective again, every SGD 0.01 dividend entails RMB 50m.

Company's response:

The comment and analysis on cash flows and dividend of the Company is well noted by the Board and management.

Since its IPO in 2007, the Company has been paying dividends annually. In FY2023, the Board recommends a final one-tier tax-exempt dividend of SGD0.015 per ordinary share, plus a final special dividend of SGD0.01 per ordinary share in appreciation of the support of our shareholders. The dividend payout ratio for FY2023 is about 34%.

When determining the dividend payout, the Board considers various factors, including but not limited to recent expansion and R&D plans, working capital requirements, market prospects, economic environment impacts, expectations from government and employees, shareholders' returns, and so forth.

Currently, the global economic condition is still challenging and uncertain. China's economy appears to be growing at a slower pace, geopolitical tensions have threatened the global economy and supply chain, interest rate hikes and inflationary pressure pose challenges to business operations. On top of that, market competition in the rubber chemicals industry is intensive, as major players are implementing expansion plans.

The Group has weathered the pandemic and other economic storms relatively well thus far but we cannot take our success for granted. It is our robust financial position that has provided us with a strong cushion and confidence in dealing with these headwinds and uncertainties. As *always, we value shareholders' feedback and take them seriously. We will endeavour to strike the right balance between the Group's long-term development needs and enhancement of shareholders' return.*

13. Has there been a change in credit terms over the last 2 financial years, specifically FY2022 & FY2023, where outstanding days for trade and other receivables have exceeded 3 months? Essentially, does the group take longer to collect payments? (**Lee Hai Seng**)

    Company's response:

    There is no change in credit terms except for an extension provided to one of our major customers (as stated in question 10).

    Average trade receivables (excluding notes receivables) turnover days were 70+ days in both FY2022 and FY2023. Most of our customers continue to make payments within the agreed credit period. The management does not think there is any issue with collecting debts as they fall due. Based on the Group's track records, the impairment of trade receivables was immaterial due to the Group's control over its credit risk management and collection processes.

14. Is the venture into waste treatment progressing according to plan? Along the same lines, I would like to inquire about the other ventures, namely heating power and hospitality. How are these ventures faring? (**Lee Hai Seng**)

    Company's response:

    We currently have no further expansion plan in the waste treatment business, as the current facilities are sufficient to meet the needs of its industrial users.

    The performance of waste treatment, heating power and hospitality segments are stated in the Financial Report note 27.

    The heating plant and waste treatment businesses are playing supporting roles in our major rubber chemicals production business. Instead of sourcing from other parties, these businesses help to provide integrated synergy, cost-saving benefit, and minimise the risk to our main business.

    Regarding the hospitality business, please refer to question 8 above.

15. Considering how price of raw materials greatly affects the business' financial position, has the business considered taking advantage of the current low ASP prices by means of hedging (or its equivalent)? Would this allow the group to further improve its financial performances in years where raw materials are higher (as has been the case) and would better mitigate the poor performance during years when raw material prices are lower (E.g. 2020, 2023)? (**Mathew Lim Wei Li**)

    Company's response:

    Currently, we manage our forex risk by hedging a portion of our foreign currency assets.

We do not hedge raw material and selling prices due to the challenges in analysing price trends in such uncertain environments.

Our selling prices are typically agreed with customers in advance, usually on a quarterly or monthly basis. Generally, the Group is able to pass on increased raw material prices to our customers, and we do not like to keep too high inventory.

As a real entity focused on manufacturing and selling rubber chemicals, we prioritise operational excellence over financial speculation. We will continue to enhance our competitive advantages, including economies of scale, quality products and services, variety of products, strong financial resilience, R&D capabilities and stringent measures in compliance with environmental requirements, to further strengthen our market leadership position.

16. If the environment of low ASP persists, what are the managements' plans moving forward? (**Mathew Lim Wei Li**)

Company's response:

In recent years, competition within the Chinese rubber chemicals industry has been intensifying, placing significant pressure on our selling price. However, the Group's consistent strategy of "Higher sales volume leads to higher production, which in turn stimulates even higher sales" (also called "Sales and Production Equilibrium") has proven effective.

On the back of our scaled capacity, both our production and sales volumes have seen a consistent upward trajectory, reaching a historic high of 206,996 tonnes in FY2023. Our main product, rubber accelerators, captured market share of 35% in China and 23% globally in 2023. Thus, in 2023, the Group maintained its status as the world's largest producer of rubber accelerators and China's leading enterprise in rubber chemicals.

In the face of intensifying market competition, the Group has no fear nor will it retreat. The Group will continue to adhere to the "Sales and Production Equilibrium" strategy, adopt flexible pricing policy, actively increase sales volume and further expand market share, and at the same time, further enhance operational management, and improve efficiency. The management is confident of the Group's profitability in the foreseeable future.