



SINOSTAR PEC HOLDINGS LIMITED

(Company Registration No.: 200609833N)

RESPONSE TO SGX QUERY ON UNAUDITED FINANCIAL STATEMENT FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 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 23 November 2020, and wish to provide the following information in response to the Company's Unaudited Financial Statement for The Third Quarter Ended 30 September 2020 ("3Q2020"):-

Query 1:

Page 1: Other income

We note that other income for 3Q2020 of RMB1,706,000 and 9M2020 of RMB7,842,000 "Comprise mainly bank interest earned during the periods amounted to approximately RMB 0.8 million from the monthly working cashflow maintained with the financial institutions...". Please reconcile this explanation, given that on page 2 the interest income for 3Q2020 is NIL? Provide a breakdown of the RMB1,706,000 and RMB7,842,000.

Answer to Query 1 :

Other income

(in RMB and round off)	Q3	9 months Total
Bank interest earned	800,000	1,923,000
Government grants	700,000	5,588,000
Others(i.e.,compensations)	206,000	342,000
	1,706,000	7,853,000

RMB 0.8 million omitted inadvertently on the page 2 of notes to the consolidated statement of comprehensive income.

Query 2.:

Page 1: Administrative costs of RMB26,323,000 for 9M2020

Provide a breakdown of costs versus the 2019 comparative period. Explain the material items, and reasons why costs increased by 14% when revenue fell by 12%?

Answer to Query 2:

Administration Costs, in	FY2019	FY 2020
	RMB	RMB
Dongming Hengchang	(3,528,358)	(9,841,588)
Dongming Qianhai	(9,559,275)	(7,975,399)
Changshun	(3,903,871)	(4,401,680)
Sinostar PEC	(5,812,402)	(4,033,732)
Adjustments on exchange difference	(191,801)	(70,499)
TOTAL	(22,995,706)	(26,322,898)

Increase is mainly due to the increase of 120 new production workers utilised for the new polypropylene plant, amount about RMB 5 million including salaries and contributions. Employment is necessary to prepare for the new plant and commission on production.

Query 3:

Page 3: Property, plant and equipment of RMB1,917,523,000

Provide a breakdown of the RMB667.9 million which had capitalised, and show the movement of PPE, explaining why PPE increased by only RMB282.39 million. Provide details of when the new polypropylene production plant in subsidiary Dongming Hengchang was completed, its capacity, whether it had received all the necessary approvals and licenses to commence operations, and when it is expected to commence full production.

Answer to Query 3:

Breakdown of the RMB667.9 million capitalized, as below;-

Items	2020年期初余额	2020年第一季度	2020年第二季度	2020年第三季度	期末余额
设备款 Installation & equipments	178,229,004.73	27,502,176.57	84,334,446.85	68,419,014.83	358,484,642.98
施工材料款 Consumables	37,299,997.66	11,884,312.41	26,918,855.47	40,937,454.89	117,040,620.43
建筑工程 Construction costs	35,453,836.48	10,492,264.90	4,384,037.40	8,358,628.76	58,688,767.54
安装工程 Installation costs	7,214,226.34	3,211,136.63	11,491,833.16	13,619,344.66	35,536,540.79
工艺包和专利费 Technical & IP	29,686,400.00	0.00	0.00	0.00	29,686,400.00
设计费 Design fee	15,849,000.00	0.00	0.00	11,377.38	15,860,377.38
监理费	2,636,000.00	0.00	0.00	792.38	2,636,792.38
其他 Others	12,635,958.38	314,297.74	6,575,721.42	6,902,425.07	26,428,402.61
土地 Lands	23,466,346.13	39,175.87	0.00	0.00	23,505,522.00
	342,470,769.72	53,443,364.12	133,704,894.30	138,249,037.97	667,868,066.11

Summary movement of PPE as follow;-

	RMB
Balance as at 31 December 2019	1,635,133,000
Balance as at 30 September 2020	1,917,523,000
	282,390,000

Due to;-	
Movement in Hengchang	315,847,450.00
Movement in Changshun	(4,124,465.19)
Movement in Qianhai	(30,743,014.11)
Audjstment on gain on disposal of PPE	1,409,548

The construction of the new polypropylene production plant is at its last phase. As of November, there are shortage of imported plunger valves(柱塞阀门) for the installation and expected to arrive only in February 2021, hence may delay the production trial-run. The Authorities have conducted inspection at the new plant and the required permits for the trial-run expected to be ready soon. We subject commencement of full production, depending on how fast this trial-run production take and able to fine tuning all installations.

Query 4:

Page 4: Amounts owing to affiliated companies of RMB100,932,000

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 4:

Amount owing to affiliated companies, in	
	RMB
Dongming Hengchang	932,000
Dongming Qianhai	100,000,000
As at 30 September 2020	100,932,000

Mainly pertaining to an amount owing to Dongming Runze Petrochemical Co., Ltd (东明润泽化工有限公司) for replacement of catalyzer and consumables that incurred during the reporting periods, details as follow;-

名称	合计
饱和加氢催化剂 Saturated hydrogenation catalyst	12,029,414.80
选择性加氢催化剂 Select hydrogenation catalyst	22,670,820.20
异构化催化剂 Isomerization catalyst	1,758,929.54
脱氢催化剂 Dehydrogenation catalyst	73,857,127.39
	110,316,291.92

It requires all catalyst and consumables to pump into the plant installations to facilitate the production run.

Query 5.

Page 4: Negative working capital

Provide reasonable explanations for the negative working capital of RMB443,278,000. Explain how the Company can meet its short-term obligations as and when they fall due. Quantify and substantiate with data.

Answer to Query 5 :

Negative working capital is mainly due to this unsecured interim loan which amounted to RMB 720 million that brought forward since we completed the acquisition of Dongming Qianhai (see our announcement on 2 April 2020 and 8 October 2020). Pending a long term loan agreement to be approved by shareholders, this interim loan from non-controlling interest Dongming Petrochem Group that originated for financing the working capital use in subsidiary Dongming Qianhai prior to acquisition completed. We converted to interim short-term loan from 2 April 2020 to 1 October 2020 initially and extended till 31 December 2020. The purpose of entering into long-term loan agreement is to reduce the short-term repayment obligations of Dongming Qianhai and free up its near term liquidity for other purposes.

Repayment amount fixed and in scheduled payable in each quarterly, the next repayment amount will be RMB 15 million and scheduled on 20 December 2020. Pending the approval to obtain from shareholders, Dongming Petrochem Group also has given a written undertaking not to early recall the loan and to extend it when the interim loan agreement is due.

Illustration below, as of September 2020, if interim loan converted to long term;-

	RMB
Current assets, exclude land use right	543,131,084
Less :-	
Current liabilities, exclude IP loan and lease liabilities	(235,887,046)
Scheduled next IP loan repayments	(15,000,000)
Subsequent bank loan repayments	(31,250,000)
Adjusted net current assets	260,994,038

Query 6.

Page 12: Dividend

Explain why no dividend has been declared/recommended for the 9-month ended 30 September 2020.

Answer to query 6:

The Company does not have a formal dividend policy. In the past, the Board recommended dividends to be paid out each year based on the company's earnings, financial position as well capital requirements for the Group's operational and expansion plans. As the new plant will soon begin production trial-run in the coming months, the company would like to ensure adequate funds are provided for its smooth operations.

Query 7.

Page 15: Consignment fee of RMB854,530

Provide details of the rationale and value of the underlying transaction, how the fee was determined, and the comparative fee for the corresponding period the previous year.

Answer to query 7 :

Dongming Qianhai engaged the complete sales service of Dongming Petroleum Distribution Company, a subsidiary company of Dongming Petrochem Group. The primary purpose is to tap into the existing petrochemical distribution channel of Dongming Petrochem Group and to minimise the setup and maintenance costs of having our own sales department.

Dongming Qianhai contracted to pay sales consignment fees to Dongming Petroleum Distribution Company on a monthly basis, which computed at a rate of RMB10.0 per tonne (inclusive of tax, nett at RMB 8.55/tonne) of the products sold through Dongming Petroleum Distribution Company. Dongming Petroleum Distribution Company will also be responsible for any credit risks for amounts payable from the end customers for the products sold through them.

Details total products sold in tonne and consignment fee paid in each quarter are as follows;-

		Q1	Q2	Q3	TOTAL
2019	in Tonne	116,420	108,481	62,309	287,210
	Consignment fee	995,387	927,516	532,745	2,455,648
2020	In Tonne	103,296	109,184	99,945	312,425
	Consignment fee	883,179	933,521	854,530	2,671,231

By Order of the Board

Zhang Liucheng
CEO and Executive Director