

SINOSTAR PEC HOLDINGS LIMITED
(Company Registration No.: 200609833N)

UNAUDITED FINANCIAL STATEMENT FOR THE SECOND QUARTER ENDED 30 JUNE 2014

PART I – INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3), HALF YEAR AND FULL YEAR RESULTS

- 1(a) An income statement and statement of comprehensive income or a statement of comprehensive income for the group together with a comparative statement for the corresponding period of the immediately preceding year.

**Consolidated statements of comprehensive income for the
Second quarter for the period ended 30 June 2014**

	2nd Qtr 2014	2nd Qtr 2013	+/(–)	1st Half 2014	1st Half 2013	+/(–)
	RMB'000	RMB'000	%	RMB'000	RMB'000	%
REVENUE	1,340,718	1,511,479	(11.3)	3,365,122	2,795,009	20.4
Cost of sales	(1,329,343)	(1,555,549)	(14.5)	(3,327,729)	(2,912,990)	14.2
Gross profit/(loss)	11,375	(44,070)	125.8	37,393	(117,981)	131.7
Other income	145	262	(44.7)	220	410	(46.3)
Distribution costs	(1,198)	(931)	28.6	(2,360)	(2,070)	(13.9)
Administrative costs	(5,922)	(5,448)	8.7	(11,163)	(10,737)	3.9
Other operating expenses	(7)	(5)	(134.0)	(18)	(13)	(38.5)
Profit/(loss) from operations	4,393	(50,192)	108.7	24,072	(130,391)	118.5
Finance costs	(1,358)	(1,533)	(11.4)	(2,575)	(3,013)	(14.5)
Profit/(loss) before taxation & non-controlling interest	3,035	(51,725)	105.8	21,497	(133,404)	116.1
Taxation	-	-	-	(10)	-	NM
Profit/(loss) for the period	3,035	(51,725)	105.8	21,487	(133,404)	116.1
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income/(expense)						
for the period	3,035	(51,725)	105.8	21,487	(133,404)	116.1
Profit/(loss) attributable to:						
Owners of the parent	3,405	(27,242)		12,700	(68,297)	
Non-controlling interest	(370)	(24,483)		8,787	(65,107)	
	3,035	(51,725)		21,487	(133,404)	
Total comprehensive income/(expense) attributable to:						
Owners of the parent	3,405	(27,242)		12,700	(68,297)	
Non-controlling interest	(370)	(24,483)		8,787	(65,107)	
	3,035	(51,725)		21,487	(133,404)	

NM – Not meaningful

Notes to the Consolidated statement of comprehensive income

	2nd Quarter Ended		
	30/06/2014	30/06/2013	Change (+/-)
	RMB'000	RMB'000	%
Profit/(loss) before tax is arrived at after charging/(crediting):			
Other operating income included:-			
- Interest income	(145)	(262)	(44.6)
- Interest expense	1,358	1,533	(11.4)
Depreciation of property, plant and equipment	13,586	13,777	(1.4)
Amortisation of land use right	2	2	-

NM – Not meaningful

1(b)(i) A statement of financial position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year.

	GROUP		COMPANY	
	30/06/2014	31/12/2013	30/06/2014	31/12/2013
	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment	355,323	382,838	-	-
Land use rights	372	376	-	-
Subsidiaries	-	-	250,041	250,041
	<u>355,695</u>	<u>383,214</u>	<u>250,041</u>	<u>250,041</u>
CURRENT ASSETS				
Inventories	229,230	377,902	-	-
Trade and other receivables	140,930	169,724	-	-
Amount owing by a subsidiary	-	-	33,923	35,735
Amount owing by related parties	111,668	5,065	-	-
Cash and cash equivalents	40,981	86,792	1,363	5,166
	<u>522,809</u>	<u>639,483</u>	<u>35,286</u>	<u>40,901</u>
TOTAL ASSETS	<u>878,504</u>	<u>1,022,697</u>	<u>285,327</u>	<u>290,942</u>
EQUITY				
Equity attributable to equity holders of the parent				
Share capital	316,125	316,125	316,125	316,125
Retained profits/(accumulated losses)	187,821	175,121	(31,007)	(29,540)
Reserves	41,606	41,606	-	-
	<u>545,552</u>	<u>532,852</u>	<u>285,118</u>	<u>286,585</u>
Non-controlling interest	<u>110,382</u>	<u>101,595</u>	<u>-</u>	<u>-</u>
TOTAL EQUITY	<u>655,934</u>	<u>634,447</u>	<u>285,118</u>	<u>286,585</u>
LIABILITIES				
CURRENT LIABILITIES				
Trade and other payables	58,442	41,797	209	925
Bank borrowing	100,000	50,000	-	-
Amount owing to a subsidiary (non-trade)	-	-	-	3,432
Amount owing to related parties (trade)	64,128	296,453	-	-
Current tax payable	-	-	-	-
	<u>122,570</u>	<u>388,250</u>	<u>209</u>	<u>4,357</u>
TOTAL EQUITY AND LIABILITIES	<u>878,504</u>	<u>1,022,697</u>	<u>285,327</u>	<u>290,942</u>

1(b)(ii) Aggregate amount of group's borrowings and debt securities.

Amount repayable in one year or less, or on demand

<u>As at 30/06/2014</u>		<u>As at 31/12/2013</u>	
Secured	Unsecured	Secured	Unsecured
RMB'000	RMB'000	RMB'000	RMB'000
-	100,000	-	50,000

Amount repayable after one year

<u>As at 30/06/2014</u>		<u>As at 31/12/2013</u>	
Secured	Unsecured	Secured	Unsecured
RMB'000	RMB'000	RMB'000	RMB'000
-	-	-	-

Details of any collateral

NA.

1(c) A statement of cash flows (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

Consolidated statement of cash flows for the period ended 30 June 2014

	2nd quarter ended	
	30/06/2014	30/06/2013
	<u>RMB'000</u>	<u>RMB'000</u>
Cash flows from operating activities		
Profit/(loss) before taxation	3,035	(51,725)
Adjustments for:-		
Depreciation of property, plant and equipment	13,586	13,777
Amortisation of land use rights	2	2
Interest expense	1,358	1,533
Interest income	(145)	(262)
Operating profit/(loss) before working capital changes	17,836	(36,675)
Changes in working capital:		
(Increase)/decrease in inventories	(16,530)	151,265
(Increase)/decrease in operating receivables	(84,867)	413,257
Increase/(decrease) in operating payables	5,159	(523,646)
Cash (used in)/generated from operations	(78,402)	4,201
Interest paid	(1,358)	(1,533)
Net cash (used in)/generated from operating activities	(79,760)	2,668
Cash flows from investing activities		
Acquisitions of property, plant and equipment	169	(614)
Interest received	145	262
Net cash used in investing activities	314	(352)
Cash flows from financing activities		
Increase in bank borrowing	50,000	-
Net cash generated from financing activities	50,000	-
Net (decrease)/increase in cash and bank balances	(29,446)	2,316
Cash and bank balances at beginning of period	70,427	52,704
Cash and bank balances at end of period	40,981	55,020

For the purpose of the consolidated statement of cash flows, the cash and cash equivalents comprise the following:

Cash-in-hand	133	139
Bank balances	40,848	54,471
Fixed deposit	-	410
	40,981	55,020

1(d) (i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalization issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

UNAUDITED STATEMENT OF CHANGES IN EQUITY - GROUP

	Share capital RMB'000	Retained profits RMB'000	Other reserves		Subtotal RMB'000	Controlling interest RMB'000	Non-controlling interest RMB'000	Total RMB'000
			Statutory common reserve RMB'000	Voluntary common welfare fund RMB'000				
1 January 2013 to 30 June 2013								
Balance as at 1 January 2013	316,125	201,639	39,227	797	40,024	557,788	136,530	694,318
Transfer to statutory common reserves	-	-	-	-	-	-	-	-
Total comprehensive expense for the period	-	(68,297)	-	-	-	(68,297)	(65,107)	(135,061)
Balance as at 30 June 2013	316,125	133,342	39,227	797	40,024	489,491	71,423	560,914
	Share capital RMB'000	Retained profits RMB'000	Other reserves		Subtotal RMB'000	Controlling interest RMB'000	Non-controlling interest RMB'000	Total RMB'000
			Statutory common reserve RMB'000	Voluntary common welfare fund RMB'000				
1 January 2014 to 30 June 2014								
Balance as at 1 January 2014	316,125	175,121	40,809	797	41,606	532,852	101,595	634,447
Transfer to statutory common reserves	-	-	-	-	-	-	-	-
Total comprehensive income for the period	-	12,700	-	-	-	12,700	8,787	21,487
Balance as at 30 June 2014	316,125	187,821	40,809	797	41,606	545,552	110,382	655,934

UNAUDITED STATEMENT OF CHANGES IN EQUITY - COMPANY

1 January 2013 to 30 June 2013

	Share Capital <u>RMB'000</u>	Accumulated losses <u>RMB'000</u>	Total <u>RMB'000</u>
Balance as at 1 January 2013	316,125	(22,591)	293,534
Total comprehensive expense for the period	-	(4,014)	(4,014)
Dividend paid	-	-	-
Balance as at 30 June 2013	316,125	(26,605)	289,520

1 January 2014 to 30 June 2014

	Share Capital <u>RMB'000</u>	Accumulated losses <u>RMB'000</u>	Total <u>RMB'000</u>
Balance as at 1 January 2014	316,125	(29,540)	286,585
Total comprehensive expense for the period	-	(1,467)	(1,467)
Dividend paid	-	-	-
Balance as at 30 June 2014	316,125	(31,007)	285,118

- 1(d) (ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles, as well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.**

There were no changes in the Company's share capital since the end of the previous period reported on.
There were no outstanding convertibles issued or treasury shares held by the Company as at 30 June 2014.

- 1(d) (iii) Total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.**

	30/06/2014	31/12/2013
Number of issued shares (excluding treasury shares)	640,000,000	640,000,000
Number of treasury shares held	NIL	NIL

- 1(d) (iv) A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.**

Not applicable.

- 2 Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.**

The figures have not been audited or reviewed by the auditors.

- 3 Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of matter).**

Not applicable.

- 4 Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.**

The Group had applied the same accounting policies and methods of computation in the financial statements for the current financial period as those adopted in the audited financial statements for the financial year ended 31 December 2013.

- 5 If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.**

There are no changes in accounting policies and methods of computation since 31 December 2013.

- 6 **Earnings per ordinary share of the group for the current period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.**

	2nd Quarter Ended	
	30/06/2014 RMB (cents)	30/06/2013 RMB (cents)
Profit/(loss) per share for the period based on net profit attributable to owners of the parent company		
(a) Based on basic number of ordinary shares on issue	0.53	(4.25)
No. of shares in issue (weighted average)	640,000,000	640,000,000
(b) On a fully diluted basis	0.53	(4.25)
No. of shares in issue (weighted average)	640,000,000	640,000,000

- 7 **Net asset value (for the issuer and group) per ordinary share based on the total number of issued shares excluding treasury shares of the issuer at the end of the (a) current financial period reported on and (b) immediately preceding financial year.**

	Group		Company	
	30/06/2014 RMB	31/12/2013 RMB	30/06/2014 RMB	31/12/2013 RMB
Net asset value per ordinary share	0.85	0.83	0.45	0.45

- 8 **A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. The review must discuss any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors. It must also discuss any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.**

The Group's revenue decreases by 11.3% from RMB 1.5 billion in Q2 2013 to RMB 1.3 billion in Q2 2014, decrease was mainly due to the production plants maintenance that carried out in a subsidiary resulted lower output produced and sold.

An analysis of revenue contributions from each subsidiary is set out as follows:-

Revenue of Dongming Runchang Petrochemical Co.,Ltd. ("Dongming Runchang")

Analysis of Sales by products type (RMB'000)	2nd Qtr 2014	%	2nd Qtr 2013	%
Gasoline	659,818	53.9%	846,695	56.1%
Diesel oil	248,899	20.3%	344,140	22.8%
Processed LPG	213,253	17.4%	175,233	11.6%
Propylene	93,888	7.7%	103,220	6.8%
Other oil products	9,097	0.7%	41,317	2.7%
TOTAL	1,224,955		1,510,605	

- Production plants were shut down for maintenance from end-May till early July 2014. A total of 189.1 thousand tonnes of raw materials (i.e., Heavy Oil) were processed through the catalytic cracking plant in Q2 2014, lower as compared to 228.7 thousand tonnes in Q2 2013; another total of 44.7 thousand tonnes of raw materials (i.e., raw LPG) were processed through the gas fractionation processes in Q2 2014, as compared to 44.6 thousand tonnes in Q2 2013;
- Revenue from gasoline sale decreases by 22.1% from RMB 846.7 million in Q2 2013 to RMB 659.8 million in Q2 2014, mainly due to lower volume sold. Sale of diesel and accumulated other oil products also decrease by 27.7% and 1.1% respectively, or by RMB 95.2 million and RMB 3.5 million respectively, in Q2 2014 as compared to Q2 2013, due to lower volume produced and sold during the periods.

Revenue of Dongming Hengchang Petrochemical Co., Ltd. (“Dongming Hengchang”)

Analysis of Sales by products type (RMB'000)	2nd Qtr 2014	%	2nd Qtr 2013	%
Processed LPG	96,525	50.9%	17,476	14.0%
Propylene	2,310	1.2%	9,205	7.4%
Polypropylene	90,833	47.9%	97,754	78.6%
TOTAL	189,668		124,435	

- **Processed LPG**

During the Q2 2012 periods, our strategic supplier, Dongming Zhongyou Fuel and Petrochemical Company Limited (“Dongming Zhongyou”) activated its production, as such Dongming Hengchang able to procure raw materials during Dongming Runchang down for plants maintenance. Revenue from sales of processed LPG increases by 452.3% or RMB 79.0 million from RMB 17.5 million in Q2 2013 to RMB 96.5 million in Q2 2014. Volume produced and sold during the period under review increased by 425.8% in Q2 2014 as compared to Q2 2013;

- **Polypropylene**

However, the revenue from sales of polypropylene decreases by 7.1% from RMB 97.7 million in Q2 2013 to RMB 90.8 million in Q2 2014. The decrease is attributable mainly to lower volume by 11.8% in Q2 2014 as compared to Q2 2013.

During Q2 2013, inter-company transactions between Dongming Runchang and Dongming Hengchang amounted to a total of RMB 73.9 million (Q2 2013 - RMB 123.5 million). Amount is being eliminated in accounts consolidation

Gross loss

As a result of above, the Group made a gross profit of RMB 11.4 million in Q2 2014 from a gross loss of RMB 44.1 million in Q2 2013.

Other income and expenses

(a) Other income

The subsidiaries have placed lesser and on shorter period of fixed amounts placed with the financial institutions resulted in lower interest earned during the periods.

(b) Distribution costs

Increase was due to higher transportation cost incurred on a major customer.

(c) Administration costs

Increase was due to provision for stock adjustments during the reporting periods.

The Group has made a net profit after tax of RMB 3.0 million in Q2 2013 from loss of RMB 51.7million in Q2 2013.

Balance Sheet

Highlights on significant changes in balance sheet items of the Group are as follows;-

- (a) Inventories comprises of both the raw materials and finished goods, in which included gasoline as finished good amounted to RMB 163.8 million;
- (b) Trade and other receivables mainly attributed to nett input tax of approximately RMB 120.2 million, the subsidiary, Dongming Runchang Petrochemical Co., Ltd., is able to offset this input tax credit against its future assessable income tax.
- (c) Amount owing by related parties (trade) comprise of (i) amounts of RMB 67.1 million for finished goods sold through Dongming Petroleum Distribution Co.,Ltd (东明石化经销有限公司); (ii) amount of RMB 12.6 million for goods sold to Shandong Dongming Petrochem Group Hengji Chemical Company Limited (山东东明石化集团恒基化工有限公司) and (ii) amount of RMB 31.9 million sales to Shandong Dongming Lishu Petroleum Co., Ltd (山东东明梨树化学有限公司). These accounts have been settled in full within the month of July 2014;
- (d) Amount owing to related parties (trade) comprises of amount of RMB 58.6 million owing to

Dongming Zhonyou Fuel and Petrochemical Co.,Ltd (东明中油燃料石化有限公司) and another amount of RMB 2.7 million for utilities payables to Shandong Dongming Petrochem Group Co., Ltd (山东东明石化集团有限公司).

Cash flow

The Group's net cash used in operating activities of RMB 79.7 million mainly due to increase in operating receivables, inventories and increase in operating payables.

Cash financing activities increases due mainly of another RMB 50 million working capital loan obtained from the bank.

As at 30 June 2014, the Group's free cash flow decreased to RMB 40.9 million as compared to RMB 55.0 million of comparative periods.

Use of IPO proceeds

No movement since the previous reporting period. Balance as of 30 June 2014 is as follows:-

	<u>RMB (million)</u>
Nett IPO proceeds	278.5
Equity contribution in subsidiary company	(255.0)
Balance cash and cash equivalent at bank	<u>23.5</u>

9 Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

None.

10 A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

On 16 July 2014, the group conveyed an Extraordinary General Meeting and obtained the shareholders approval to dispose its 51% equity controlled in subsidiary company of Dongming Runchang and to acquire the full ownership of the gas fractionation installations from it. The Group is currently working to fulfill the conditions precedent stipulated under the Agreements and to complete all transfer. The management expects these to be completed within Q3 2014.

In order to maximize the proceeds collectible from the disposal as well as reserves, the group is also in review and evaluating on a few shortlisted potential investments, which focus on the petrochemical processing businesses.

Barring unforeseen circumstances, the Group remains cautiously optimistic of its abilities to turn around the performance of FY2014.

11 Dividend

(a) Current Financial Period Reported On

Any dividend recommended for the current financial period reported on?

Yes

Name of Dividend: Interim

Dividend Type: Cash

Dividend Amount per Share (in cents): 1 cent per ordinary share

Tax Rate: Tax Exempt (1-tier)

(b) Corresponding Period of the Immediately Preceding Financial Year

Any dividend declared for the corresponding period of the immediately preceding financial year?

None.

(c) Date payable

To be advised.

(d) Books closure date

To be advised.

12 If no dividend has been declared/recommended, a statement to that effect.

N.A

13 If the Group has obtained a general mandate from shareholders for IPTs, the aggregate value of such transactions as required under Rule 920(1)(a)(ii). If no IPT mandate has been obtained, a statement to that effect.,

Note Rule 920(1)(a)(ii) – An issuer must announce the aggregate value of transactions conducted pursuant to the general mandate (if any) for interested person transactions for the financial periods which it is required to report on pursuant to Rule 705.

Name of Interested Person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than \$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested person transactions conducted during the financial year under review under shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000)
For periods between April to June 2014:- Dongming Zhongyou Fuel and Petrochemical Company Limited (东明中油燃料石化有限公司)(“Dongming Zhongyou”)		

(a) Purchase of raw LPG	RMB 195,907,039	
(b) Prepayment for raw materials	RMB 24,000,000	
(c) Contract processing fee	RMB 34,988,383	
(d) Payment made for the purchase of raw materials (including cost reimbursement and procurement fess)	RMB 1,107,664,494	
(e) Sale of steam gas	RMB 1,269,230	
Shandong Dongming Petrochem Group Co., Ltd. (山东东明石化集团有限公司)("Dongming Petrochem")		
Payment of utilities supplied	RMB 6,241,156	
Shandong Dongming Petrochem Group Hengji Chemical Company Limited (山东东明恒基化工有限公司)("Dongming Hengji")		
(a) Sales of LPG	RMB 29,770,404	
(b) Sale of steam gas	RMB 2,265,550	
Dongming Runbang Petrochemical Co., Ltd. (山东东明润邦化工有限公司)("Dongming Runbang")		
(a) payment of utilities supplied	RMB 12,533,977	
(b) Contract processing fee	RMB 26,009,165	
(c) Sale of steam gas	RMB 3,264,177	
Shandong Dongming Lishu Petroluem Co., Ltd.(山东东明梨树化学有限公司)		
Sale of LPG	RMB 106,854,464	
Dongming Petroleum Distribution Co., Ltd. (东明石化经销有限公司)		
Consignment fee	RMB 1,568,895	

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14. NEGATIVE CONFIRMATION BY THE BOARD PURSUANT TO RULE 705(5)

PART II - ADDITIONAL INFORMATION REQUIRED FOR FULL YEAR ANNOUNCEMENT

(This part is not applicable to Q1, Q2, Q3 or Half Year Results)

- 15 Segmented revenue and results for business or geographical segments (of the group) in the form presented in the issuer's most recently audited annual financial statements, with comparative information for the immediately preceding year.**

Not applicable.

- 16 In the review of performance, the factors leading to any material changes in contributions to turnover and earnings by the business or geographical segments.**

Not applicable.

- 17 A breakdown of sales.**

Not applicable.

- 18 A breakdown of the total annual dividend (in dollar value) for the issuer's latest full year and its previous full year.**

Not applicable.

- 19 Disclosure of person occupying a managerial position in the issuer or any of its principal subsidiaries who is a relative of a director or chief executive officer or substantial shareholder of the issuer pursuant to Rule 704(11) in the format below. If there are no such persons, the issuer must make an appropriate negative statement.**

Name	Age	Family relationship with any director and/or substantial shareholder	Current position and duties, and the year the position was held	Details of changes in duties and position held, if any, during the year
Not applicable				

BY ORDER OF THE BOARD

FAN DENGCHAO

EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER

CONFIRMATION BY THE BOARD PURSUANT TO RULE 705(5)
OF THE SGX-ST LISTING MANUAL

We, Fan Dengchao and Zhang Liucheng, being Directors of the Company, do hereby confirm for and on behalf of the Board of Directors of the Company that, to the best of our knowledge, nothing has come to the attention of the Board of Directors of the Company which may render the unaudited financial results for the second quarter ended 30 June 2014 to be false or misleading in any material aspect.

On behalf of the Board of Directors
Sinostar PEC Holdings Limited

Fan Dengchao
Executive Director and
Chief Executive Officer

Zhang Liucheng
Executive Director

BY ORDER OF THE BOARD

FAN DENGCHAO
EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER