

Responses to Questions by Securities Investors Association (Singapore) on Sinostar PEC Holdings Limited (“Sinostar”).

The board of directors (“Directors”) of Sinostar PEC Holdings Limited (the “Company”, and together with its subsidiaries and associated companies, the “Group”) wishes to announce that the Company has received questions from the Securities Investors Association (Singapore) (“SIAS”) relating to the Annual Report for the financial year ended 31 December 2018 (“FY2018”), which SIAS wishes that the Company addresses to shareholders. The Company’s responses to the corresponding questions from SIAS have been addressed to shareholders at the Annual General Meeting of the Company held today and are set out below.

Q1.

As noted in the chairman’s message, the acquisition of a 70% stake in Dongming Qianhai Petrochemical Co. Ltd. was highlighted as a major milestone for the group in its long-term growth. The newly acquired company has expertise in processing and selling propylene, purified isobutylene and methyl tertbutyl ether (MTBE) and it allowed the group to double its propylene capacity to 180,000 tonnes a year.

- i) As the new plant just finished its trial run, does the group has the expertise to scale up the plant to full production smoothly?**

Company’s response:

Yes, the group is confident and has the expertise to scale up the plant to full production smoothly as the trial run was successful and has already achieved stable production.

- ii) Would the new plant be more efficient than the existing plant?**

Company’s response:

The Group continues to be prudent in managing the mentioned new plant. Maximise cost efficiency to achieve profitability.

- iii) How is the group going to fill up the demand for the new capacity?**

Company’s response:

The Group is confident with the demand as there are existing customers' support in the orders. Nonetheless, we will work hard to get in new customers.

- iv) **Does the group also have the necessary supporting infrastructure and technical/engineering team to operate the new plant efficiently?**

Company's response:

Yes, the Group has expertise and experience in processing and production of propylene related products and believes that the new plant is a strategic fit to its business expansion plans.

The group's capital structure was materially changed with the acquisition of Dongming Qianhai which had liabilities of RMB1 billion as an internal loan from the non-controlling interest (NCI), Shandong Dongming Petrochem Group Co. Ltd. While the NCI has given an undertaking not to recall the loans early, it will also refinance the loans when the five tranches of RMB200 million fall due.

- v) **Has the Board reviewed this arrangement and did it consider alternate forms of financing? Did the Board consider it prudent to acquire a long-term asset with short term "vendor" financing?**

Company's response:

The Board has been informed of the arrangement and discussed on various financing methods. The Board has considered the options before approving the financing methods

Q2

In addition, in FY2018, the group also commenced with the construction of a polypropylene production plant.

With the expansion, the group's production capacity will increase from 50,000 tonnes to 250,000 tonnes per annum. The new plant will adopt the latest-generation technology – Spheripol, with the most advanced production process that is both energy efficient and environmental-friendly in producing high quality polypropylene.

The applications of polypropylene include high-end medical equipment, automotive accessories, home appliances, electrical films, food packaging and other consumer products.

- i) **What is the total amount of capital expenditure for the new polypropylene production plant?**

Company's response:

The total cost of the new plant is estimated to be approximately RMB1.2 billion, which includes the estimated cost of the construction of the factory building, the production facilities, and other related matters including the land acquisition.

(Please refer to Group's announcement dated 14 September 2018)

ii) Does the group have the necessary funds to complete the high-tech plant?

Company's response:

Yes, the Group will finance the cost of the high-tech plant through a combination of its internal resources and the use of bank borrowings.

iii) What is management's experience in running a Spheripol plant? Will there be a steep learning curve in the operationalisation of the plant?

Company's response:

Sinostar was set up in 2006, we have over 13 years of experience. The Group will not start a business without serious consideration with the Group's capabilities. We have strong and prudent management to execute the operation.

iv) By growing its production capacity to 250,000 tonners per annum, will the market be able to support this surge in supply?

Company's response:

China is the largest polypropylene market in the world, where polypropylene is commonly used in the manufacture of plastics. As China's economy continues to grow, it is expected that the demand for polypropylene will continue to grow. Currently China is still a net importer of polypropylene, where high quality propylene forms a majority of it. Our new polypropylene production plant adopts the latest production technology, Spheripol, which produces these higher quality polypropylenes that can be used in high valued products such as high-end medical equipment, automotive accessories, home appliances.

v) In management's projection and budgeting for the plant, what assumptions (utilisation rate, average selling prices, raw material prices) were used?

Company's response:

Management based on their past experience as well as, close evaluation of the market condition in managing the estimates and budgeting.

Q3

Would the board/management provide shareholders with better clarity on the following governance matters? Specifically:

- i) **Size of board:** The board comprises 4 members, with a non-executive non independent chairman, an executive director and two independent directors. The directors considered the present size of 4 members and composition appropriate to facilitate effective decision making, taking into account the nature and scope of the group's operations and the wide spectrum of skills and knowledge of the Directors. **As the group operations are substantially scaled up with the two investments, will the board be re-evaluating its size and composition?**

Company's response:

The Group is constantly reviewing the whole operations. Ensuring that we manage the cost and evaluate expansion plans.

- ii) **Has the nominating committee reviewed the overall desired competency matrix of the board and identified any gaps in skills or competencies that could be addressed in future director appointments?**

Company's response:

The nomination committee is largely responsible for evaluating the board's composition on an ongoing basis. The NC carefully considered structure and composition enable a board to fulfil its role effectively. Ensuring the right people around to achieve effectiveness of the board and bring diverse perspectives to the Group.

- iii) **Mr Teo Moh Gin has served on the board since June 2007.** In August 2018, the Monetary Authority of Singapore issued a revised Code of Corporate Governance ("2018 CG Code") and the Singapore Exchange has made amendments to its Listing Rules which came into effect on 1 January 2019, except for the rules on the 9-year tenure for independent directors and the requirement for independent directors to comprise one-third of the board which come into effect on 1 January 2022. Under the revised Listing Rules, the term of an independent director will be limited to nine years after which the long tenured directors will be subject to a two-tier

vote by shareholders. **Has the company evaluated the impact of the 2018 CG Code and the amendment to the Listing Rules on the board?**

Company's response:

The Board has evaluated the 2018 CG Code and the amendments to the SGX-ST's Listing Rules.

The Nominating Committee is aware of the amendments relating to the term of Independent Directors, which specifically relate to our Independent Directors, Mr Teo Moh Gin. The Group believes that his term as Independent Director, he has contributed and will continue to contribute to the strategic direction and corporate governance of the Group. His knowledge, experience and independence are endorsed by the Management and we continue to value his guidance on our board. the Board regularly review and re-evaluate the 2018 CG Code, and listing rules, as well as the structure and composition of the Board and consider the appropriateness of Board renewal as and when deemed necessary.