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Issuer: China Sunsine Chemical Holdings Ltd.

Stock code: QES

Meeting details:

Date: 27 May 2020

Time: 10.00 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

Q1. FY2018 was a record year for the group as the Chinese government implemented strict environmental protection policies that affected the supply chain. In FY2019, the industry normalised and the group achieved revenue of RMB2.69 billion, which was a decline of 18%, despite a 11% increase in sales volume. Net profit dropped 39% to RMB 388.9 million from FY2018.

The average selling price for the rubber chemicals decreased by 26% to RMB 15,970 per ton in FY2019 as compared to RMB 21,535 per ton in FY2018 (page 10 of the annual report).

As stated in the chairman's statement, in 2019, the group maintained its market leadership position as the world's largest rubber accelerator producer and China's largest insoluble sulphur producer (page 6).

Based on the company's estimate, it commands a 33% market share in the domestic market and a 20% share of the overseas market.

- (i) **Given that the group has a market leadership position, coupled with its strong environmental focus, how much pricing power does the group have for its products?**
- (ii) **How does the group differentiate itself from other producers?**
- (iii) **What are the levers available to the group to maintain/improve its profit margin?**

Q2. As noted in the chairman's statement (page 6), the group's 2020 expansion plans include the following 3 projects:

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

The budgets for the above-mentioned projects are RMB 270 million (phase 1), RMB 60 million and RMB 150 million respectively.

- (i) **How is the group going to fund the capital expenditure for the 3 projects?**
- (ii) **How is management adjusting its plans given that the global supply chain of its customers has been severely disrupted by the COVID-19 pandemic?**

- (iii) **Would the three projects be sufficient to propel the group into the next stage of growth or would other investments be made in the near term?**
- (iv) **How significant is the risk that the industry will experience overcapacity as competitors ramp up their production capacities as well?**

Q3. During the financial year, the group spent RMB19.6 million (SGD 3.9 million) buying back 6.98 million of its own shares (adjusted for stock split) in the open market. These shares are kept as treasury shares as at 31 December 2019.

The average price paid for the treasury shares bought in 2019 is approximately S\$0.5575 per share.

Since then, the company has bought back a further 3.38 million shares and kept as treasury shares in 2020. Shares were as low as \$0.265 as global markets traded lower due to the pandemic.

The company has carried out a stock split “[t]o increase the liquidity of our shares and broaden the shareholders’ base” (page 6).

- (i) **Would the board reconcile why it carried out a share split to increase liquidity and subsequently carried out regular share buybacks (which would decrease the liquidity)?**

As shown in the financial highlights on page 3, the company has a history of carrying out stock buybacks and holding them as treasury shares and then placing out the treasury shares. As much as 27.7 million shares were held as treasury shares in FY2016 before they were placed out in 2017.

- (ii) **Would the active share buyback distract management from the core operations?**

On 26 November 2018, SGX Regco, in its Regulator’s Column, had highlighted the risks in companies doing share buy-back.

In particular, companies must not pay more than 105% of the average closing market price of the security over the last 5 consecutive active trading days. In addition, SGX guided that companies should aim to buy back shares at relatively low prices and not be seen to buy at increasing higher prices which could be interpreted as influencing the closing prices.

Also, the regulator stated that purchases that exceeded 30% of the daily on-market traded volume were excessive. Doing so may interfere with the normal trading of shares and result in the artificial inflation of the trading volume and price of the security.

The Regulator's Column on share buy-backs can be found here:

<https://www.sgx.com/media-centre/20181126-what-companies-should-observe-when-conducting-share-buy-backs>

On 24 March 2020, the company bought back 282,800 shares by way of market acquisition. Based on historical trading data retrieved from SGX, 624,000 shares were traded that day. Accordingly, the company accounted for 45% of the day's trading volume.

- (iii) **What is the oversight of the board on the company's share buyback?**
- (iv) **Would the board be reviewing the company's share buy-back practices (both in price and volume) to ensure that they are more in line with SGX rules?** This would ensure that the company buys back shares in a responsible manner that does not artificially interfere with the price and volume of the security, as noted in the Regulator's Column.

[^]Amid the global COVID-19 outbreak, issuers who choose to proceed with the AGM before 30 April 2020 must provide opportunities for shareholders to ask questions. Shareholders are encouraged to read the annual report and submit any questions they might have to the companies in advance. Issuers would then publicly address the questions at the general meeting via the issuer's website, through "live" webcast and on SGXNet.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on [SIAS website](http://www.sias.org.sg)

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[^] Joint Statement by Accounting and Corporate Regulatory Authority, Monetary Authority of Singapore and Singapore Exchange Regulation dated 31 Mar 2020 (<https://www.sgx.com/media-centre/20200331-acra-mas-and-sgx-regco-update-guidance-general-meetings>)