



China Sunsine Chemical Holdings Ltd.

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CLARIFICATION OF NEWS REPORT ON THE INTERNET

The Board of Directors (the “**Board**”) of China Sunsine Chemical Holdings Ltd. (the “**Company**”, and together with its subsidiaries, collectively the “**Group**”) refers to a news report published by certain local Chinese websites (the “**News**”) relating to the outcome of an environmental inspection carried out at one of the Group’s subsidiaries, Shandong Sunsine Chemical Co., Ltd (“**Shandong Sunsine**”). The Board is of the view that the News do not reflect a complete and accurate picture of the situation. As the Board was given to understand that the News have raised concerns amongst some stakeholders, the Board wishes to provide more information and the clarifications as follows:-

1. On 20 May 2017, an inspection team led by officers from the Ministry of Environmental Protection (the “**Inspection Team**”) visited Shandong Sunsine to carry out an environmental inspection as part of the government’s heightened enforcement efforts. There were certain weaknesses identified by the Inspection Team, and Shandong Sunsine is required to carry out certain rectification actions. Shanxian Environmental Protection Department was also directed to follow up with such rectification actions.
2. The weaknesses identified by the Inspection Team related to three areas:-
 - a) *On-line monitoring.* The News stated that “the entity did not install the on-line monitoring equipment.”

We wish to clarify that based on Document 206 of 2017: “*Circular on Further Strengthening the Automatic Monitoring Work of Elevated Sources in Beijing, Tianjin and Hebei and Surrounding Areas*” issued by the Ministry of Environmental Protection, as well as the “*Urgent Notice on Further Verification of Elevated Source Information*” issued by the Heze Environmental Protection Agency on 24 February 2017 (together, the “**Circular and Notice**”), the chimney used in our recycling of sulphur is categorised as “elevated source” as defined in the Circular and Notice. Under the Circular and Notice, Shandong Sunsine is required to install and operate such on-line monitoring equipment on that chimney (the “**Equipment**”) by 31 May 2017. When the Inspection Team visited Shandong Sunsine on 20 May 2017 to carry out their inspection work, Shandong Sunsine has already bought the Equipment and completed the construction of the auxiliary facilities for installation of the Equipment. The vendor is organizing personnel to install the Equipment to ensure that it is operational in accordance with the Circular and Notice, by 31 May 2017.

- b) *Oil Furnace.* The News stated that “Flue gas was discharged to the ground instead of into the chimney after water spray; The PH value of dust water spray was neutral; Desulphurization facilities were not running.”

We wish to clarify that the Oil Furnace is a small equipment used to heat up our 6PPD products, and it is fully equipped with environmental protection facilities. The weakness identified by the Inspection Team was mainly due to the protective equipment which was used in the process of desulfurization and dust removal, not being dismantled in time, as well as the improper adjustment of the alkali control valve. Rectification action was immediately taken by Shandong Sunsine.

- c) *On-site management issues.* The rest of the weaknesses identified by the Inspection Team related to on-site management issues, namely that “the exhaust gas emissions were not managed

in an organised manner; cluttering of hazardous waste; sludge, by-product sulfur, coal slag and general solid waste were piled up and exposed".

The Board acknowledges that these issues indicate that there are still weaknesses in our on-site management work. The Group is committed to addressing these weaknesses and shall take all necessary actions to improve and strengthen our on-site management processes.

3. The Board wishes to highlight that the weaknesses identified by the Inspection Team does not amount to any breach of Environmental Protection Laws (the "**Laws**") by Shandong Sunshine, and there was no statement by the Inspection Team to the effect that any breach has been committed by the Company. No stop or suspension order was issued by the Inspection Team or the local authorities, nor was the production of Shandong Sunshine affected in any way.
4. The Group is currently carrying out the relevant rectification works, and will continue to improve our on-site management processes. The Group will make appropriate announcements to update shareholders on the rectification actions taken and completed by Shandong Sunshine in due course. The Board does not expect the rectification actions to have any material impact on our net profit and net assets per share for the financial year ending 31 December 2017.

The Board assures all our stakeholders that the Group has always paid particular attention to environmental protection regulations, and will continue to ensure its compliance with the Laws. The Group is confident of its performance in the future.

BY ORDER OF THE BOARD

Xu Chengqiu
Executive Chairman
29 May 2017