



SINOSTAR PEC HOLDINGS LIMITED

(Company Registration No.: 200609833N)

RESPONSE TO QUERIES FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) (SIAS)

The Board of Directors (the "Board") of Sinostar PEC Holdings Limited. (the "Company" wishes to announce the following in response to the queries raised by Securities Investors Association (Singapore) ("SIAS").

Q1. Would the board/management provide shareholders with greater clarity on the following operational and financial matters? Specifically:

- (i) Hengchang: What is the utilisation rate of the new 200,000 tonnes polypropylene equipment?

Company's Response:

The new installation only commenced trial-run and actual production from March 2021, with a total of 158K tonne produced for FY2021, the utilisation rate is about 79%.

- (ii) Power: Has the group been affected by the reported power cuts or power rationing? In addition, how will the high energy price and the high oil prices affect the group?

Company's Response:

The group has not been affected by the reported power cuts or power rationing in China, mainly due to power supplies were from the strategic partner, Dongming Petrochem Group, which provide non-disruptive power supplies and on a fixed competitive prices.

- (iii) LPG: As disclosed on page 12 (Production process), the group has an annual capacity to process 550,000 tonnes of raw LPG, 180,000 tonnes of propylene and 250,000 tonnes of polypropylene annually. The group processed 326,029 tonnes of LPG in 2021. What factors affect the level of LPG processed and sold? Is the group cost-efficient when it is running at less than 60% capacity?

Company's Response:

In the LPG fractionation process, each tonne of raw LPG will produce an output of production mix of approximately 75% processed LPG and 25% of propylene.

There are a total of 3 LPG fractionation production plants within the group, comprising 100,000 tonne, 150,000 tonne and 300,000 tonne. The 100,000 tonne old production is keeping idle. In FY2021, a total of about 100,000 tonnes of processed LPG and 41,000 tonnes of propylene were produced from the 150,000

tonne installation, at 94% level of capacity. Also, a total of about 226,000 tonnes of processed LPG and 66,000 tonnes of propylene were produced out of the 300,000 tonne installation plant, resulting in 97% capacity.

- (iv) Propylene and polypropylene: How does the group determine the production volume between propylene and polypropylene? How dynamic is the group at adjusting the production?

Company's Response:

Unlike polypropylene which is in synthetic polymer form that ease in storage, propylene which is in liquid form usually required large amount of storage tank to stock-up. As such, investment cost on storage for polypropylene is much lower than for propylene.

Furthermore, polypropylene offer wider markets demand and industries as compared to propylene.

- (v) MTBE (methyl tert-butyl ether): MTBE accounts for RMB1.8 billion or more than 40% of the group's total revenue in FY2021 (FY2020: 37%). Can management provide more colour on the MTBE operations and the opportunities in MTBE?

Company's Response:

MTBE is used as an additive for unleaded gasoline that will helps to reduce pollution emissions, and mostly sold it to strategic partner Dongming Petrochem Group since they are in the production of gasoline and diesel business.

MTBE can also further process into isobutylene, which can be used as plastic/pasticizer business, but this is currently constrained by the production capacity of the isobutylene process installation.

Q2. On 28 February 2022, the company announced that the group had entered into several interested persons transactions (IPTs) with Dongming Qianhai Reli Co. Ltd ((东明前海热力有限公司) ("Qianhai Reli"), Jiangsu Xinghai Petrochem Co., Ltd (江苏新海化工有限公司) ("Jiangsu Xinghai"), and Jiangsu Renhai Oil Products Distribution Co., Ltd (江苏润海油品销售有限公司) ("Jiangsu Renhai") that exceeded 5% of the group's latest audited net tangible assets ("NTA") as at 31 December 2020 of approximately RMB 1,224,648,000 ("audited FY 2020 NTA").

Relating to the transactions with Qianhai Reli, the company had stated that it had inadvertently omitted to make an announcement and obtain the shareholders' approval for its Past Recurrent IPTs (those without shareholders' mandate) as it had genuinely mistaken such Past Recurrent IPTs to also be covered by the scope of the 2021 IPT General Mandate.

With regard to the transactions with Jiangsu Xinghai and Jiangsu Renhai, the company recognizes that it had inadvertently omitted to make the necessary announcements and to obtain the shareholders approval in respect of its propylene purchases from the two Jiangsu companies.

The audit committee (AC) comprises Jiang Xinglu (chairman), Dr Chen Seow Phun, John and Zhao Jinqing.

- (i) Can the AC help shareholders understand how they had carried out their review of the IPT transactions?

Company's response:

The detailed review procedures by the AC have been included in Section 4.8 of the approved FY 2021 IPT mandate which covers all IPT transactions.

- (ii) What was the scope of its IPT reviews?

Company's Response:

Refer to point (i)

- (iii) Can the company confirm that several of the AC members had missed 2 out of 4 AC meetings in the year?

Company's Response:

There is a changed in the composite of AC members follow the departure of Mr Teo Moh Jin re-designation of Mr Li Xiang Ping in Q2 of FY2021 and appointment of Dr John Chen and Mr Jiang which resulted only 2 out of 4 AC meetings attended by each respective members.

- (iv) If so, were there any extenuating circumstances that led to the directors missing the AC meetings? Did the absence affect the ability of the AC to discharge its duties?

Company's Response:

Refer to point (iii)

- (v) How did the AC arrive at the opinion that the group's internal controls, addressing financial, operational compliance and information technology controls and risk management systems, were adequate as at 31 December 2021?

Company's Response:

As highlighted on Page 69, The AC makes enquiries with, and relies on reports, from the internal and external auditors on any material noncompliance and internal control weaknesses. The AC has reviewed with internal and external auditors their findings during their audit for the financial year under review. The external auditors, in the course of conducting their annual audit procedures on the statutory financial

statements, also reviewed the Group's significant internal financial controls to the extent of their scope as laid out in their audit plan. Any material non-compliance and internal financial control weaknesses noted by the internal and external auditors are reported to the AC together with their recommendations. The Management would then take appropriate actions to rectify the weaknesses highlighted.

Based on the internal controls established and maintained by the Group, work performed by the internal and external auditors and the documentation on the Group's key risks referred to above, reviews performed by Management, AC and the Board, the AC and the Board are of the opinion that the Group's internal controls, addressing financial, operational compliance and information technology controls and risk management systems, were adequate as at 31 December 2021. This is in turn supported by assurance from the CEO and the Management of the company.

- (vi) Has the AC been effective and has it discharged its duties objectively (Principle 10: Audit committee, Code of corporate governance 2018)?

Company's Response:

1. The audit committee of the company consists of three independent directors, and the composition of the audit committee is relatively independent.
2. The Audit Committee holds professional committee meetings on a quarterly basis to receive the working reports of the management and review the financial and business reports submitted by the management. They also hold interviews and communicate with the management to understand the key concerns.
3. According to the mandate of the board of directors or shareholders, the audit committee actively participates in the review and approval of the company's major economic activities, accounting records, and expresses independent opinions.
4. The Audit Committee recommends to the Board of Directors the appointment of NEXIA as the company's external auditor to audit the company's operating results and financial activities, to receive the auditor's report on the audit results and audit recommendations, and ensure the objectivity, comprehensiveness and independence of the audit results.
5. The Audit Committee appoints a third-party professional firm to act as the company's internal auditor to conduct internal cyclic audits and follow-up audits on the company's internal policies, systems, procedures and other internal control, compliance documents, information systems, and management activities such as daily operations and finance. The third-party also listens to the special report of the internal auditors on the audit results and audit recommendations, and for any management defects and deficiencies found in the audit process, the audit committee will advise the management to make timely improvements to ensure the effective operation of the company's internal control and risk management.

- (vii) What improvements have the AC made to the internal controls, especially those relating to IPTs?

Company's Response:

The AC has commissioned annual internal audits to review internal controls over IPTs. Based on the internal audit reports, management has been tasked to follow up and to report on improvements to the controls over IPTs. In view of the recent IPT incident, further IPT briefing sessions and reporting requirements have been planned for the personnel managing the IPT process.

Q3. The board currently comprises: Mr Liu Xiaoyan and Mr Jiang Xinglu both have no prior experience acting as directors of a listed company on the SGX-ST.

- (i) Can the board/nominating committee (NC) elaborate further on the search and nomination process for directors, especially independent directors?

Company's Response:

The board of directors disseminate the information on the needs of independent directors, and professional parties, the current board members recommend or self-recommend the candidates to the nomination committee. The Nomination Committee reviews the qualifications and work experiences of the candidates, evaluates the candidates' ability to serve, and examines whether the candidates the independence of the candidates. The board of directors interviews the candidates and make final decision on the appointment.

- (ii) Have the two independent directors, along with the executive director Mr Yan Tailing, completed the training in the roles and responsibilities of a listed director in Singapore as prescribed by the SGX-ST?

Company's Response:

Mr. Yan Tailing has completed the training in the roles and responsibilities of a listed director in Singapore as prescribed by the SGX-ST, and we also plan to arrange for two other independent directors to participate in the training as soon as possible.

- (iii) Has the NC reviewed the effectiveness of the board given that there are three directors with no prior experience on the board of a listed company on SGX-ST?

Company's Response:

Although the three directors have no prior experience as directors of listed companies on the SGX-ST, all three directors does have many years of experience in corporate management. Mr. Jiang has experience as a director of listed companies in other markets. Mr. Yan and Mr. Liu respectively have experience as directors of non-listed companies. Mr. Liu also has experience in listing, delisting and restructuring of listed companies in SGX-ST. The Nomination Committee believes that after the completion of the training in the roles and responsibilities of a listed director in Singapore as prescribed by the SGX-ST, that the three directors will be fully qualified for the role of directors of the company.



By Order of the Board

Tan Chee How
Company Secretary