



China SunSine Chemical Holdings Ltd.

112 Robinson Road #12-04 Singapore 068902
Tel: (65) 6220-9070 Web: www.ChinaSunSine.com

Company Registration No.: 200609470N

RESPONSE TO SGX-ST QUERIES

The Board of Directors (the “**Board**”) of China SunSine Chemical Holdings Ltd (the “**Company**”, and together with its subsidiaries, collectively the “**Group**”) wishes to provide the following information in response to queries from Singapore Exchange Securities Trading Limited (“**SGX-ST**”) on 6 September 2016 with regards to our financial statements announcement dated 10 August 2016 (“**Results Announcement**”) for the second quarter ended 30 June 2016 (“**2Q2016**”).

Query 1:

We note on page 3 of the Results Announcement that ‘Trade receivables’ has increased from RMB413.5 million to RMB500.2 million. Please elaborate on the aging schedule of ‘Trade receivables’.

Company’s response:

The aging report of our trade receivables as at 30 June 2016 was as follow:-

	1 – 3 months	3 – 6 months	6 – 12 months	> 12 months	Total
	RMB’ million	RMB’ million	RMB’ million	RMB’ million	RMB’ million
Notes receivables	134.4	-	-	-	134.4
Trade receivables	348.4	18.4	8.1	3.5	378.4
Allowance for impairment	(0.8)	(0.2)	(8.1)	(3.5)	(12.6)
Total trade receivables	482.0	18.2	-	-	500.2

Query 2:

We note on page 9, paragraph 8 of the Results Announcement that the Group’s 2Q2016 sales volume reached a new record level of 34,483 tons. Please provide factors etc. for the new record.

Company’s response:

As explained on page 10 of the Results Announcement, the new record sales volume was mainly due to the increase in sales volume of our Insoluble Sulphur (“**IS**”) and Anti-oxidant products. The sales volume for IS and Anti-oxidant products in 2Q2016 increased by 39% (to 5,212 tons), and by 44% (to 8,499 tons), respectively. The increase was mainly due to more orders received from tire makers, as the utilisation rate of China’s tire industry has increased and the Group’s IS and Anti-oxidant products were more recognized by the market, compared to its competitors.

Query 3:

We note on page 10 of the Results Announcement that there is accrual of RMB6.6 million “Safety Production” expenses in accordance with the China Safety Production Law. Please provide details and what expense is this and elaborate on the China Safety Production Law and impact to Company.



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Company's response:

China Safety Production Law ("Law") was first introduced in 2002 in order to enhance the safety standards and reduce the occurrence of industrial accidents during production process, and it was amended by China's Standing Committee of National People's Congress in 2014. China's Ministry of Finance and Safety Supervision Bureau jointly issued the Regulation on Accruals and Utilisations of Enterprise Safety Production Expense ("Regulation") in 2012, which requires all enterprises, differentiated by their business nature, to accrue for safety production expenses based on certain percentage of their revenue income. The accrued safety production expense can be utilised to improve production safety standards, to maintain safety equipment, to carry out safety drills, to educate employees on safety issues etc. The Law and Regulation were implemented by Heze City in 2Q2016, and the Group started to accrue for the Safety Production expenses in accordance with the Law and Regulation, and as such, a total of RMB 6.6 million Safety Production expenses for 1H2016 were accrued in 2Q2016.

The Regulation specifies that the monthly accrual standards for our business are as follows:-

1. For the portion of revenue less than RMB 10 million, 4% of the revenue needs to be accrued to Safety Production expenses;
2. For the portion of revenue equal to and exceeding RMB 10 million, but less than RMB 100 million, accruals shall be 2% of this portion of revenue;
3. For the portion of revenue equal to and exceeding RMB 100 million, but less than RMB 1 billion, accruals shall be 0.5% of this portion of revenue;
4. For the portion of revenue equal to and exceeding RMB 1 billion, accruals shall be 0.2% of this portion of revenue.

However, both Law and Regulation do not specify the reversal of un-utilised accruals of safety production expenses. In accordance with PRC Enterprise Income Tax Law, all non-incurred expenses (ie, expenses which are only accrued for, but not actually incurred) are not tax deductible. As such, the Company intends to reverse out the un-utilised accruals of Safety Production expenses at the end of the current financial year, and start anew accrual in the next financial year. On this basis, the Safety Production expenses accrued would have no material impact on the Group's financial statements.

Query 4:

We note on page 10 of the Results Announcement that there is an impairment for trade receivables recorded in 1H2015 of RMB7.1 million. Please provide the following details:-

- (a) Who is this customer?*
- (b) Why is the amount so significant?*
- (c) Is the Company still doing business with this customer?*
- (d) Why did the customer not pay?*

Company's response:

This allowance for impairment of trade receivables consisted of 24 China customers and 5 overseas customers. Most of them were tire makers. As disclosed in our previous Results Announcement, due to US's anti-dumping and countervailing measures against China's tire industry, as well as the consolidation process in China's tire industry, some tire makers may face higher insolvency risk. Thus, the Group's receivables may also face higher risk of impairment. The Group is taking a more prudent approach in the review of all our debts. If there are indications that the debts may not be recoverable, provisions will be made in respect of the full amount of the debts, and for other debtors whose debts are overdue for more than 6 months, the overdue amounts are provided for as more particularly set out in the table below:-



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	RMB' million
Debts with indications of not being recoverable as at 30 June 2015 (for total 11 customers)	10.0
Debts overdue for more than 6 months as at 30 June 2015 (for total 18 customers)	2.5
Total	12.5
Less: Allowance as at 31 December 2014	5.4
Additional allowance made in 1H2015	7.1

Please refer to the below table for detailed provision, subsequent collection and current relationship.

Customer	Allowance provided	Subsequent collection	Still doing business?
	RMB' million	RMB' million	Yes/No
Beijing Shouchuang	2.5	2.4	No
Shandong Anchi	1.7	1.7	Yes
Shandong Haolong	2.1	-	No
Shandong Kangdi Taike	1.3	1.3	No
Other 9 customers which has stopped business relationship	1.0	0.6	No
Other 16 customers which has not stopped business relationship (including 5 overseas customers)	3.9	3.7	Yes
Total	12.5	9.7	

Query 5:

We note on page 11, paragraph 10 'Project updates' of the Results Announcement. What is the current capacity utilization based on total capacity of 152,000 per annum and the additional 20,000 ton coming on stream in 2017.

Company's response:

The capacity utilisations for 1Q2016 and 2Q2016 were as follows:-

	Annual Capacity	Quarterly Capacity	1Q2016 Actual Production	1Q2016 Utilisation Rate	2Q2016 Actual Production	2Q2016 Utilisation Rate
	Tons	Tons	Tons	%	Tons	%
Accelerators	87,000	21,750	17,388	80	21,386	98
IS	20,000	5,000	3,887	78	4,940	99
Anti-oxidant	45,000	11,250	5,862	52	8,577	76

(Note: lower utilisation rate in 1Q2016 due to cessation of production during Chinese New Year period)

The utilisation rate for accelerators in 2Q2016 reached 98%, and the market demand for TBBS (one of the accelerator products) is still high. The management believes that the new TBBS production line can further strengthen our position as world no.1 producer of accelerators and provide positive returns to the Company.



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BY ORDER OF THE BOARD

Xu Chengqiu
Executive Chairman
8 September 2016