



SINOSTAR PEC HOLDINGS LIMITED

(Company Registration No.: 200609833N)

RESPONSE TO SGX QUERIES ON FINANCIAL STATEMENTS AND RELATED ANNOUNCEMENT FOR THE 12 MONTHS AND FOURTH QUARTER ENDED 31 DECEMBER 2021

The Board of Directors (the “Board”) of Sinostar Pec 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 7 March 2022, and wish to provide the following information in response to the Company’s Unaudited Financial Statement for 12 Months and Fourth Quarter Ended 31 December 2021:-

SGX Query 1

Please breakdown of Other Income and explain the significant decrease by 76% from RMB 57m to RMB 13.5m whilst on the other hand Finance Costs increased 28% from RMB 38.4m to RMB 49.1m.

Company’s Response:

Breakdown on other income ;	2021	2020
	Total	Total
	RMB'000	RMB'000
Interest income - bank	5,907	3,240
Warranty income	2,173	-
Subsidies from Govt	4,742	6,386
Gain on disposal of scrap material	219	45,791
Others	435	1,705
	13,476	57,122

Difference is mainly due to the gain on disposal of one off scrap material resulted in FY2020.

Breakdown on finance cost ;	2021	2020
	Total	Total
	RMB'000	RMB'000
Bank loan interest	16,495	4,866
Lease liabilities interest	226	243
Interest paid to Non-controlling interest	32,407	33,298
	49,128	38,407

Increase mainly from the capital loan from bank on the financing of Dongming hengchang's new polypropylene construction, which repayment commenced from June 2021.

SGX Query 2

Please explain the factors causing the 72% increase in raw materials from RMB 79m to RMB 136m and finished goods to increase 81% from RMB 68m to RMB 123m when revenue increased only 40%. Please provide a breakdown of the major types of raw materials and finished goods classified as inventories.

Company's Response:

Increase is in tandem with the increase in production and sales activities, taking into consider the production and sales cycle that inventories are required to stock up in order to minimise the production turn around period.

Breakdown of the major types of raw materials and finished goods classified as inventories.		
	<u>FY 2021('000)</u>	<u>FY 2020 ('000)</u>
<u>Raw material ;</u>		
Raw LPG 液化气	46,331	23,537
Propylene 丙烯	18,615	-
Other components 化工辅料	71,254	55,401
<u>Finished goods ;</u>		
LPG 成品液化气	9,270	31,182
Polypropylene 聚丙烯	48,273	4,139
MTBE 甲基叔丁基醚	27,960	13,873
Other 其他	37,108	18,585
	258,811	146,717

SGX Query 3

Please disclose the name(s) of the interested person(s) for each affiliated companies transaction, and how much interest this interested person(s) has in each of the affiliated companies.

Company's Response:

Interested person is mainly Mr Li Xiang Ping, Executive Chairman and CEO of Sinostar Pec Holdings Limited, who held a 99.41% equity controlled in the Ultimate holding company of Shandong Dongming Petrochem group Co., Ltd, i.e., Shandong HongLiYuan Stock Limited Company (山东宏利源股份有限公司).

Shangdong HongLiYuan holds 97.18% of Shangdong Dongming Petrochem Group. Together, they control the affiliated companies as shown below ; -

Affiliated companies	Shareholding control
Dongming Zhongyou Fuel and petrochemical Company Limited 东明中油燃料石化有限公司	100%
Dongming Runze Pterochemical Co., Ltd 山东润泽化工有限公司	100%
Dongming Crude Oil Distribution Co., Ltd. 东明县石油经销有限公司	100%
Shandong Dongming Lishu Petroluem Co., Ltd 山东东明梨树化学有限公司	60%
Dongming Runming Oil Products Distribution Co., Ltd 东明润明油品销售有限公司	100%
Dongming Wanhailuijiang Petrochemical Co., Ltd 东明万海氯碱化工有限公司	100%
Dongming Qianhai Reli Co., Ltd. 东明前海热力有限公司	82%
Jiangsu Xinghai Petrochem Co., Ltd 江苏新海化工有限公司	100%
Jiangsu Renhai Oil Products DistributionPetrochem Co., Ltd 江苏润海油品销售石化有限公司	100%

SGX Query 4

Please explain the reasons for the significant increase of 81% in revenue from RMB 526m to RMB 951m from the affiliated companies. What are these affiliated companies transactions, and what are the principal activities of these companies? Are these transactions IPTs under the Listing Manual? If not, please explain why.

Company's Response:

Increase mainly from the transactions with Shandong Dongming Lishu Petroluem Co., Ltd 山东东明梨树化学有限公司 on the processed LPG demand, and transportation services provided to Dongming Crude Oil Distribution Co., Ltd. 东明县石油经销有限公司. These increases are in tandem with the increase in production and sales activities during the year. Processed LPG is supplied to Dongming Lishu through pipeline for their petrochemical production such as Methyl, Butanol and Methyl ethyl ketone etc. Supply through pipeline eliminates the additional costs of transportation compared to selling the product in external markets thus giving the group better margin.

Transactions with the affiliated companies are mainly;-

- 1) Sales of processed LPG;
- 2) Sales of utilities; and
- 3) transportation services provided.

All these are under the transactions IPT Listing manual where the company obtained the shareholders' mandate in each AGM.

Principal activities of each affiliated companies are as follow ;-

- (a) Dongming Zhongyou Fuel and petrochemical Company Limited 东明中油燃料石化有限公司, manufacturing of crude oil products.
- (b) Shandong Dongming Petrochem group Co., Ltd. 山东东明石化集团有限公司, manufacturing of gasoline, diesel, naphthan and operating of petrol station services.
- (c) Dongming Runze Pterochemical Co., Ltd 山东润泽化工有限公司, manufacturing and distribution of gasoline, diesel and other oil products.
- (d) Dongming Crude Oil Distribution Co., Ltd. 东明县石油经销有限公司, sales and distribution of flammable oil products.
- (e) Shandong Dongming Lishu Petroluem Co., Ltd 山东东明梨树化学有限公司, manufacturing of petrochemical products.
- (f) Dongming Wanhailuijiang Petrochemical Co., Ltd 东明万海氯碱化工有限公司, manufacturing of oil and petrochemical products.

SGX Query 5

The Company disclosed that Administrative Costs decreased from RMB 25.8m in 4Q20 to RMB 9.9m in 4Q21, mainly due to the decrease in operating expenses in subsidiary Hengchang, and the allocation of labour costs from administrative costs to cost of production. Please quantify and explain the reason(s) why costs at subsidiary Hengchang declined and disclose what of type(s) of administrative costs were allocated to cost of production and why these costs were allocated differently in the two FYs.

Company's Response:

As explained in 3Q21. The reduction in operating expenses and administrative expenses in Dongming Hengchang is mainly due to the capitalisation of a new polypropylene production plant in Dongming Hengchang since 2Q21. In 2020, approximately 142 production workers have been recruited and trained in preparation for the commencement of the new plant. After the capitalisation of the polypropylene production plant and commencing of actual production, the expenses in relates to these workers, mainly related to salaries, is now included in the direct production cost, and not expensed off through operating expenses and administrative expenses.

By Order of the Board

Li Xiang Ping
Executive Chairman and CEO