



SINOSTAR PEC HOLDINGS LIMITED

(Company Registration No.: 200609833N)

RESPONSE TO SGX QUERIES IN RELATION TO COMPANY'S ANNOUNCEMENT DATED 14 MAY 2024 IN RELATION TO THE FIRST QUARTER ("1Q2024") RESULTS OF THE COMPANY

The Board of Directors (the "Board") of Sinostar Pec Holdings Limited ("Company" and together with its subsidiaries, the "Group") refers to the queries raised by the Singapore Exchange Securities Trading Limited on 20 May 2024 in respect of the Company's announcement dated 14 May 2024 in relation to the First Quarter ("1Q2024") Results of the Company and would like to set out its responses to the queries as follow:-

We refer to the Company's announcement dated 14 May 2024 in relation to the First Quarter ("1Q2024") Results of the Company.

Please provide information on the following in an announcement to be released via SGXNET by 23 May 2024. In your announcement, please disclose our question and your corresponding answer to enable investors to understand the matters raised by the Exchange.

SGX QUERY

1. We note that the Company disclosed transactions with affiliated companies where a director of the Co has an indirect equity interest under Note 19, Page 18 of the 1Q2024 Results. Please provide a comparison of these transactions with the Interested Person Transaction table in Note 8 on Page 26-30 of the 1Q2024 Results and explain the specific basis for each of these entities why certain of the transactions with the relevant "affiliated company" is not regarded as an interested person transaction.

COMPANY RESPONSE

	Notes to the condensed interim consolidated financial statements	Other information	Reasons for the difference
	Note 19 Affiliated companies' transactions (pg 18) (RMB'000)	Note 8 (pg 26 to 30) (RMB)	
Interest expenses on loan charged by affiliated company – 山东东明石化集团有限公司	2,995	-	We would like to clarify that this information on interest expenses on loan charged by affiliated company, which is already

			disclosed in Note 19 on page 18, but was inadvertently omitted from IPT table under Other Information – Note 8 on pages 26 to 30.
Other individually immaterial transactions	3,794	-	The total value of Mandated transactions of business units under the Dongming Petrochemical Group, where the transaction value with each entity is less than S\$100,000
Transactions between Dongming Hengchang Petrochemical Co., Ltd and its subsidiary, Dongming Qianhai Petrochemical Co., Ltd			These transactions are between the Group and its subsidiaries and are eliminated when the Group's financial statements are consolidated.
- Logistics & Transport Related Services	-	3,953,881	
- Purchase of Utilities	-	2,832,692	
- Sale of Utilities	-	1,397,618	
- Sale of Processed LPG	-	272,685,165	
- Purchase of Propylene	-	129,906,805	
- Purchase of Hydrogen	-	111,000	

The above-mentioned transactions are all regarded as transactions by interested parties by the company.

SGX QUERY

2. The Company had announced a 1 for 2 Rights Issue to raise gross proceeds of S\$44.8 million (~RMB 239.3 million) on 28 September 2023 whilst the Company has cash and bank balances on hand amounting to RMB 654.1 million as of 1Q2024.
 - a. Please also provide specific details of the business expansion plans that the company will be putting in place and the capital expenditure that will be required for such an expansion and/or potential targets for acquisition that warrants the additional funds to be raised from the Rights Issue;

COMPANY RESPONSE

Dongming Hengchang has been recognized by the Shandong Provincial Government as a Pioneer in the high-end polyolefins industrial chain. It is committed to expanding its business scale through technological innovation and new product development. Currently, the company is planning to raise funds through a rights issue to seek potential acquisition targets, support the company's long-term sustainable development strategy, and will provide more details to shareholders in due course.

SGX QUERY

- b. In relation to the bank borrowing and loans from non-controlling interest ("NCI") that amount to RMB 560 million in aggregate for 1Q2024, the Company disclosed that the full settlement of the bank borrowings is scheduled to be completed by January 2027 and the full settlement for the loan from NCI is by 1 April 2025; of which, only RMB 210 million in total from both the bank borrowing and loans from NCI is due within 12 months ("current

obligations”). Please explain why the Company had to undertake the Rights Issue to raise funds now to pay off these existing loans that have not come due when the Company has more than enough cash and bank balances to satisfy its current obligations;

COMPANY RESPONSE

The Company would like to clarify that as the loans designated for the application of the Rights Issue net proceeds are one-time loans with predetermined repayment terms and dates, the Company is proactively planning to secure funding in advance to assist in financing a portion of the loans when they become due. This strategic planning ensures that the Company is equipped to meet its financial obligations while fortifying its financial position and fostering sustained growth. This is to ensure that the company can fulfill its financial commitments and maintain adequate liquidity after implementing potential acquisition targets.

SGX QUERY

- c. Furthermore, noting that the Company only yield an interest income of RMB 2.2 million for 1Q2024 from its significant cash and bank balances of RMB 654.1 million whilst incurring an interest expense of RMB 6.6 million that is 3x more and current trade and other payables of RMB 158.4 million, please explain why the Company had not utilized these existing cash and bank balances to repay its bank borrowing and loans from NCI, as well as current trade and other payables; and

COMPANY RESPONSE

- i. Reasons why current trade and other payables have not been repaid

	Amount (RMB'000)	Reasons being outstanding
Trade payables	107,145	The payment date agreed in the contract has not been reached
Other payables – Non-related parties	13,383	The payment date agreed in the contract has not been reached
Accruals – Salaries and related costs	7,529	The accumulated employee performance bonuses have not yet reached the payment time
VAT	20,769	The value-added tax accrued based on sales revenue has not yet reached the statutory reporting time
Other governmental tax payables	9,603	Other government taxes accrued based on the paid value-added tax have not yet reached the statutory reporting time
Total	158,429	

All The above trade and other payables are interest free.

- ii. This industry is a capital-intensive in nature. Although interest expenses are much higher than interest income, the company believes that maintaining sufficient cash reserves is more conducive to stable operations and flexibly respond to potential market risks and opportunities. Prepayment of borrowings and other outstanding debt is not the best option for the company.

SGX QUERY

- d. Please provide specific details of the known factors or events in relation to each specific use of proceeds from the Rights Issue that have not been detailed above. To also quantify and justify the amounts required for each of these uses.

COMPANY RESPONSE

Except for Question 2b as above, which is to repay due loans in accordance with the company agreement, there are no specific commitment at this time.

Please refer to the table below for the capital repayment schedule for the bank borrowings and loans from NCI (excluding interests).

Repayment Dates	Bank Borrowings (RMB'000)	NCI Loans (RMB'000)
20 June 2024	30,000	50,000
20 September 2024	-	50,000
20 December 2024	30,000	50,000
1 April 2025	-	50,000
20 June 2025	50,000	-
20 December 2025	50,000	-
20 June 2026	50,000	-
20 December 2026	50,000	-
2 January 2027	100,000	-
Grand Total	360,000	200,000

SGX QUERY

3. Paragraph 12 of Appendix 7.2 in the Listing Manual requires an issuer to disclose the reasons where no dividends have been declared. It is noted that the Company reported a 570% increase in net profit, a balance of RMB 654.1 million cash on hand and generated RMB 146.5 million net cash from operating activities. In addition, the Board maintain an optimistic outlook on the Group's long-term growth trajectory. Please elaborate on the reasons why the Company is of the view that no dividends should be declared to shareholders, despite the growth performance and strong cash and positive cash generating position of the Company and the Company's announced Rights Issue to raise gross proceeds of S\$44.8 million (~RMB 239.3 million).

COMPANY RESPONSE

- i. The company currently has a solid foundation for the development of high-end chemical industries and is still in a rapid growth stage. In order to ensure that the company has a competitive edge in the same industry, it is considering raising more funds through a rights issue to seek potential development opportunities.
- ii. During the company's rapid growth phase, adopting a relatively conservative dividend distribution policy and reinvesting profits to drive business growth and enhance company value is more conducive to generating greater long-term returns for shareholders.
- iii. The company believes that maintaining sufficient cash reserves allows it to respond flexibly to potential market risks and opportunities. In consideration of the requests of some shareholders, the company will also distribute dividends at an appropriate time.

By order of the Board

Li Xiang Ping
Executive Chairman and CEO