



SINOSTAR PEC HOLDINGS LIMITED

(Company Registration No.: 200609833N)

RESPONSE TO SGX QUERIES ON UNAUDITED FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 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 24 November 2021, and wish to provide the following information in response to the Company's Unaudited Financial Statement for the Third quarter Ended 30 September 2021:-

SGX QUERY 1

Page 1: Administrative costs: RMB(18,198,000)

SGX's Query: Explain reasons for the decrease in operating expenses in Hengchang which led to a 30.9% reduction in administrative expenses. What is the status of operations of Hengchang?

Company's Response:

The reduction in operating expenses and administrative expenses in Dongming Hengchang is mainly due to the capitalisation of a new polypropylene production plant in Dongming Hengchang in 2Q21. In 2020, approximately 142 production workers have been recruited and trained in preparation for the commencement of the new plant. After the capitalisation of the polypropylene production plant and commencing of actual production, the expenses in relates to these workers, mainly related to salaries, is now included in the direct production cost, and not expensed off through operating expenses and administrative expenses.

Dongming Hengchang is currently operating at a normal efficiency. The new polypropylene production plant in Dongming Hengchang has been stable in production with quality polypropylene produce and contributing positively to the Group's financial performance from 2Q2021.

SGX QUERY 2

Page 1: Finance costs: RMB(13,462,000)

SGX's Query: Who is the non-controlling interest loan from, and how much was the loan amount which resulted in interest incurred of RMB8.1 million? When was the loan extended, what are the terms of the loan, and what was the use of proceeds from the loan?

Company's Response:

The non-controlling interest ("NCI") loan is an unsecured loan from Shandong Dongming Petrochem Group Co., Ltd (山东东明石化集团有限公司). The loan from the NCI was previously

drawdown by the Dongming Qianhai (70% controlled subsidiary of Sinostar) for its working capital purposes prior to financial year 2018 and was subsequently renewed in financial years 2018 and 2019. The loan was previously interest bearing at 4.57% and due by 6 October 2020.

On 7 October 2020, Dongming Qianhai entered into a supplementary interim loan agreement with the NCI to reduce the interest rate to 4.35% per annum and extend the term of the loans to 31 December 2020, in order to provide interim financing for Dongming Qianhai while the Company seeks shareholders' approval to convert the loan from a short-term to long-term loans till 1 April 2025.

A supplement agreement was later entered with the NCI on 14 December 2020. The principal loan amount was RMB705,000,000. The terms of the repayment of the loans is from 1 January 2021 to 1 April 2025 with repayments due in instalments on a quarterly basis and bears interest at 4.75% per annum.

All the abovementioned have been announced during FY2020 through SGXnet.

Between 1 January 2021 to 31 September 2021, a repayment of RMB60,000,000 has been made. The principal loan amount is standing at RMB645,000,000 as at 31 September 2021.

SGX QUERY 3

Page 12: Financial assets at fair value through other comprehensive income "Represents 18% of equity interest in Dongming Qianhai Reli Co., Ltd. The Group has elected to measure these equity security at FVOCI due to the Group's intention not to hold these equity instruments for trading but for long-term appreciation."

SGX's Query: Elaborate on the business activities of Dongming Qianhai, and the Group's rationale to hold this investment for the long term. When were these financial assets acquired, what are the reasons for the investments, and what are the plans with regards to these investments? If these were held for trading purposes, what would be the fair value of the securities? Also elaborate on how the fair value gains of these equity securities were measured, which amounted to RMB49,311,000 as at 31 December 2020.

Company's Response:

The 18% equity interest in Dongming Qianhai Reli was initially invested by Dongming Qianhai before the group completed the Dongming Qianhai 70% equity control acquisition in December 2017.

Dongming Qianhai is in the petrochemical production of using processed LPG into products such as propylene, purified isobutene, isobutylene and methyl tert-butyl ether ("**MTBE**") whereas Dongming Qianhai Reli is mainly in the business of power utilities supplies. The investment in Dongming Qianhai Reli is mainly for the purpose to obtain a stable and continual power and utilities supplies for its production use, as well as for more competitive pricing.

As the group's intention not to hold the investment in Dongming Qianhai Reli for trading but for long-term appreciation, an external valuer was engaged annually to carry out the FVOCI valuation. The net book value of Dongming Qianhai Reli was at RMB 271,962,217 for FY2019 and RMB 337,298,439 for FY2020 respectively. The FVOCI for the 18% investment was valued at RMB 30,450,000 in FY2019 and RMB 79,761,000 in FY2020, resulted the fair value gain of amount RMB 49,311,000 recorded as at 31 December 2020. However, the group will also be consider to dispose the investment if there is a better offer arises.

By Order of the Board

Li Xiang Ping
Executive Chairman and CEO