



SINOSTAR PEC HOLDINGS LIMITED

(Company Registration No.: 200609833N)

RESPONSE TO SGX QUERY ON FINANCIAL STATEMENTS AND RELATED ANNOUNCEMENT FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2023

The Board of Directors (the "Board") of Sinostar Pec Holdings Limited ("Company" and together with its subsidiaries, the "Group") refer to the further queries raised by the Singapore Exchange Securities Trading Limited ("SGX-ST") on 20 November 2023, and wish to provide the following information in response to the Company's Unaudited Financial Statement for The Third Quarter Ended 30 September 2023:-

SGX Query 1

The Company had disclosed that "other sources of income comprised RMB 54.8 million from the gain on disposal of catalyzers and other scrap materials". On the other hand, inventories increased by RMB 107.5 million (44%) to RMB 349.8 million and the Company explained in relation to the increase in inventories that "the increase in raw materials is primarily due to Qianhai's replenishment of catalyzers." Please elaborate further on the rationale for the disposal of catalyzer and the subsequent replenishment, the value of the catalyzers disposed and the value of the replenished catalyser, which resulted in the increase in inventories by RMB 107.5 million (44%) in 30 September 2023 from 31 December 2022.

Company's Response:

Reasons for the rationale for the disposal of catalyzer and the subsequent replenishment, the value of the catalyzers disposed and the value of the replenished catalyser, which resulted in the increase in inventories:

Catalysts are spherical metallic substances that do not consume their own mass in the reaction but change the reaction rate. They are indispensable auxiliary materials in the production and processing of petrochemical industry. The unit value of catalysts is high, and the active Ingredient of catalysts will gradually decrease with the use period. The catalysts used by our Group are once-filled production units, which are updated or replenished every three years. The cost of catalysts are amortized over the 3 years period. The outdated catalysts that have lost their active ingredients are sold as waste catalysts and accounted for as other income.

As of 30 September 2023, the Group has cumulatively replaced a total of RMB88.16 million of catalysts. The outdated catalysts that were replaced were disposed of on 10 July 2023, 19 July

2023 and 20 July 2023 respectively and the disposal income was RMB29.20 million, RMB23.89 million and RMB0.26 million respectively.

SGX Query 2

Please provide the reason(s) for the significant bank borrowings and loans from non-controlling interest which amount to RMB 690m in total by the Group when the Group recorded a cash and cash equivalent of RMB 580.1m as at 30 September 2023. To also disclose the cost of borrowing and interest rates on these significant loans in comparison to the interest income from the Group's cash balance.

Company's Response:

Reasons for the significant bank borrowings and loans from non-controlling interest:

The Group is a production-oriented and capital-intensive enterprise that maintains sufficient and stable cash flow, which is more conducive to coping with market fluctuation risks and adjusting inventory and production plans in a timely manner. As of 30 September 2023, the Group's cash and cash equivalents amounted to RMB580.1 million, all of which were bank deposits.

As of 30 September 2023, the Group's interest-bearing borrowings amounted to RMB690 million, mainly including:

- i. Hengchang Petrochemical borrowed from the Agricultural Bank of China for the 200,000-ton polypropylene project of Hengchang Petrochemical, with a balance of RMB390 million as of 30 September 2023, was secured by a corporate guarantee from an affiliated company Dongming Zhongyou Fuel and Petrochemical Co., Ltd (东明中油燃料石化有限公司). The borrowing interest rate is at a floating interest rate, with an adjustment cycle every 12 months, which is determined by deducting 39bp (1bp=0.01%) from the LPR interest rate of more than five years on the previous day corresponding to the contract drawdown date, and the current implementation interest rate is 3.91%. As of 30 September 2023, the borrowing cost is RMB12.61 million.
- ii. Qianhai Petrochemical's loan from Shandong Dongming Petrochem Group Co., Ltd (山东东明石化集团有限公司) a non-controlling party, is a working capital loan of the company, with a balance of RMB300 million as of 30 September 2023 and the loan is an unsecured loan. The borrowing interest rate is a fixed interest rate, based on the 1 to 5 years benchmark interest rate of the People's Bank of China on 20 April 2020 on the contract signing date, and the current implementation interest rate is 4.75%, and the borrowing cost as of 30 September 2023 is RMB14.43 million.

SGX Query 3

Please explain why interest income amounted to only RMB 4.8 million during the financial period ended 30 September 2023 when the Company has significant cash and bank balance amounting to RMB 580.1m.

Company's Response:

Reasons for the interest income amounting to RMB4.8 million:

The Group's deposit interest income is calculated based on the Group's deposits in commercial banks, calculated according to the bank deposit interest rate, and the Group's deposit interest income as of 30 September 2023 was RMB4.8 million.

The interest income of the Group's cash balance is derived from the Group's interest income from demand deposits in commercial banks and interest income from agreed deposits. Bank deposit interest rates are as follows:

Financial Institution	Demand deposit interest rate	Negotiated deposit rates
Industrial and Commercial Bank of China	0.2%	0.9%
Agriculture Bank of China	0.25%	0.9%
China Construction Bank (Qianhai)	0.25%	1.55%
China Construction Bank (Hengchang)	0.2%	1.61%
Bank of China	0.2%	
Pudong Development Bank	0.2%	0.9%

By order of the Board

Li Xiang Ping
Executive Chairman and CEO