



SINOSTAR PEC HOLDINGS LIMITED

(Company Registration No.: 200609833N)

RESPONSE TO SGX QUERY ON UNAUDITED FINANCIAL STATEMENT FOR THE FIRST QUARTER ENDED 31 MARCH 2021

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 14 May 2021, and wish to provide the following information in response to the Company's Unaudited Financial Statement for The First Quarter Ended 31 March 2021 ("1Q2021"):-

SGX's Query 1:

Page 1: Gross profit: RMB109,845,000

Explain and elaborate on the factors as to why gross profit increased by 711%, from RMB13,551,000 to RMB109,845,000.

Company's Response to Query 1:

The Group's main source of income derives from Hengchang and Qianhai.

	31-Mar-21 RMB (Before elimination)	31-Mar-20 RMB (Before elimination)	Variance %
<u>Dongming Hengchang</u>			
Revenue	451,618,000	386,562,000	
Cost of Sales	(424,335,000)	(377,157,000)	
Profit	<u>27,283,000</u>	<u>9,405,000</u>	190%
<u>Dongming Qianhai</u>			
Revenue	607,551,000	513,862,000	
Cost of Sales	(530,935,000)	(512,598,000)	
Profit	<u>76,616,000</u>	<u>1,264,000</u>	5961%
	<u>103,899,000</u>	<u>10,669,000</u>	874%

The significant increase in gross profit by 711% in 1Q21 as compare to 1Q20 mainly due to :-

- 1) In 1Q20, basically no demand from the market due to the outbreak of COVID-19 and lockdown in China;
- 2) experienced of higher raw materials cost compare to lower selling prices in 1Q20; and
- 3) gross losses contributed from products on MTBE and isobutylene for periods in 1Q20.

SGX's Query 2:

Page 1: Other income: RMB3,600,000

Explain and provide a breakdown on the decrease to RMB3,600,000 from RMB5,149,000.

Company's Response to Query 2:

The decrease is mainly due to Dongming Hengchang received a RMB 4.7 million grant received from the local government for 重大外资项目奖励款 in 1Q20, and compare in 1Q21, Qianhai collected a compensation amount of RMB 2.2 million from its contractors.

<u>Other income</u>	31-Mar-21 RMB	31-Mar-20 RMB
Dongming Hengchang	1,269,000	5,031,000
Dongming Changshun	99,000	35,000
Dongming Qianhai	2,232,000	83,000
	<u>3,600,000</u>	<u>5,149,000</u>

SGX's Query 3:

Page 1: Finance costs: RMB8,551,000

Explain the decrease to RMB8,551,000 from RMB10,597,000.

Company's Response to Query 3:

The decrease is mainly due to the final and full settlement of a bank borrowing by Dongming Qianhai in February 2021. The loan was carrying an interest rate of 4.75% per annum with a fixed repayment term of RMB 31.25 million in each quarterly. In 1Q21, lower interest expenses were charged as outstanding principal from borrowing is lower as compared to in1Q20.

SGX's Query 4:

Page 2: Interest income: RMB1,296,000

Explain the increase to RMB1,296,000 from RMB323,000.

Company's Response to Query 4:

The increase is mainly due to the interest income (included in Other income) received from bank in Dongming Hengchang.

SGX's Query 5:

Page 2: Depreciation of property, plant and equipment: RMB27,728,000

Explain the decrease to RMB27,728,000 from RMB41,395,000.

Company's Response to Query 5:

The decrease is mainly due to depreciation in Dongming Hengchang and Dongming Changshun that caused by assets that approaching their fully amortised stage.

	RMB	RMB
<u>Hengchang</u>		
Accumulated depreciation as at 31 March 2021/2020	133,333,000	132,943,000
Accumulated depreciation as at 31 December 2020/2019	130,486,000	118,229,000
Depreciation for 1 January 2021 to 31 March 2021/ 1 January 2020 to 31 March 2020	<u>2,847,000</u>	<u>14,714,000</u>
 <u>Changshun</u>		
Accumulated depreciation as at 31 March 2021/2020	46,366,000	45,764,000
Accumulated depreciation as at 31 December 2020/2019	46,260,000	43,632,000
Depreciation for 1 January 2021 to 31 March 2021/ 1 January 2020 to 31 March 2020	<u>106,000</u>	<u>2,132,000</u>
 <u>Qianhai</u>		
Accumulated depreciation as at 31 March 2021/2020	212,962,000	144,962,000
Accumulated depreciation as at 31 December 2020/2019	188,187,000	120,413,000
Depreciation for 1 January 2021 to 31 March 2021/ 1 January 2020 to 31 March 2020	<u>24,775,000</u>	<u>24,549,000</u>
 Total depreciation for 1 January 2021 to 31 March 2021/ 1 January 2020 to 31 March 2020	 <u>27,728,000</u>	 <u>41,395,000</u>

SGX's Query 6:

Page 3: Trade and other receivables: RMB34,264,000
Provide a breakdown and elaborate on the material items.

Company's Response to Query 6:

<u>Trade and Other Receivables</u>	Note	31-Mar-21 RMB
Trade receivables - Non-related parties	(i)	23,115,000
Other receivables - Non-related parties	(ii)	10,281,000
Advances made to staff		727,000
Refundable deposits		<u>141,000</u>
		<u>34,264,000</u>

- (i) Trade receivables consists of receivables from sales of LPG, Propylene, Polypropylene, MTBE, Hydrogen, Isobutylene, other gas and transport and logistic services.
(ii) Included in other receivables are claims from insurance company.

SGX's Query 7:

Page 3: Prepayments: RMB13,271,000

Provide a breakdown and explain the increase to RMB13,271,000 from RMB5,020,000.

Company's Response to Query 7:

The increase is mainly due to amount paid to suppliers for raw materials including an amount of RMB 8.3 million paid to affiliated companies. Increase for raw materials is resulting from rise in production to meet increase in demand for products.

<u>Prepayments</u>	31-Mar-21 RMB	31-Mar-20 RMB
Prepayment - Raw Material	9,170,000	1,752,000
Prepayment - Others	4,101,000	3,268,000
	<u>13,271,000</u>	<u>5,020,000</u>

SGX's Query 8:

Page 4: Trade and other payables: RMB172,865,000

Provide a breakdown and elaborate on the material items.

Company's Response to Query 8:

<u>Trade and Other Payables</u>	Note	31-Mar-21 RMB
Trade payables - Non-related parties	(i)	61,893,000
Other payables - Non-related parties	(ii)	43,451,000
Other payables - Staff		381,000
Accruals		5,652,000
Other governmental tax payables	(iii)	11,379,000
Contract liabilities	(iv)	<u>50,108,000</u>
		<u>172,865,000</u>

- (i) Trade payables consists of purchases of raw materials and consumable goods.
- (ii) Included in other payables are payables to non-related parties for maintenance cost, advances received from customers etc.
- (iii) Other governmental tax payables represent payables for urban maintenance and construction tax, education levy, water conservancy construction funds, property tax and land utilization tax.
- (iv) Contract liabilities are advances received from customers which represent down-payment for revenue recognised in current periods.

By Order of the Board

Li Xiangping
Executive Chairman and CEO