



SINOSTAR PEC HOLDINGS LIMITED

(Company Registration No.: 200609833N)

RESPONSE TO SGX QUERY ON UNAUDITED FINANCIAL STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

The Board of Directors (the “Board”) of Sinostar Pec Limited (“Company” and together with its subsidiaries, the “Group”) refer to the queries raised by the Singapore Exchange Securities Trading Limited (“SGX-ST”) on 9 March 2021, and wish to provide the following information in response to the Company’s Unaudited Financial Statement for The Year Ended 31 December 2020 (“FY2020”):-

Query 1:

Page 1: Fair value gains – equity investment: RMB49,311,000

“Gains in FVOCI was due to the increase in fair value of the Group’s 18% equity investment in 东明前海热力有限公司, an investment held by subsidiary company Dongming Qianhai.”

SGX: Provide details on this investment and the rationale behind it. When was it acquired and was the acquisition announced? Was shareholders' approval required? Elaborate on the acquisition cost, and how the fair value gain was measured.

Answer to Query 1:

As disclosed in announcement paper page 13, 东明前海热力有限公司 is in the manufacturing and industrial power and utilities supplies business and it was held by our 70% controlled subsidiary company Dongming Qianhai since we acquired it in 2017 (refers circular dated 7 December 2017). The investment in 东明前海热力有限公司 was part of the acquisition of Dongming Qianhai which was duly approved by the shareholders in an EGM on 22 December 2017. This investment is held as a strategic, long-term asset and the Group has no plans to dispose of this.

This 18% equity investment was originally at a cost of RMB 9 million and it was valued at RMB 30.45 million from then engaged valuer Jones Lang LaSalle Corporate Appraisal and Advisory Limited. For Financial year 2020, we engaged another valuer 山东天元同泰资产评估有限公司 who valued the investment at RMB 79.76 million, giving a gain in FVOCI of RMB 49,311,000.

Query 2:

Page 3: Inventories: RMB146,717,000

SGX: Explain the 58% increase to RMB146,717,000, in light of the breakdown of inventory comprising approximately RMB91.6 million on raw materials and equivalent value of RMB55.1 million on finished petrochemical products, recorded at cost. Please also provide a discussion on the significant increase in inventory in light of the 13.1% decrease in revenue.

Answer to Query 2:

As explained in our announcement, revenue decreased was due to the decrease in the average selling prices ("ASP"), even though the overall production volume has in fact increase as compare to previous years. Production is normally produced for the subsequent months and all raw materials and together with the finished goods were produced and sold in the subsequent months of January and February 2021.

Query 3:

Page 4: CURRENT LIABILITIES: Trade and other payables: RMB142,032,000

SGX: Provide a breakdown between trade and other payables, and explain the significant increase. Elaborate on the nature of the transactions relating to "other payables". Provide a breakdown of the material items comprising this amount, and disclose the nature of the transactions, and factors for the significant amounts due.

Answer to Query 3:

Breakdown and details of trade and other payables as follow;-

<u>Trade and other payables</u>	<u>2020</u>	<u>2019</u>
	<u>RMB '000</u>	<u>RMB '000</u>
Trade payables	55,335	46,343
Accrual of salaries and related costs	8,694	7,137
VAT payables	16,832	10,661
Accrual of directors' fee	662	445
Other governmental taxes payable	2,734	-
Refundable deposits received from third parties	-	699
Amount owing to outsourced transportation companies	322	412
Advances received from customers	12,399	9,378
Amount owing to directors	-	70
Amount owing to staff	347	299
Amount owing to sundry creditors (i.e.,utilities, maintenance, warranty monies etc)	44,707	21,985
	142,032	97,429

Query 4:

Page 14: Bank Borrowing

“Bank borrowing relates to a long-term capital loan obtained from the bank by subsidiary Dongming Qianhai. The loan is carrying an interest rate of 4.75% per annum with a fixed repayment term of RMB 31.25 million in each quarterly.”

SGX: Elaborate on and quantify the use of proceeds from this long-term capital loan.

Answer to Query 4:

This bank borrowing was acquired as a result from the acquisition of Dongming Qianhai since 2017, comprising a total of RMB 500 million long-term capital loan obtained from the bank for the production plants construction in Dongming Qianhai . As disclosed in our latest results announcement, this loan has been repaid fully in February 2021.

By Order of the Board

Tan Chee How
Company Secretary