



## SINOSTAR PEC HOLDINGS LIMITED

(Company Registration No.: 200609833N)

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### RESPONSE TO SGX QUERIES ON UNAUDITED FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2022

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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 27 May 2022, and wish to provide the following information in response to the Company’s Unaudited Financial Statement for the First quarter Ended 31 March 2022:-

#### SGX’s Query 1:

Please elaborate and quantify the “decrease in margin generation from the logistics and transport-related services” when comparing 1QFY2022 to 1QFY2021 and explain reasons behind the decrease in margins.

#### Company’s Response:

As explained in the result announcement, the decrease is mainly due to the continual rising oil price leading to an increase in vehicle fuel costs. Furthermore, increased enforcement of transportation movement control measures implemented by the provincial government due to COVID-19 cases leading to supply squeeze in the transport industry. As a result, higher costs incurred and margins reduced.

#### SGX’s Query 2

Please provide a breakdown of the cost of sales of RMB 1,036m incurred in 1QFY2022 and of RMB 850m incurred in 1QFY2021 respectively, and explain the material variances. Please also explain why cost of sales increased 22% when the 17% increase in revenue is being attributed to increase in sales price and not volume. Please quantify and substantiate your response for a clearer understanding of the factors that caused the reduction in gross profit.

#### Company’s Response:

The increase in cost of sales is mainly due to Hengchang and Qianhai.

#### Summary of cost of sales

	Hengchang RMB’000	Ganyu RMB’000	Qianhai RMB’000	Total RMB’000
1QFY2022				
Cost of sales	741,890	45,578	680,593	1,468,061
Less:				
Inter-Company elimination	(150,388)	-	(280,774)	(431,162)

	591,502	45,578	399,819	1,036,899
1QFY2021				
Cost of sales	424,336	51,937	530,935	1,007,208
Less:				
Inter-Company elimination	(156,657)	-	(13)	(156,670)
	267,679	51,937	530,922	850,538

Total	1QFY2022 RMB'000	1QFY2021 RMB'000	Variance RMB'000	%
Cost of sales	1,468,061	1,007,208	460,853	46%
Less:				
Inter-Company elimination	(431,162)	(156,670)	(274,492)	175%
	1,036,899	850,538	186,361	22%

Below are the breakdown of cost of sales for 1QFY2022 and 1QFY2021 respectively:-

	1QFY2022 RMB'000	1QFY2021 RMB'000	Variance RMB'000	%
LPG	362,244	252,528	109,716	43%
Propylene	-	76,721	(76,721)	NM
Polypropylene	58,421	69,010	(10,589)	-15%
Premier polypropylene	321,225	26,077	295,148	1132%
Hydrogen	32,277	40,311	(8,034)	-20%
MTBE	494,102	330,283	163,819	50%
Propylene II	102,316	124,333	(22,017)	-18%
Isobutylene	47,668	32,137	15,521	48%
Other Gas	4,230	3,871	359	9%
Transport	45,578	51,937	(6,359)	-12%
	1,468,061	1,007,208	460,853	46%

#### Summary of revenue

Total	1QFY2022 RMB'000	1QFY2021 RMB'000	Variance RMB'000	%
Sales	1,553,440	1,117,053	436,387	39%
Less:				
Inter-Company elimination	(431,162)	(156,670)	(274,492)	175%
	1,122,278	960,383	161,895	17%

As disclosed in the result announcement for 1QFY2022, the increase in cost of sales is mainly due to our strategic partner, Dongming Zhongyou's temporary shut down of its production plant for periodic maintenance, which affected the supplies for production. During which, a lower volume of supplies was purchased from other parties with higher purchase cost, resulting in higher average cost of production. To remain competitive in the market, the increase in average selling price is not on par with the increase in average cost of production.

### SGX's Query 3

Please explain the reason(s) for the increase in interest on the loan from Dongming Petrochem Group. If this was due to an increase in the loan amount, to quantify the increase in loan and disclose of the use of proceeds from the additional loan extended.

#### Company's Response:

The increase in interest in 1QFY2022 as compared to 1QFY2021 is because of the commencement of expense of a capital loan from financial institution to finance Hengchang's new polypropylene construction, not due to the increase of interest on the loan from Dongming Petrochem Group.

	1QFY2022 RMB'000	1QFY2021 RMB'000
Hengchang – Loan interest paid to financial institution	5,159	-
Qianhai – Loan interest paid to NCI	7,418	8,551
	<u>12,577</u>	<u>8,551</u>

### SGX's Query 4:

Please explain the reasons for the significant increase in amount owing to affiliated companies from RMB 2.8m to RMB 184.0m from 1QFY2021 to 1QFY2022, identify the affiliated companies to which the Company owes such amounts, and provide a description of the transactions which resulted in the significant increase.

#### Company's Response:

The changes in amount owing (to)/by affiliated companies from RMB 2.8m to RMB 184.0m from 1QFY2021 to 1QFY2022 show that net payment RMB 2.8m and RMB 184.0m were paid to the affiliated companies in 1QFY2021 and 1QFY2022 respectively, not an increase of liabilities.

Below are the details of changes in amount owing (to)/by affiliated companies. The settlement of amount owing to 东明中油燃料石化有限公司 of RMB 150.0m resulted in the significant changes.

	1QFY2022 RMB'000	FY2021 RMB'000	Variance RMB'000
东明万海氯碱化工有限公司	(216)	-	(216)
山东润泽化工有限公司	-	(1,819)	1,819
东明中油燃料石化有限公司	13	(150,000)	150,013
山东润泽化工有限公司	44,704	-	44,704
东明润明油品销售有限公司	38	-	38
东明石油经销有限公司	-	9,308	(9,308)
江苏新海石化有限公司	-	3,096	(3,096)
	<u>44,539</u>	<u>(139,415)</u>	<u>183,954</u>

	1QFY2021 RMB'000	FY2020 RMB'000	Variance RMB'000
山东润泽化工有限公司	(1,819)	(1,819)	-
东明润明油品销售有限公司	-	(3,961)	3,961
东明石油经销有限公司	-	1,236	(1,236)
山东东明梨树化学有限公司	-	781	(781)

山东东明石化集团有限公司

247	(642)	889
(1,572)	(4,405)	2,833

### SGX's Query 5:

Please explain what the purchases from affiliated companies under Note 18 refer to, and reasons for the significant increase in such purchases from RMB 554.3m to RMB 782.6m from 1QFY2021 to 1QFY2022. How are these companies affiliated to the Company? Please also explain what are the contra transactions amounting to RMB 70m and why they are necessary in 1QFY2022 when such transactions were nil in 1QFY2021.

### Company's Response:

- (i) Purchases from affiliated companies comprise mainly purchases of raw materials, i.e., raw LPG and propylene, and others on utilities, parts & components. The increase in cost of raw materials causes the significant increases in such purchases, mainly the transaction with 东明中油燃料石化有限公司, and the transactions with 东明前海热力有限公司, which relate to the utilities purchases for production consumption (see below (iii)).
- (ii) These companies are affiliated with the Group is because of the 99.41% shareholding control in Shandong Hong Li Yuan Stock Limited Company owned by our Executive Chairman, Mr Li Xiang Ping, which in turn controls 97.18% in Dongming Petrochem Group.
- (iii) Contra transactions relate to purchases and sales of utilities for productions. These purchases and sales were included as part of the cost of productions. The Company had made an announcement on 28 February 2022 in respect of interested persons transactions ("IPT Announcement") that it had entered in 2021 with 东明前海热力有限公司 on utilities and purchase of propylene from 江苏新海化工有限公司 which are not covered under the existing IPT mandate approved by the shareholders, and are of a revenue and trading nature ("Past Recurrent IPTs"). The Company shall update the shareholders and convene an EGM to obtain shareholders' approval for the proposed ratification of the Past Recurrent IPTs and the adoption of the proposed new IPT General Mandate for future IPTs with the above-mentioned companies.

### SGX's Query 6:

The Company disclosed that the Group is treading cautiously on rising COVID-19 cases and China government is tightening measures to control the spread of the virus. Please elaborate on how this had affected the Company's operations in 1QFY2022 and how its sales had been affected.

### Company's Response:

The tightening of Covid-19 measures by the Chinese government has resulted in more enforcement of transportation movements by the provincial governments, which has resulted in a slowdown in manufacturing activities. As a result, we have experienced a fall in production output across all products, except for premium grade polypropylene. Alongside rising vehicle fuel costs and stiffer competition, this has affected the logistics & transport related service segment, resulting in a 17.2% fall in revenue from RMB 57.9 million in 1Q21 to RMB 47.9 million in 1Q22.

**SGX's Query 7:** LR705 (5) requires that the confirmation by the Board must be signed off by 2 directors. Please confirm if Mr William Tan is a director of the Company and if otherwise, who is the second director taking responsibility for the declaration.

**Company's Response:**

Mr William Tan is not a director of the Company. Mr Jiang Xinglu will be the second director taking responsibility for the declaration.

**By Order of the Board**

Li Xiang Ping  
Executive Chairman and CEO