中星石化
SINOSTAR

中星石化控股有限公司
SINOSTAR PEC HOLDINGS LIMITED

BUDDING OPPORTUNITIES FOR GROWTH

ANNUAL REPORT 2018

WE ARE SINOSTAR PEC HOLDINGS LIMITED

With a comprehensive production process and the right infrastructure to carry out seamless operations, we have been successful in being a trusted producer and supplier of petrochemical products in our network in the PRC, serving growth markets in strategic proximity to our nationwide footprint.

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SINOSTAR PEC AT A GLANCE

We aim to be more than an experienced producer of petrochemical goods. We aim to be a committed supplier of product quality, prompt delivery and good customer service.

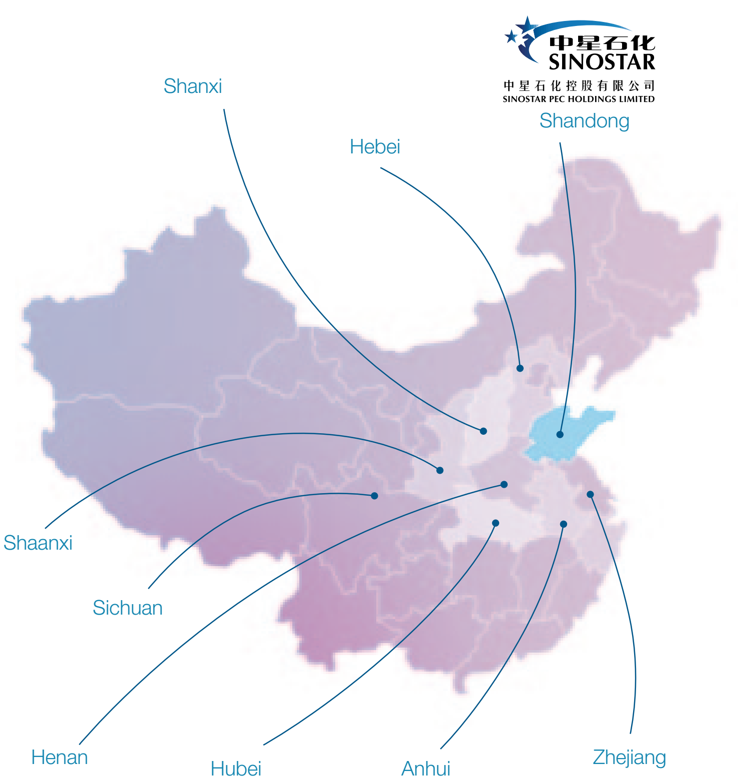
ABOUT SINOSTAR PEC HOLDINGS LIMITED

We are one of the largest producers and suppliers of downstream petrochemical products within the 400km radius of our production facilities within the Dongming Petrochem Industrial Zone in Dongming County of Shandong Province, PRC.

Located within the Zhongyuan Oilfield - one of the PRC's largest oil fields, rich in energy resources and connected by a comprehensive logistics network, our strategic placement permits us to hand out to the nearby populous and industrialised provinces such as Shandong, Henan, Anhui, Shanxi, Shaanxi, Sichuan, Hebei, Hubei and Zhejiang.

We aspire to be more than an experienced producer of petrochemical goods as well as a committed supplier of product quality, prompt delivery and good customer service.

PEOPLE'S REPUBLIC OF CHINA

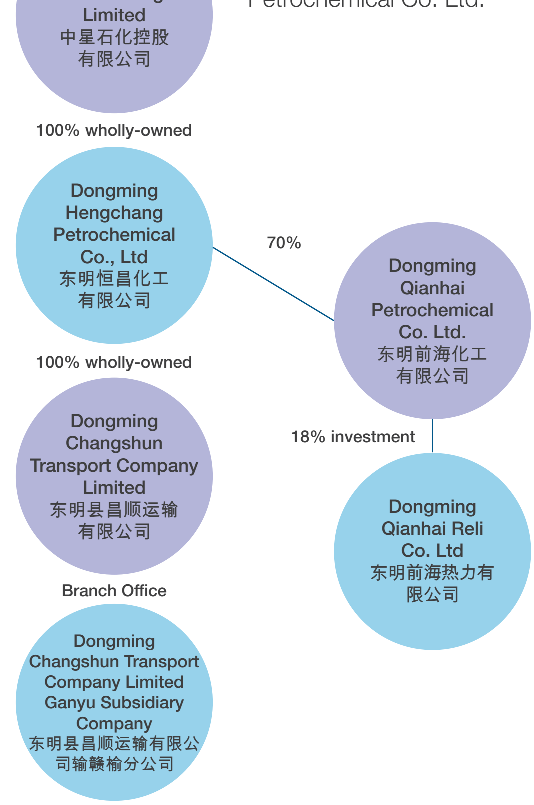


OUR CORPORATE STRUCTURE

Our Group comprises Sinostar PEC Holdings Limited and our PRC 100% controlled subsidiary, Dongming Hengchang Petrochemical Co., Ltd. who runs a total of 550,000 tonnes of gas-fractionation production plants in two locations within Dongming county.

Dongming Hengchang acquired a 100% equity interest in Dongming Changshun Transport Company Limited and its branch offices Dongming Changshun Transport Company Ltd Ganyu Subsidiary Company since July 2015 from our strategic partner, Shandong Dongming Petrochem Holdings Group.

On 26 December 2018, we acquired a 70% controlling stake in Dongming Qianhai Petrochemical Co. Ltd.



OUR BUSINESS SEGMENTS

PRIORITISING QUALITY

We have attained 3 major international standards in the areas of quality, environment and health management: ISO9001:2001, ISO14001:2004 and OHSAS18001:1999—a testimony to the importance we place on quality and safety control.

HENGCHANG: OUR FLAGSHIP BRAND

Supported by a solid reputation and a credible track record for our commitment towards offering quality merchandise and services, our Hengchang brand of polypropylene was named "Shandong Province Famous Trade Mark" and "Shandong Top Brand" in China.

STRATEGIC AFFILIATION WITH DONGMING PETROCHEM

Our strategic affiliation with Shandong Dongming Petrochem Holdings Group ("Dongming Petrochem") began in 2006 when we acquired Dongming Hengchang, where Dongming Petrochem was one of the founding shareholders. Dongming Hengchang was originally set up in 2000 as a joint venture between Dongming Petrochem and its key management staff, in line with the PRC's broad policy of reforming its state-owned enterprise, in particular, for the non-strategic downstream petrochemical activities. It was based on the premise of exclusive supply contracts with some of the companies within Dongming Petrochem Group to secure a stable provision of its major material – raw LPG. Since incorporation, Dongming Hengchang was able to introduce into an exclusive agreement with Dongming Petrochem and one of its associated societies to be supplied of all their raw LPG to Dongming Hengchang exclusively for a period of 20 years from 2006. This ensures consistent supply of raw LPG from various channels for Dongming Hengchang. On 31 May 2016, Dongming Hengchang entered into the 2016 Exclusive Supply Agreement with Dongming Zhongyou Fuel and Petrochemical Company Limited (a full subsidiary of Dongming Petrochem), for a term of 20 years from 2016. The 2016 Exclusive Supply Agreement supersedes the 2006 Exclusive Supply Agreement entered on 26 April 2006. We have gained largely from Dongming Hengchang's history and affiliation with Dongming Petrochem. Dongming Petrochem, established in 1997, has since grown to become China's largest independent oil refiner with primary processing capacity of 15 million tonnes per year. For Sinostar, through the strategic relationship with Dongming Petrochem, we are assured to receive a secure and stable supply of raw LPG which creates a solid foundation for us to continue ramping up on our existing market leadership position. The affiliation also ensures that the raw LPG we supply is of consistent quality and provide us with a competitive edge over our competitors.

REFINING OUR CAPABILITIES

The investment to construct a new polypropylene production installation plant will enable us to enhance our existing production capacity and tap on the opportunity for higher-margin earnings in future.


G12
LPG

OUR BUSINESSES AND KEY PRODUCTS

We have an annual capacity to process 550,000 tonnes of raw LPG and are able to further process part of our generated propylene into 50,000 tonnes of polypropylene annually.

Enlisted in the fractionation of raw LPG to produce downstream petrochemicals, namely propylene, polypropylene and LPG, our products cater to a wide range of industrial application and are sold mainly to manufacturers of petrochemicals, plastic products and LPG distributors.

We have an annual capacity to process 550,000 tonnes of raw LPG and are able to further process part of our generated propylene into 50,000 tonnes of polypropylene annually.

We have 107 vehicles in our fleet of scaling up the acquired transportation business.

LPG

A type of liquefied petroleum gas used as a source of fuel by households and industrial manufacturers. Primarily sold as household fuel through LPG distributors. A small portion is also sold to industrial manufacturers that use LPG as a source of fuel for their own production.

PROPYLENE

An organic compound extracted from raw LPG sold to other petrochemical producers to produce chemical intermediates such as polypropylene, polyvinyl chloride (PVC).

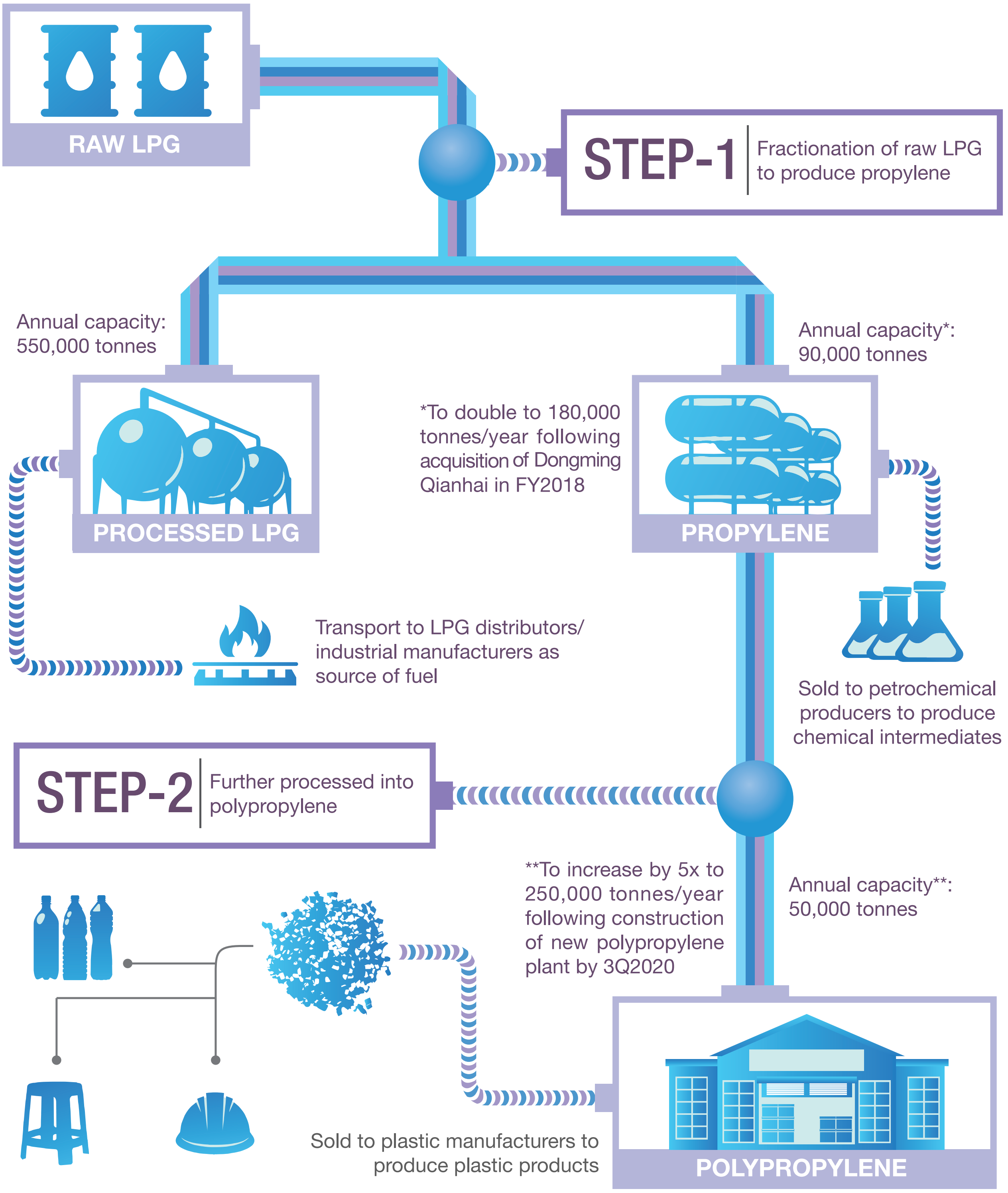
POLYPROPYLENE

A major derivative of propylene – a thermoplastic polymer which is resistant to chemicals and heat. Mainly sold to plastic manufacturers to produce plastic products for diverse industrial applications (i.e. Flexible packaging, rigid packaging, automotive and consumer products).

TRANSPORTATION AND LOGISTICS

A transportation and logistics company with a total of 107 vehicles, mainly in the principal business of delivering liquefied petroleum gas and petrochemical related products to its end consumers and reduce our reliance on third party service providers.

PRODUCTION PROCESS
生产过程



UNLOCKING VALUE FOR FURTHER GROWTH

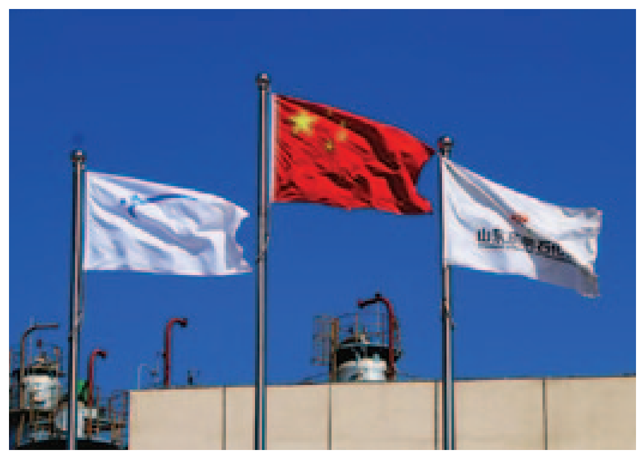
By acquiring the 70% controlling stake of Dongming Qianhai Petrochemical Co., our production capacity for propylene will double to 180,000 tonnes/year, contributing positively to the Group's performance in the upcoming years.

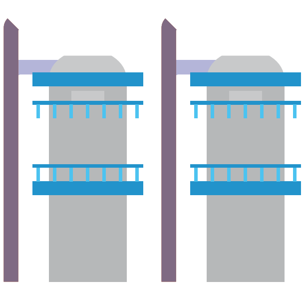
NEW ACQUISITION AND LATEST DEVELOPMENTS

For the year under review, we reached a key milestone in our long-term growth. During the fourth quarter of FY2018, we completed the acquisition of a 70% stake in Dongming Qianhai Petrochemical Co. Ltd.

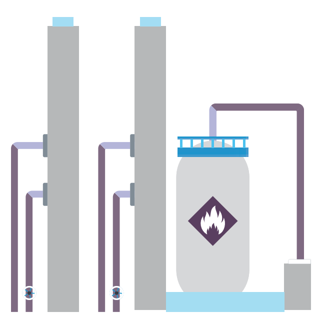
It features production capacities and expertise in processing and selling propylene, purified isobutylene and methyl tert-butyl ether (MTBE). In addition to doubling our capacity to produce propylene to 180,000 tonnes a year, it also extends our product lines, putting the Group in a stronger position to offer our existing customers with a more comprehensive suite of solutions, reach out to even more customers for new and existing products and services, and diversify our customer base.

The facility has concluded its trial run and achieved stable production and is well-positioned to contribute to our performance in FY2019.





Capacity:
up to 180,000 tonnes of propylene per annum



Products:
propylene, purified isobutylene and methyl tert-butyl ether (MTBE)

Dongming Qianhai Petrochemical Co. Ltd.
Status: Acquisition completed in 4Q2018






In fiscal year 2018, the Group announced its proposed investment by its subsidiary Dongming Hengchang Petrochemical Co., Ltd. for the construction of a polypropylene production plant. The polypropylene production plant is expected to boost the Group's production capacity by 5 times, from our current annual capacity of 50,000 tonnes to 250,000 tonnes per annum. The polypropylene production 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. These high quality polypropylene can be widely used in high valued products such as high-end medical equipment, automotive accessories, home appliances, electrical films, food packaging and other consumer products. The profits arising from the sale of high quality type polypropylene is relatively higher as compared to the sale of our current production type. The construction of the polypropylene production plant is estimated to complete by third quarter of fiscal year 2020.

CHAIRMAN'S MESSAGE

In FY2018, the Group managed to record a revenue growth of 25.0% to RMB2.3 billion from RMB1.8 billion in FY2017. In tandem with the revenue increase, the Group's net profit increased 21.0% from RMB68.2 million in FY2017 to RMB82.7 million in FY2018.

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present the annual report of Sinostar PEC Holdings Ltd. ("Sinostar PEC" or the "Group") for the financial year ended 31 December 2018 ("FY2018").

In FY2018, the Group managed to achieve a positive set of results against the backdrop of the challenging business environment. The Group recorded a revenue growth of 25.0% to RMB2.3 billion in FY2018 from RMB1.8 billion in FY2017. In tandem with the revenue increase, the Group's net profit increased 21.0% from RMB68.2 million in FY2017 to RMB82.7 million in FY2018.

The Petrochemicals business remains as the Group's core focus and key growth driver, which accounted for 94.0% of its total sales in FY2018. During the year, the Group recorded better sales from its three key Petrochemical business segments – Processed LPG, Propylene and Polypropylene with increase of 33.7%, 43.0% and 6.2% respectively. This was mainly attributable to an increase in production output and average selling price.

The remaining 6.0% of the Group's total sales in FY2018 was accounted by its Logistics & Transport-related business. Our Logistics & Transport-related business delivered a weaker performance in FY2018 with a decrease of 19.5% to RMB141.8 million as a result of lower demand from a major customer located in Jiangsu; lower demand from its non-controlling interest Dongming Petrochem Group Co., Ltd.; and pricing competition resulting from lower demand in the highly flammable gas transportation industry.

As at 31 Dec 2018, the Group's earnings per share increased to RMB12.9 cents and net asset value per share increased to RMB1.15.

STRATEGIC ACQUISITIONS

During the fourth quarter in FY2018, the Group completed its strategic acquisition of 70.0% controlling stake of Dongming Qianhai Petrochemical Co. ("Dongming Qianhai") after finishing its trial run stage and achieving stable production. This acquisition enables the Group to significantly double its propylene production capacity to 180,000 tonnes per annum, which is in line with its long-term strategy to ramp up its production capacities and buttress its market leadership position in the petrochemical sector. With Dongming Qianhai in the picture, the Group can leverage on its capabilities to reach out to more customers without disrupting its existing customers' demand and diversify its customer base. With greater flexibility to channel raw materials into producing more propylene or polypropylene and having the ability to process a greater volume of higher-margin polypropylene, it helps the Group to broaden its product lines. This strategic acquisition is expected to contribute positively to the Group's performance in FY2019.

In addition, on 14 September 2018, the board approved the proposed investment for the construction of a polypropylene production installation plant in China, Dongming County, Shandong Province. This investment will multiply the Group's production capacity of polypropylene by five times from 50,000 tonnes per annum to 250,000 tonnes per annum. The polypropylene production plant will adopt the latest-generation technology – Spheripol, with the most advanced

25.0%

Revenue Growth

RMB82.7mil

Net Profit After Tax

CHAIRMAN'S MESSAGE

production process that is both energy efficient and environmental-friendly in producing high quality polypropylene. Through this proposed investment, the Group will be able to fully utilise the additional 90,000 tonnes of unprocessed propylene from Dongming Qianhai for the further production of polypropylene, which tend to have higher profits as compared to the sale of unprocessed propylene.

With these strategic acquisition and investment in place, the Group is well-equipped and has an edge over its competitors with enhanced production capabilities, improved reliability and faster turnaround time for product deliveries.

OUTLOOK AND PROSPECTS

During the year, many Asian petrochemical markets were dragged through a turbulent ride, partly due to volatility in oil prices and the US-China trade war. Furthermore, the propylene market in China was under pressure as weaker downstream polypropylene prices, cheaper domestic supplies and a weaker Yuan punctured buying interest. Nonetheless, the Group managed to deliver positive performance in FY2018 with its fortified position in the petrochemical industry.

Although the average annual growth rate is expected to decrease from 5.6.% to 4.8% for the period from 2017 to 2022, the demand for petrochemical products in Asia is estimated to expand continuously. In 2022, the demand in Asia is expected to account for over 50.0% of total global demand. In view of this, the Group remains cautiously optimistic and will continue to adopt a prudent approach to its business as uncertainties lingered ahead with the expected slowdown of China's economic growth and continued fluctuation of oil prices. The Group will continue to focus its efforts on implementing stringent cost control measures, improving operational efficiencies, and forging close relationships with its customers and strategic partners. The Group remains committed to providing quality products and services and are heartened to see sustained demand from its customers. Through relentless

pursuit of improvement, the Group will continue to satisfy and keep up with the growing needs of its customers.

Moving forward, organic and inorganic growth strategy remains critical for the Group's long-term growth and it will continue to expand and strengthen its value chain by seeking new avenues of growth and exploring potential strategic acquisitions and investments opportunities within its core petrochemical markets.

DIVIDEND

At Sinostar Pec, we always seek to recognise and reward our valued shareholders for their loyal support throughout the years since our listing. The Board is pleased to recommend a Final Dividend of 0.5 Singapore cents per ordinary share for the fiscal year, subject to shareholders' approval at the Annual General Meeting to be held on 29 April 2019. This translates into a dividend yield of approximately 2.6%.

APPRECIATION

On behalf of the Board of Directors and the management team, I would like to express my sincere gratitude to our business partners, customers, suppliers, shareholders and employees for your unwavering support and contribution all these years. We look forward to your continued support in the years ahead as we continue to advance the Company to greater heights together. We will do our best to unlock greater value for you as we achieve new milestones.

Li Xiang Ping
Non-Executive Chairman

致股东们的一封信

尊敬的各位股东，

在此，非常高兴代表董事会向大家公布中星石化控股有限公司（「中星石化」或「集团」）截至2018年12月31日止（「2018财年」）财政年度报告。

2018财年，集团在竞争激烈的市场环境中，克服种种困难，取得了良好业绩，实现收入23亿元人民币，较2017财年增加5亿元人民币，增幅为25.0%；实现净利润8270万元人民币，较2017财年增加1450万元人民币，增幅为21.0%。

化工业务仍然是集团的核心业务和主要增长动力，占2018财年总销量的94.0%。2018财年，由于产量及平均销售价格的双增加，集团的成品液化气、丙烯及聚丙烯三大化工业务销量均实现较好发展，分别增长了33.7%，43.0%及6.2%。

物流及运输相关业务销量为1.4亿元人民币，占2018财年总销量的6.0%。该部分业务销量较2017财年有所降低，减少了19.5%。减少的主要原因是我们的主要客户—江苏新海石化有限公司和山东东明石化集团有限公司货物运输总量下降。

截至2018年12月31日，集团每股盈利增加至12.9分人民币，每股资产净值则增加至1.15元人民币。

战略收购

2018财年第四季季度，东明前海化工有限公司（「东明前海化工」）于12月26日试行阶段圆满结束，实现了稳定生产，此后集团完成了对东明前海化工70.0%控股权的战略收购。该收购可以使集团的丙烯产能翻倍，达到每年18万吨。集团将以东明前海化工的生产能力做保障，充分发挥其影响力，不断满足现有客户需求，努力开发更多的客户，提高在市场中的份额。同时，利用丙烯深加工延伸产业链，并利用国际上先进的生产技术，生产更多高端聚丙烯产品，进一步增加集团利润。我们预计前海化工的战略收购将在2019财政年度为集团带来可观的业绩增长。

此外，董事会于2018年9月14日批准了在中国山东省东明县建设20万吨/年聚丙烯项目的议案。该项目建成投产后，集团聚丙烯产能将增加到每年25万公吨，是目前产能的5倍。该项目可以充分利用来自东明前海化工的9万吨丙烯进一步深加工，相比直接销售丙烯将产生更高的利润。

集团的战略收购已经完成，投资项目也已准备就绪，未来集团将发挥产能优势，以优质的服务和快捷的产品交付速度，不断超越自己，努力追赶竞争对手，力争取得更好的业绩。

展望与前景

2018年，油价波动及中美贸易战等因素仍将深刻影响亚洲化工市场。随着中国经济向高质量发展的转型，中国政府调低了GDP发展的增长速度，这将对化工产业的发展带来压力。但是，由于我们位于中国人口最多的中原经济区，周边经济发展仍然较具有潜力，集团仍然有信心和决心凭借在化工业市场的稳固地位，在2018财年实现良好发展。

根据预测，亚洲化工产品需求年平均增长率在2017至2022年期间将由5.6.%下降至4.8%，但是化工产品需求还是会呈增长趋势。预计到2022年，亚洲地区需求量将占全球总需求量的50.0%以上。集团因此保持审慎乐观的态度，将继续采取谨慎的经营原则，以克服中国经济增长的预期放缓及油价持续波动带来的不明朗因素。继续采取严谨的成本控制措施，改善营运效能，与客户及战略伙伴建立密切关系。同时，不断提升产品品质和服务能力，满足客户的需求增长，力臻完善，创造出优异的经营业绩。

展望未来，内部管控及并购增长策略仍是集团实现业绩增长的关键。我们将通过开发新的增长渠道，紧盯化工市场，寻找潜在的战略收购及投资机会，继续拓展和强化集团的价值链。

股息

自中星石化上市以来，我们真诚感谢各位尊贵股东多年来对本集团的大力支持。董事会建议2018财年每股普通股新元派发0.5分末期股息，相当于约2.6%股息收益率，希望股东们在2019年4月29日举行的周年大会上批准。

致谢

我谨代表董事会及管理团队，向业务伙伴、客户、供货商、股东及雇员多年来的坚定支持和贡献表示衷心的感谢。我们期望继续得到各位的支持，让我们共同努力促进公司业绩更上一层楼。我们将以此为新的里程碑，勤勉敬业，谨慎作为，为各位股东创造更多的收益。

非执行主席
李湘平

OPERATIONS REVIEW

FINANCIAL PERFORMANCE

In FY2018, the Group managed to achieve a robust set of results against the backdrop of an uncertain economic landscape and heightened volatility in oil prices.

The Group's revenue increased by 25.0% to RMB2.3 billion in FY2018 as compared to RMB1.8 billion in FY2017. This revenue increase was primarily due to higher sales recorded in its core Petrochemical businesses – Processed LPG, Propylene and Polypropylene.

In addition to the improved sales in its core businesses, the Group's bottom line was bolstered by an increase in total production output and average selling price ("ASP") and maintained its gross margins throughout the year. Consequently, the Group's net profit attributable to equity holders rose 21.0% to RMB82.7 million in FY2018 from RMB68.2 million in FY2017.

PERFORMANCE BY BUSINESS SEGMENTS

Processed LPG

During the year, the Group achieved a 33.7% increase in revenue to RMB1.36 billion as compared to RMB1.02 billion in FY2017, mainly due to an increase in the total production output by 22.5%. This also saw Processed LPG retained its position as the Group's largest revenue contributor with a 60.0% share of its total sales in FY2018.

Propylene

In FY2018, the sales of Propylene boosted by 43.0% to RMB418.0 million from RMB292.3 million in FY2017, mainly due to an increase of 28.1% in the production output procured from its subsidiary Dongming Qianhai Petrochemical Co Limited ("Dongming Qianhai"). This accounted for 19.0% of the Group's revenue or the second largest slice of its sales.

Polypropylene

On the back of a 12.8% increase in the ASP of its Polypropylene during the year, the Group's revenue from the segment grew by 6.2% to RMB337.2 million from RMB317.4 million in the corresponding year. As a result of this, Polypropylene overtook Propylene to become the Group's third largest revenue contributor with a 15.0% share.

Logistics and Transport-related

Revenue from the Group's Logistics & Transport-related business remained as the smallest revenue generator contributing an insignificant 6.0% share. Revenue from this business decreased by 19.5% from RMB176.1 million in FY2017 to RMB141.8 million in FY2018.

This revenue decline was mainly due to lower demand and pricing competition resulting from the lower demand in the highly flammable gas transportation industry.

PROFITABILITY

In tandem with its revenue growth, the Group's gross profit rose by 23.0% from RMB103.7 million in FY2017 to RMB128.0 million in FY2018. The Group maintained its gross profit margin with marginal increase in its net profit margin during the year.

The Group's other income saw a decrease of 50.0%, mainly due to less unutilised fund placed in fix deposit with financial institutions.

Administrative costs recorded a marginal 2.6% increase from its corresponding year.

As a result of the aforementioned, the Group's net profit attributable to equity holders rose 21.0% from RMB68.2 million in FY2017 to RMB82.7 million in FY2018.

BALANCE SHEET

For the full year ended 31 December 2018, the Group saw an increase in its inventories level, which was mainly due to the consolidation of its acquired subsidiary Dongming Qianhai. Similarly, the Group recorded an increase in its receivables mainly attributed to the consolidation of receivables and payables from Dongming Qianhai.

As at 31 December 2018, the Group's cash and cash equivalents stood at a healthy position of RMB 426.2 million.

To remain prudent, the Group also increased its reserves from RMB52.0 million in FY2017 to RMB60.8 million in FY2018 by setting aside 10.0% of the profits made by its Chinese subsidiaries.

CASHFLOW

As at 31 December 2018, net cash generated from operating activities decreased to RMB61.0 million. This was primarily due to the decrease in amount owing to non-controlling interest, payables and tax paid, and increase in inventories and receivables. Decrease in net cash used in investing activities was mainly due to an absence in amount owing affiliated company as compared to FY2017. Net cash used in financing activities was mainly due to the dividend payment declared for FY2018 and paid in FY2017.

Notwithstanding the lower free cash flow generated for FY2018, the Group's free cash flow remains at a healthy level of RMB426.2 million as at 31 December 2018.

OUTLOOK

The Group prospects the polypropylene manufacturing as positive outlook, as there is a rise in demand for durable and sustainable products in different end-user industries that can further fuel its growth and expansion. China remains as the biggest market for polypropylene and the Group will continue to leverage on its capabilities to accomplish more clients and diversify its customer base. This is in line with its long-term strategy to buttress its market leadership position in the petrochemical sector.

In fiscal year 2018, the Group announced its proposed investment by its subsidiary Dongming Hengchang Petrochemical Co., Ltd. for the construction of a polypropylene production plant. The polypropylene production plant is expected to increase the Group's production capacity by 5 times, from its current annual capacity of 50,000 tonnes to 250,000 tonnes per annum. The polypropylene production 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. These high quality polypropylene can be widely used in high valued products such as high-end medical equipment, automotive accessories, home appliances, electrical films, food packaging and other consumer products. The profits arising from the sale of high quality type polypropylene is relatively higher as compared to the sale of its current production type. The polypropylene production plant is expected to be ready by 3Q2020.

Furthermore, the completion of the strategic acquisition of 70.0% equity controlling stake in Dongming Qianhai will double the Group's propylene production capacity to 180,000 metric tonnes/year. With the completion of its preliminary and achieved stable production, Dongming Qianhai is expected to contribute in favour to the Group's performance in FY2019 barring any unforeseen circumstances.

Moving forward, the Group remains optimistic about its long-term future and will continue to remain vigilant to both opportunities and risks. The inclusion of the polypropylene production plant and extended production line of propylene in the Group's line-up has undoubtedly put it in a stronger position to pursue new business opportunities and expand its network to reach new customer bases. Operationally, with the boosted production capacity of propylene and high quality polypropylene, it allows the Group to gain greater flexibility to channel more resources into higher margin end products without impacting its existing customers demands and will continue to fortify its position in the petrochemical industry.

Zhang Liu Cheng
Chief Executive Officer and
Executive Director

CONTINUING TO DELIVER EXCELLENCE

With our comprehensive logistics network in place and backed by our strong reputation and credible track record, we will persist in strengthening our competitive edge to maintain our leadership position in the market.

BOARD OF DIRECTORS

MR LI XIANG PING

Non-Executive Chairman

Mr Li Xiang Ping started his career as an accountant at Dongming County Medicine Company in 1983. He joined the Dongming County Audit Bureau as their deputy bureau officer in 1986 where he managed internal discipline issues. In 1993, he joined Dongming County Petroleum Refining Factory as the finance manager. Mr Li subsequently became the chief accountant of Dongming County Petroleum Refining Factory and was overall in charge of the financial management of the factory.

In 1998, Mr Li was appointed as the director and chief auditor of Shandong Dongming Petrochem Group Company Limited ("Dongming Petrochem") and was responsible for the daily operations of the business as well as the accounting functions of the company. In 2001, Mr Li was appointed chairman of Dongming Petrochem group and has since been responsible for the overall development and operations of the business. Mr Li is a People's Representative in the annual National People's Congress of Shandong Province.

Mr Li is also a deputy chairman of the Dongming County Chinese People's Political Consultative Conference. Mr Li received a senior auditor qualification from the Shandong Province Audit Profession Advance Accreditation Committee in December 1998 and a senior accounting qualification from the Shandong Province Accounting Profession Advance Accreditation Committee in December 1999. Mr Li obtained a Bachelor's degree in Financial Accounting from the University of Shandong Officials in 1999 and has completed a business administration graduate programme offered by the Shandong University in December 2004.

Mr Li was appointed as the chairman of the Association of oil & petrochemical Refinery in the Shandong province (山东省炼油化工协会) since 2015 and appointed as the Vice President of China Petroleum and Chemical Industry Federation (中国石油和化学工业联合会) since 2017.

During 2018, Mr Li was appointed as the Chairman of Shandong Refining and Energy Group Co., Ltd. (山东炼化能源集团有限公司), an entity in which Shandong Dongming Petrochemical Group has an influential controlling stake. He was also appointed as the Vice Chairman of the 12th All-China Federation of Industry and Commerce (十二届全国工商联). In addition, Mr Li was accoladed the award of "100 Outstanding Private Entrepreneurs in 40 Years of Reform" (改革开放40年百名杰出民营企业家).

MR ZHANG LIU CHENG

Chief Executive Officer and Executive Director

Mr Zhang Liu Cheng is Deputy General Manager (Finance and Administration) of our subsidiary, Dongming Hengchang. Mr Zhang worked in Dongming County Finance Department as an accountant between 1996 and 2001 where he was responsible for the accounting functions of the department. In June 2004, Mr Zhang joined Dongming Hengchang as its financial controller overseeing the daily operations of the financial management and the overall financial management of Dongming Hengchang.

Currently, he serves as the deputy chairman of the corporate branch of the Revolutionary Committee of the Chinese Kuomintang (Xicheng district) (中国国民党革命委员会会西城区企 业支部副主委) and a member of the Economic Committee (西城区经济委员会委员). He is also the deputy chairman of the Dongming County Association of Industry and Commerce (东明县工商联副主席) and a member of the standing committee of the Chinese People's Political Consultative Conference (东明县政协常委) in Dongming county. He is also a member of the Joint Experts Committee in the China Petrochemical and Gasoline Association (中国石化联合会油气专家委员会).

Mr Zhang obtained a Bachelor's degree in 1996 from Shandong University in Accounting. From 2001 to 2004, Mr Zhang studied at the China Agricultural University and attained a Masters in Agricultural Economy Management. He is a Certified Accountant (Higher level) in China since 2014 and a Certified Public Valuer qualification from the Ministry of Finance of the PRC.

BOARD OF DIRECTORS

MR TEO MOH GIN

Independent Non-Executive Director

Mr Teo Moh Gin currently holds directorship in Vive Capital Pte. Ltd and is involved in investment related work. Mr Teo has more than 25 years of global experience in finance, business development and consulting. He started his career in 1983 as a consultant with Arthur Andersen where he was in charge of various management consultancy projects. In 1990, he joined the Government of Singapore Investment Corporation as a senior investment officer (real estate department) and was responsible for the acquisition and management of prime commercial assets.

In 1998, he joined System Access Ltd as its financial officer overseeing the finance and corporate development of the company. He was also previously with the Transword Carnival Corporation as its chief executive officer and was responsible for the overall management of the company. He joined GKE International Ltd as their executive vice president and was responsible for their merger and acquisitions function as well as business development of the company. Between March 2006 and January 2007, he was the chief corporate officer of Richland Group and was responsible for the corporate development of the company.

Mr Teo obtained a Bachelor of Accountancy (Honours) from the National University of Singapore in 1983 and a post-graduate diploma in Business Administration from the University of Manchester in 1998.

MR ZHAO JINQING

Independent Non-Executive Director

Mr Zhao Jinqing has more than 30 years of experience in the import and export licensing administration in China. He began his career in 1970 in the Lanzhou Military Region. In 1986, he went on to join the International Trade Administrative Bureau of the State Economic and Trade Commission. Between 1993 and 2014, Mr Zhao took on various positions within the Ministry of Foreign Trade and Economic Cooperation ("MOFTEC") and retired from MOFTEC in June 2010 from his last position as its Deputy Director General, Quota and License Administrative Bureau of the MOFTEC.

Mr Zhao holds a Bachelor's degree in Chinese Major from the Central Radio and Television University in 1985. He studied English full time at the University of International Business and Economics in 1992. In 2005, he obtained a Bachelor's degree of Economic Management from Party School of the Central Committee of the Communist Party of China.

KEY MANAGEMENT

MR LI BING WEI
General Manager (Dongming Hengchang Petrochemical Co.,Ltd.)

Mr Li Bing Wei oversees the general operations of Dongming Hengchang Petrochemical Co., Ltd. and is the Group's General Manager. Mr Li joined Shandong Dongming Petrochemical Group Co., Ltd after graduating with a Bachelor's degree in Applied Chemistry from Qingdao University of Science and Technology in 1998, taking on roles within the Group in chemical analysis, manufacturing, procurement and many more.

MR YANG SHU FANG
General Manager (Dongming Qianhai Petrochemical Co.,Ltd.)

Mr Yang Shu Fang manages the daily operations of Dongming Qianhai Petrochemical Co., Ltd. ("Dongming Qianhai") and is the Group's General Manager. Prior to joining Dongming Qianhai, Mr Yang was also the General Manager and Production Supervisor of Shandong Dongming Petrochemical Group ("Dongming Petrochem") in 2013, overseeing their day-to-day manufacturing and production lines. In 2010, he was appointed as the Deputy General Manager (Production) of Dongming Runchang Chemical Co. Ltd. In 2001, he was appointed as the Head of Production Technology at Dongming Hengchang Chemical Co. Ltd. He was also awarded Best Manager in Shandong County in 2015.

Mr Yang started his career at Dongming Petrochem after obtaining his Postgraduate in Petrochemical from China University of Petroleum in 1991, accumulating years of experience in supervisory, manufacturing and production roles such as Supervisor, Manufacturing; Safety Manager, Assistant Production Manager and Group Chief Dispatch Officer.

MR MA XIAN DONG
General Manager (Dongming Changshun Transport Company Limited)

Mr Ma Xian Dong is currently the General Manager of Dongming Changshun Transport Company Limited, overseeing the company's day-to-day operations. Mr Ma graduated from Shandong University of Science and Technology with a Master's degree in Industrial Analysis, working his way through numerous departments such as chemical analysis, administration, public liaison, human resources, manufacturing, logistics and railway high-voltage ecological park in Shandong Dongming Petrochemical Group.

MR TAN YEW CHEE WILLIAM
Chief Financial Officer

Mr William Tan joined the Group on 2 May 2008 and is responsible for the Group's overall business development, operational, financial and taxation functions.

Mr Tan started his career as an audit assistant at a local audit firm in 1990. From 1992 to 2001, he was the Managing Director for a local small and medium enterprise before joining Nixvue Systems Pte Ltd as Financial Controller from 2002 to 2005. From 2005 to 2007, Mr Tan was the Group Financial Controller of Unidux Electronics Ltd where he was responsible for the overall finance & accounting, human resource, business development & planning functions of the Group. In July 2007, he joined SNF Corporation Ltd as Group Chief Financial Officer. In 2008, he was engaged as a financial consultant by Sinocome Solar Group, a solar energy solutions provider in Beijing. From 2012 to 2015, Mr Tan was a non-executive independent director of China Sky Chemical Fibre Co. Ltd, a company listed on the Mainboard of the SGX-ST. He is a non-executive independent director of Unusual Limited since 7 March 2017.

Mr Tan is a non-practicing member of the Institute of Singapore Chartered Accountants and a fellow of the Association of Certified Chartered Accountants (UK).

FINANCIAL HIGHLIGHTS

	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000
REVENUE & PROFITABILITY					
Sales	982,972	1,446,110	1,559,881	1,804,624	2,259,480
Gross Profit	33,439	48,966	116,968	103,718	128,011
Net Profit	3,701	40,735	89,803	68,219	82,703
FINANCIAL STRENGTH					
Cash & bank balances	326,954	461,559	494,570	438,349	426,215
Bank borrowings	-	-	-	-	(281,250)
Loan from non-controlling interest shareholder*	-	-	-	-	(1,000,000)
Current assets	425,661	564,046	567,166	647,440	803,941
Current liabilities	(6,483)	(113,218)	(52,122)	(66,572)	(1,410,696)
Net current assets/(Liabilities)	419,178	450,828	515,044	580,868	(606,755)
Shareholders' equity	500,988	541,723	616,172	668,681	736,030
CASH FLOW					
Net cash generated from/(used in) operating activities	181,391	97,028	71,078	116,912	61,076
Net cash generated from/(used in) investing activities	40,039	37,577	(22,713)	(157,423)	(57,856)
Net cash generated from/(used in) financing activities	18,732	-	(15,354)	(15,710)	(15,354)
SHAREHOLDERS' WEALTH					
Number of shares on issue	640,000	640,000	640,000	640,000	640,000
Basic earnings per share (RMB cents)	3.46	6.36	14.03	10.66	12.92
Net asset value per share (RMB cents)	78.28	84.64	96.28	104.48	115.00
Net cash value per share (RMB cents)	51.09	72.12	77.27	68.49	N.A.
Dividend yield	13.2%	4.5%	3.3%	2.3%	2.6%
Total Market Capitalisation (in S$)	$48,640	$70,400	$96,000	$140,800	$119,680
Market price (in S$)					
High	$0.095	$0.150	$0.160	$0.255	$0.235
Low	$0.050	$0.060	$0.060	$0.155	$0.150
Closing	$0.076	$0.110	$0.150	$0.220	$0.187

* Arising from the acquisition of Dongming Qianhai, loan was for working capital use and from strategic affiliation, Shandong Dongming Petrochem Group.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Li Xiang Ping
Non-Executive Chairman

Zhang Liu Cheng
Chief Executive Officer and Executive Director

Teo Moh Gin
Independent Non-Executive Director

Zhao Jinqing
Independent Non-Executive Director

AUDIT COMMITTEE

Teo Moh Gin
Chairman

Zhao Jinqing

Li Xiang Ping

REMUNERATION COMMITTEE

Teo Moh Gin
Chairman

Zhao Jinqing

Li Xiang Ping

NOMINATING COMMITTEE

Zhao Jinqing
Chairman

Li Xiang Ping

Teo Moh Gin

RISK AND INVESTMENT COMMITTEE

Zhang Liu Cheng
Chairman

Teo Moh Gin

Zhao Jinqing

SECRETARY

Tan Chee How, ACIS

COMPANY REGISTRATION NUMBER

200609833N

REGISTERED OFFICE

Six Battery Road
#10-01
Singapore 049904

PRINCIPAL PLACE OF BUSINESS

27 Huanghe Road, Dongming County
Shandong Province, PRC 274500
Tel: (86) 530 7286138

SHARE REGISTRAR

RHT Corporate Advisory Pte. Ltd.
9 Raffles Place, #29-01
Republic Plaza Tower 1
Singapore 048619

AUDITOR

RT LLP
1 Raffles Place #17-02
One Raffles Place Tower 1
Singapore 048616
Partner-in-charge:
Ong Kian Meng
(Appointed since the financial year ended 31 December 2014)

LEGAL ADVISERS TO THE COMPANY ON PRC LAW

Zhong Lun Law Firm
36-37/F SK Tower
6A, Jiangguomenwai Avenue
Chaoyang District
PRC 100022

PRINCIPAL BANKERS

China Construction Bank
Dongming Branch
No. 10, Jie Fang Road
Dongming County, Shandong Province
PRC 274500

Bank of China
Dongming Branch Wusi Road
East Wing
Dongming County, Shandong Province
PRC 274500

Agricultural Bank of China
Dongming Branch
No. 165, Xiang Yang Road
Dongming County, Shandong Province
PRC 274500

Industrial and Commercial Bank of China
Dongming Branch
No. 50, Jie Fang Road
Dongming County, Shandong Province
PRC 274500

Oversea-Chinese Banking Corporation Limited
OCBC Centre
65 Chulia St #01-00
Singapore 049513

INVESTOR RELATIONS

Gem Comm Pte Ltd
1 Temasek Avenue, Level 30
Singapore 039192

SUSTAINABILITY REPORT

ABOUT THIS REPORT

We are pleased to present Sinostar PEC Holdings Limited's ("Sinostar Pec") annual Sustainability Report, for our financial year ended 31 December 2018. This report is prepared in compliance with the requirements of Singapore Exchange Securities Trading Limited ("SGX-ST") Listing Rules 711A and 711B, and references the Global Reporting Initiative (GRI) Standards. This report highlights the key economic, environmental, social and governance (EESG) related initiatives carried throughout a 12-month period, from 1 January to 31 December 2018.

The key material environmental, social and governance (ESG) factors for Sinostar Pec have been identified and reviewed by the Chairman and the CEO. The board of directors of Sinostar Pec (Board) oversees the management and monitoring of these factors and takes them into consideration in the determination of the company's strategic direction and policies. Sustainability is a part of Sinostar Pec' wider strategy to create long-term value for all our stakeholders.

We welcome feedback from our stakeholders with regards to our sustainability efforts as this enables us to improve our policies, systems and results. Please send your comments and suggestions to william.tan@sinostar-pec.com.

SUSTAINABILITY APPROACH

OUR SUSTAINABILITY METHODOLOGY

Plan and Scope + Engage Stakeholders + Assess Materiality + Collect Data = Report

STAKEHOLDER ENGAGEMENT

An important starting point in our sustainability journey is to identify our stakeholders and material aspects relevant to our business. The interests and requirements of key stakeholders are also taken into account when formulating corporate strategies. These key stakeholders include, but not limited to, customers, suppliers, employees, investors, and regulators. We adopt both formal and informal channels of communication to understand the needs of key stakeholders, and incorporate these into our corporate strategies to achieve mutually beneficial relationships.

The table below sets out our engagement with our stakeholders:

Stakeholders	Engagement and Communication Channels	Key Concerns and Expectations	Our Responses and Actions
Customers and consumers	• Hotline • Email queries • Customer visit • Onsite audit • Customer survey	• Compliance operation • Provide green quality products • Provide quality services • Rights protection achievements with the Company	• Spare no efforts to ensure stable and continuous supply • High Quality source of materials and product • Establish a two-way communication mechanism with customers • Customer Satisfaction Survey • Develop new products according to customers' requirements • Career Planning and development path
Environment	• Regular reporting • Relevant information disclosure	• Realize cleaner production • Implement energy conservation and emission reduction • Protect ecological environment	• Cooperate with environmental protection departments to conduct inspections • Promote cleaner production • Research and develop green products • Organize environmental protection activities • Waste recycling
Communities	• Official website • Sustainability Report • Interviews and meetings • Various social and charity events	• Serve community development • Work for public benefit • Create job opportunities • Help poor and disadvantaged group	• Drive employment and local economic development • Support local suppliers • Support education • Volunteer activities • Contribute to the community environmental constructions
Government and regulators	• Face-to-face meetings • Regular reports • Participation in discussions	• Abide with laws and regulations • Service national economic development • Increase local employment rate • Ensure production safety	• Pay taxes • Report work regularly • Realize prudent operation • Strengthen safety management

Stakeholders	Engagement and Communication Channels	Key Concerns and Expectations	Our Responses and Actions
Suppliers and service providers	• Face-to-face meetings • Annual review and feedback sessions • Contracts and agreements	• Realize fair and transparent procurement • Promote joint development • Timely fulfil the contracts	• Promote stable purchase policy • Establish fair and transparent procurement principle and process • Help suppliers make progress
Investors/ Shareholders	• Group Annual Report • Annual General Meeting • Quarterly result briefings • Company website email	• Enhance earning capacity • Improve corporate governance structure • Perform the obligation of information disclosure	• Ensure compliance with SGX rules and regulations • Realize healthy growth • Establish shareholder communication mechanism • Issue annual report on a regular basis
Trade Associations	• Engagements through business partnerships • Leading working groups in industry associations Face to face meetings and communications	• Participate the standardisation process of the industry • Contribute to the sustainable development of the industry • Stimulate the technology transformation, upgrade and innovation	• Actively participate • Promoting industry optimisation
Media	• Media releases • Quarterly result briefings		

MATERIAL ASPECTS ASSESSMENT

We conducted a materiality assessment during the year with the help of an external consultant. Going forward, materiality review will be conducted every year, incorporating inputs from the stakeholder engagements.

To determine if an aspect is material, we assessed its potential impact on the economy, environment and society and the influence on the stakeholders. Senior management took part along with our consultant. Aspects were identified and prioritised through internal workshops, peer reviews and social impact assessments at site level. Applying the guidance from GRI, we have identified the following material aspects:

ECONOMIC

- Economic Performance
- Anti-Corruption

ENVIRONMENTAL

- Energy
- Environmental Compliance

SOCIAL

- Diversity and Equal Opportunity
- Occupational Health & Safety
- Socioeconomic Compliance
- Local Communities

GOVERNANCE

- Business Ethics
- Enterprise Risk Management

ECONOMIC

ECONOMIC PERFORMANCE

Here at Sinostar Pec, we are committed to grow our customers and exceed our customers' expectations and providing them with competitive edge products by enhancing operational efficiency by constantly upgrading our production capabilities via new techniques, technologies and automation of processes, extending range of inventory of quality, brand-name products, providing personal service and competitive pricing and dependable and on-time delivery. For detailed financial results, please refer to the following sections in our Annual Report 2018:

- Financial Highlights, page 26
- Financial Review, page 18 - 19
- Financial Statements, page 64 - 122

Our objective is to establish ourselves to be a market leader in our core and diversified businesses by providing quality products and services at competitive prices.

The Group is one of the largest producers and suppliers of downstream petrochemical products within a 400km radius of its production facilities within the Dongming Petrochem Industrial Zone in Dongming County of Shandong Province, PRC. Situated within the Zhongyuan Oilfield - one of PRC's largest oilfields, and linked by a comprehensive logistics network, Sinostar Pec is able to reach out to the nearby populous and industrialised provinces such as Shandong, Henan, Anhui, Jiangsu, Shanxi, Sichaun, Hebei and Zhejiang. The Group has total processing capacity of 550,000 tonnes of processed LPG and the capacity to process generated propylene into another 50,000 tonnes of polypropylene at two gas-fractionation production plants.

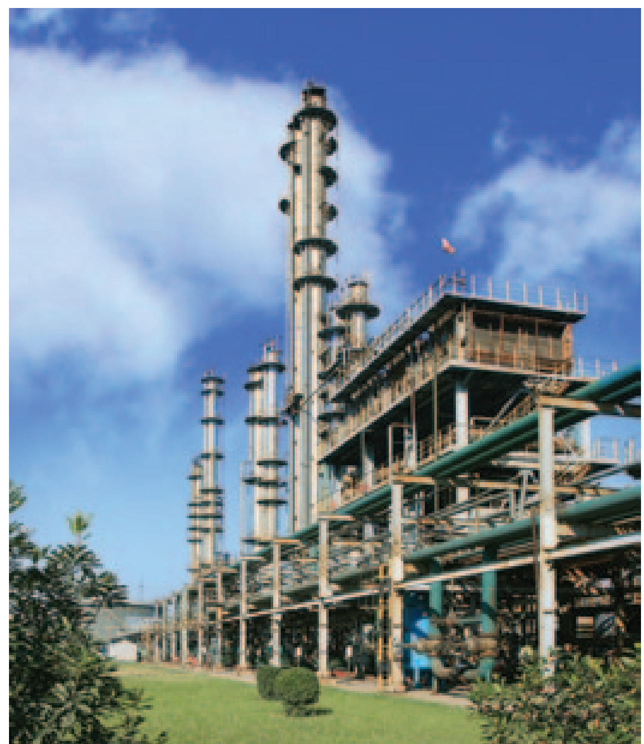
In 2018, the Group commenced construction of a new processing plant with an annual capacity of 200,000 tonnes that uses the new Spheripol process adapted from LyondellBasell Industries NV. The Spheripol process is an advanced, safe, reliable and automated process, allowing for low waste emissions, lower operating costs and higher product quality.

ANTI-CORRUPTION

Here at Sinostar Pec, we prohibit corruption in any form, including extortion and bribery. This has been made clear to all of our employees, our suppliers and our business partners. Any report of corruption are escalated to the attention of the Chairman.

There have also been no (FY2017: Nil) reported incidents of corruption during the reporting period.

Our goal is to maintain zero incident of corruption. We will regularly review policies on whistleblowing and anti-corruption.



The Group is aware of the environmental impact from manufacturing activities and are dedicated to ensure our operations and business activities comply with environmental protection regulations and safety regulations.

The company strives to reduce, reuse and recycle materials wherever possible. We reduce our demand on the environment through designing our processes and incorporate environmental considerations at all stages of our production and operation. The company complied with international guidelines on pollution management.

We focus on creating value through our offering of products and services that minimally impact on the environment themselves and reduce environmental impact.

The Group is proud to report that we have enhanced our certifications as follows:

- GB/T19001-2016/ISO9001:2015.
- GB/T24001-2016/ISO14001: 2015.
- GB/T28001-2011/OHSAS18001:2007.

ENVIRONMENTAL COMPLIANCE

The Group complies with all regulations and requirements on water pollution, adheres to the environmental protection concept of "Green Operation and Sustainable Development", comprehensively enhances the level of environmental protection management and strengthen measures to improve standards for the establishment and implementation of a resource-saving and environment-friendly society. There were also no (FY2017: Nil) incidence of non-compliance with laws and regulations resulting in significant fines or sanctions in FY2018.

In accordance with regulatory requirements, the Dongming Local Government and a third-party sewage treatment plant processed our wastewater. The goal is to improve social and economic benefits, effectively improve the sewage treatment, ensure the smooth implementation of the national "South-to-North Water Diversion Project" and meet the national water quality standard for the Dongming outbound river section. In FY2018, the Group spent a total of approximately RMB 588,000 (FY2017: RMB590,000) on sewage treatment.

The discharge of sewage complies with the special limits for discharge of pollutants in the "Emission Standards for Petroleum Refining Industry Pollutants" and "Class A Standard for Discharge Standards of Pollutants for Municipal Wastewater Treatment". After treatment, the third-party inspections are conducted.

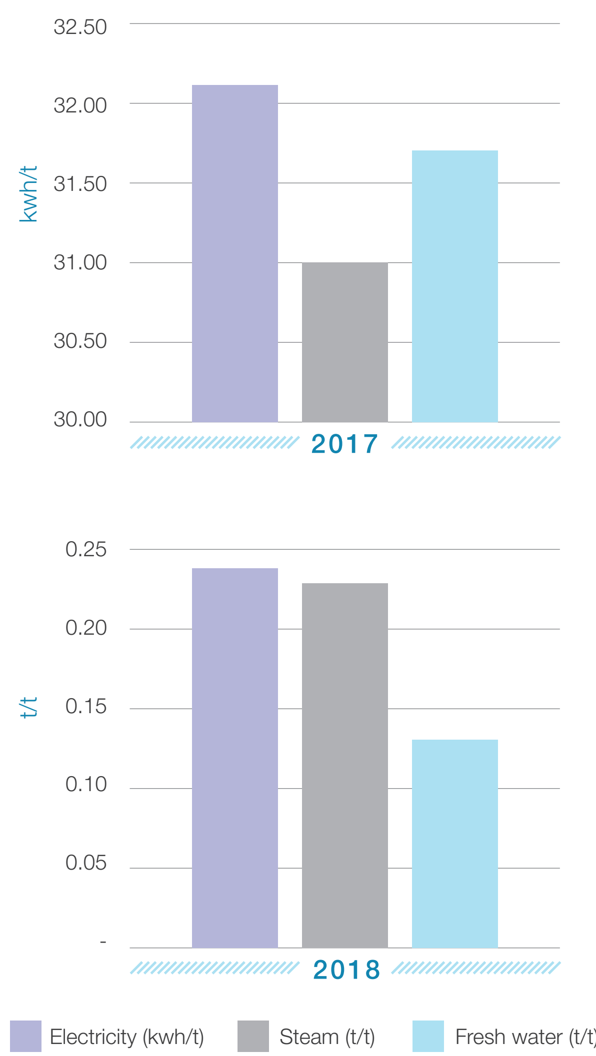
We aim to fully comply with all environmental rules and regulations.

ENERGY

Sinostar Pec started gathering information on electricity usage of our plants and electricity per production output for current year's Sustainability Report. Though overall energy consumption increase is in line with the higher production volume, we are pleased to share that the energy consumption per unit of production remains stable year on year.

Increase in total consumption of energy was attributed to the 16.6% increase in production volume from 408,957 tonnes in FY2017 to 476,849 tonnes in FY2018. Slight increase in steam and electricity consumption per unit was due to the equipment running at full capacity.

Per Unit Energy Consumption



ENVIRONMENT

In order to manage energy effectively, we have adopted the following measures:

1. Conscientiously implement the national and local energy management laws and regulations as well as the company's energy management rules and regulations, and raise awareness of energy conservation among management personnel.
2. Establish and monitor targets for energy consumption, establish energy-saving plans and control measures, and enhance indicators to promote reduction in energy consumption and efficiency.
3. Strengthen the management of in the energy field to eliminate the waste of energy.
4. Make efforts to reduce the utilisation of equipment and scientifically formulate reasonable target indicators to reduce energy.
5. Align the energy consumption to the standard and improve the energy saving level of the equipment. Compare the energy utilisation of the equipment for the past two years, identify and analyse the reason of for high-energy consumption and formulate a plan to improve energy consumption.
6. Establish an energy-saving incentive mechanism, pay attention to daily operational management of equipment, and raise the energy-saving level of these equipments. Areas of emphasis are:
   - Strengthening the control over consumption of water, electricity and steam in the daily production process;
   - Reducing energy consumption in the processing, storage, handling, etc. of raw materials;
   - Monitoring and controlling the use of high power consumption equipment;
   - Improving the energy efficiency of equipment;
   - Setting energy and consumption reduction measures and rules;
   - Forming an assessment mechanism that provides incentives and imposes penalties for exceeding the standards; and
   - Encouraging teams to actively carry out energy-saving activities.
7. Establish an energy management system, adopt effective energy-saving measures, carry out internal audits of energy plants.

We target a 1.0% decrease of energy consumption per unit in FY2019.

Here at Sinostar Pec, our employees are the drivers of our business and we believe in creating a respectful, rewarding and safe working environment for our people. We support and respect the protection of internationally proclaimed human rights.

We respect human rights, support the elimination of all forms of forced and compulsory labour, especially child labour, and do not tolerate any discrimination in respect of race, gender, religion and ethnic minority during employment.

Sinostar Pec believes in employee training and continual career development. In FY2018, we provided the following training to our employees:

- New employee on-boarding
- Professionalism
- Leadership training for Head of department
- Job transfer training
- Sales management
- Production management
- Equipment management
- Safety knowledge and skills training
- Quality, Safety and Occupational Health, Environment and Energy management.

The company provides competitive remuneration based on merit to all our employees. Our employees are not covered by collective bargaining agreements, but are given the right to exercise freedom of association.

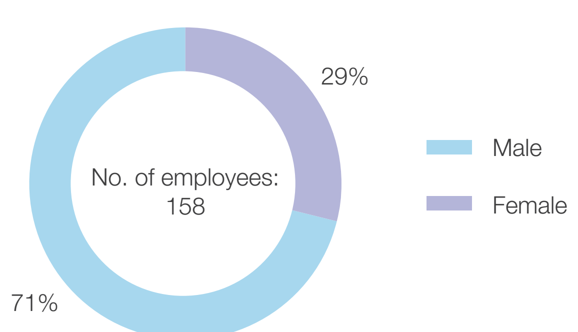
All employees at our operations hold permanent contracts and work full-time. We seldom rely on workers who are not full-time employees.

DIVERSITY AND EQUAL OPPORTUNITY

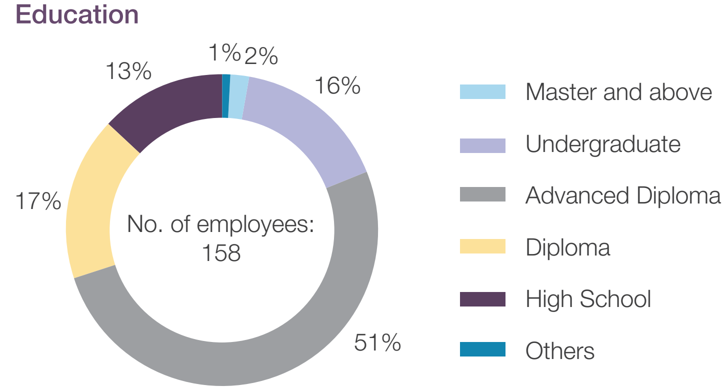
A diverse workforce is an asset in today's ever-changing global marketplace. We cultivate an inclusive culture where employees with wide-ranging backgrounds and qualities are highly motivated, engaged and connected.

Our recruitment of staff is based solely on merit and qualifications, without discrimination of race, age, gender, religion or ethnicity. We target zero complaint on discrimination.

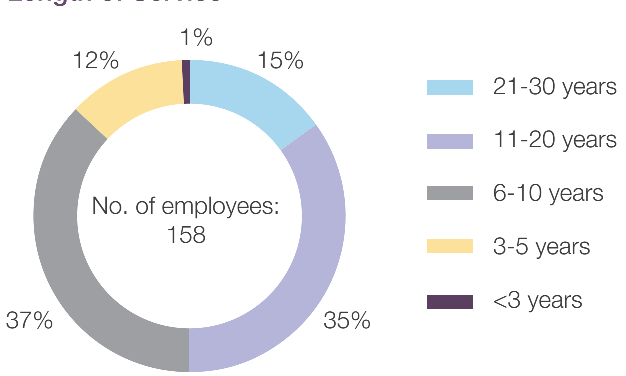
Gender Breakdown



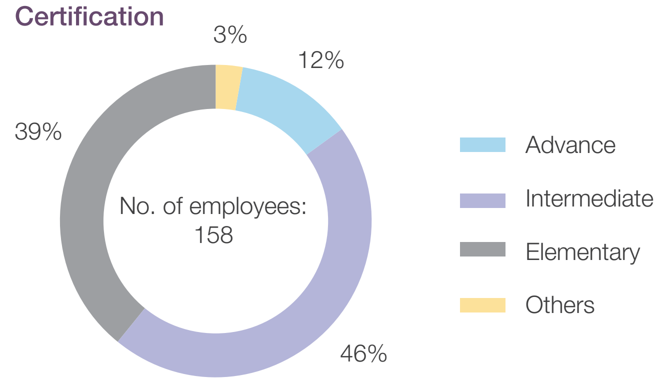
Education



Length of Service



Certification



SOCIAL

OCCUPATIONAL HEALTH AND SAFETY

We are also committed to safeguarding our employees' health and safety against any potential workplace hazards.

The focus on health and safety is important for Sinostar Pec to achieve world-class performance. It is not only a fundamental right for our workers to be able to work in a safe environment, but when our employees' wellness is attained, our productivity increases, and our best is given to our customers. From implementing job safety guidelines and procedures to conduct rigorous safety trainings, we are committed to provide a hazard-free workplace to ensure the well-being of both our employees and environment.

Sinostar Pec employs a variety of measures to ensure the health and safety of all our staff. Starting from a methodological documentation of all occupational health and safety issues on an employee level, we listen to all our employees' safety concerns and suggestions. The company conducts regular safety checks and enforces all relevant health and safety rules. Our employees are trained to be safety conscious and all potential hazards in the workplace are identified.

Our new employees undergo the required safety training and drills to familiarize themselves with the operation of the machinery and equipment as well as the safety precautions and procedures during the production process.

We conduct safety risk assessments at all levels and at all operating locations. Staffs perform an annual check using our Plant Safety & Health Audit Checklist to ensure that training on new employees are performed, environment is conducive for working, proper processes are in place, machinery have been checked, all electrical and junction boxes are in good working condition, materials are stored properly and that there is no obstruction in the event when there is a fire and whether health precautions are taken. All Plant Safety & Health Audit Checklist is reviewed and followed up by the Production Manager and reviewed by the Safety & Health Officer. The Safety and Health Chairman also signs off too. This is to ensure the internal controls are monitored by management. Any issues will be highlighted by these reports and remedied.

We have a safety committee to oversee the promotion of safety culture and practices in the workplace. Led by a member of our management, the committee includes representatives from each functional department. Quarterly meetings are held to discuss safety related matters, including reviews of changes in regulatory requirements, outcomes of monthly safety inspection, results from regular risk assessments and the necessary preventive measures. The information is then disseminated by committee members to their peers during their respective department meetings. All of our employees are represented by the joint management-worker safety committee.

The Group provides physical health examination every year for employees involved in radiation related roles, and once every two years for all other employees.

We are pleased to report that we have no industrial accident as well as zero (FY2017:Nil) man-day lost for FY2018.

In 2018, the Group made significant improvements to its safety policy. To comply with regulatory requirements, a total of RMB 4.56 million enhancements was made:

- Demolished the management office near to the former liquefied gas tank, replaced it with a new anti-explosion control room, including the operation room, cabinet, etc., to completely eradicate the issue of insufficient safety spacing;
- Moved the existing Distributed Control System (DCS) cabinet to the new anti-explosion room and upgraded the new DCS operating system;
- Equipped all polypropylene equipment with an independent Safety Instrumented System (SIS).

The Group also integrated its existing interlock to the SIS system and added a batch of interlocking points and matching shut-off valves. A total of seven new emergency shut-off valves were added; one emergency shut-off valve for propylene feed and six emergency shut-off valves for torch.

These enhancements help ensure compliance with the requirements of Article 10 of the "GB50160-2008 Petrochemical Enterprise Design Fire Protection Code", Article 5.1.2, Shandong Province Hazardous Chemicals Safety Management Measures (Provincial Government Order No. 309).

In relation to the Group's new processing plant with an annual capacity of 200,000 tonnes, new safety measures have been implemented in the following areas:

- General Infrastructure
- Building
- Equipment security
- Process safety control
- Automation control, detection and alarm measures
- Fire alarms
- Emergency power supply, gas supply
- Lightning protection grounding
- Other protective measures
- Anti-virus dust
- Noise prevention
- Safety management of employees

In 2018, to further improve the Group's occupational health, safety and environmental protection training, the Group issued a training needs questionnaire which extensively solicited employees' opinions. The management thereafter tailored the company's occupational health and safety and environmental protection training program, based on the current operational capabilities and results of the questionnaire. The following sets out the training objectives formulated:

1. New employees should receive three levels of occupational health, safety and environmental protection training at no less than 72 hours. Each year, no less than 20 hours of retraining should be conducted.
2. In relation to the transfer of employees or the adoption of new technologies, new equipment or new materials, special occupational health, safety and environmental protection training shall be carried out.
3. The implementation rate of occupational health, safety and environmental protection education and training programs shall be 100.0%.
4. The passing rate of occupational health, safety and environmental protection education and training shall be 100.0%.
5. Workers shall only be employed if they acquired relevant certifications and qualifications for certain designated work scope as stipulated in the government regulations.
6. The passing rate of safety training for key responsible person and safety management personnel of the production and operation unit shall be 100.0%.

We will continue to stress workplace safety at all times and aim for accident frequency rate of zero in the upcoming years.

PRODUCT QUALITY

Backed by a strong reputation and credible track record for quality products and services, the Group's "Hengchang" brand of polypropylene was named "Shandong Province Famous Trade Mark" and "Shandong Top Brand" in China.

CUSTOMER SATISFACTION

At the beginning of each year, Sinostar Pec conducts with its key customers a monthly Customer Satisfaction Survey. This survey is led by our Supply and Marketing Department and covers the following:

- Compliance with product-related requirements, such as product quality, price, etc.;
- Attitude towards pre-sale, sales, and after-sales service work;
- On time delivery.

We use the result of the survey for competition analysis, understanding gaps and finding opportunities for improvement. These are also reported to the relevant departments in the company such as the Enterprise Management Department and the Production Operations Department for management review and for the continuous improvement of the quality system. The satisfaction rate was above 98.0% on average throughout the year.

We aim to achieve the full compliance with customers' requirements and to be a committed supplier of product quality, prompt delivery and good customer service.

SOCIOECONOMIC COMPLIANCE

We pride ourselves in having good corporate governance and observing compliance with applicable laws and regulations. The Group is committed to conduct the business with integrity and to safeguard the interest of all our stakeholders, both internal and external.

Our objective is to maintain zero incidents of non-compliance.

AWARDS

Our products and services are well received by our customers and formally recognized. "Hengchang" polypropylene was awarded "Shandong Province Famous Brand", and "Hengchang" trademark is awarded "Shandong famous brand". Our Chairman Li Xiangping was given awards to recognise his active participation in social charities events in both FY2016 and FY2017. In FY2018, we were awarded "Shangdong Top 40 Brands.

SOCIAL

LOCAL COMMUNITIES

Over the years, the Group has given great importance to charitable work, viewing philanthropy as an integral part of building corporate culture and promoting our traditions of poverty alleviation and charity.

The company responded positively to the Party Central Committee's call for poverty alleviation and established the "Double Joint, Double Creation" Precision Poverty Alleviation Leading Group with Party Committee Secretary and Chairman Li Xiangping as Group Leader, Party Committee Member as Deputy Team Leader, and Branch Secretary as Member.

On 3 February 2018, our Chairman Li Xiang Ping personally visited the underprivileged with special gifts to spread warmth among these households over the New Year. The company has also gifted air-conditioners, books and other furnishings to create reading zones in four villages: Dongzhao Guanying Village, Xizhao Government Camp, Caiyuanji Songzhai Village, and Gaocun Development Zone.

We aim to promote harmonious development of the society by actively participating in public welfare undertakings.

SUSTAINABILITY GOVERNANCE

At Sinostar Pec, we believe that strong governance is the key to a sustainable business. Throughout 2018, we continue to comply with the Code of Corporate Governance. Please refer to the pages 42 to 63 on the details of the SGX Code of Corporate Governance.

It is a continual challenge to successfully manage the environmental and social issues. Sinostar Pec has incorporated this into our business model and implemented sustainable and responsible practices throughout. Our products and services meet all the requirements demanded by our customers and the regulatory bodies.

Sinostar Pec pays strict attention to enforcing good labour practices in all our operations. The company provides many training opportunities for continued employee development and this is reflected in the quality and delivery of our products and solutions. We value our relationships with our clients and the wider community in which we operate and these relationships have helped us through challenging times in the past. Sinostar Pec strongly believes that in the long run, these efforts will have a positive impact on our economic performance.

We will continue to comply with the Code of Corporate Governance and meet all requirements that are expected of us by our stakeholders.

BUSINESS ETHICS AND COMPLIANCE

When it comes to hiring, we take seriously any possibility of conflict of interest. Our code of conduct clearly spells out Sinostar Pec's expectations from our staff and the consequences if any of the rules are violated or standards not met. We also have clear and fair grievance procedures. During the year, there was no allegation received.

Business ethics are communicated to all our heads of business units regularly and they must fully understand that compliance with rules and regulations is a key part of running a responsible business. The company regularly updates key staff with development in international and local regulations. Sinostar Pec fully complies with all environmental rules and regulations, anti-competitive behaviour laws and all requirements on health and safety.

Cyber security and data privacy are important not just for compliance, but in safeguarding both our data and that of our customers. Sinostar Pec takes measures to guard against cyber risks for both our internal and external stakeholders by complying with the Personal Data Protection Act Policy. This policy also applies to our employment process where the privacy of all applicants is safeguarded and access to personal data is restricted to authorised persons senior management on a need-to-know basis.

For FY2018, there were no (FY2017:Nil) significant fines or non-monetary sanctions for non-compliance with laws and regulations.

Our target is to ensure all allegation received are promptly addressed and to maintain zero incidents of non-compliance.

ENTERPRISE RISK MANAGEMENT (ERM)

As the Group does not have a risk management committee, the Board, Audit Committee and Management assume the responsibility of the risk management function. Management reviews regularly the Group's business and operational activities to identify areas of significant risks as well as appropriate measures to control and mitigate these risks. Management reviews all significant policies and procedures and highlights all significant matters to the Board and the Audit Committee.

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective control system will preclude all errors and irregularities, as a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

For disclosure on ERM, please refer to page 56 in our Annual Report.

We aim to review the ERM policies regularly to ensure all relevant risks are identified, communicated and addressed timely.

GRI STANDARDS CONTENT INDEX

GRI Standard	Disclosure		Reference / Description
GRI 101: Foundation 2016			
GENERAL DISCLOSURE			
GRI 102 : General Disclosures 2016	102-1	Name of organisation	SINOSTAR PEC HOLDINGS LIMITED
	102-2	Activities, brands, products and services	page 6
	102-3	Location of headquarters	Singapore
	102-4	Location of operations	page 2
	102-5	Ownership and legal form	page 2
	102-6	Markets served	page 2
	102-7	Scale of the organisation	pages 2, 35
	102-8	Information on employees and other workers	page 35
	102-9	Supply chain	page 7
	102-10	Significant changes to the organisation and its supply chain	None
	102-11	Precautionary Principle or approach	We do not specifically addressed the Precautionary Principle.
	102-12	External initiatives	page 38
	102-13	Membership of associations	None
	102-14	Statement from senior decision maker	page 29
	102-16	Values, principles, standards and norms of behaviour	page 39
	102-18	Governance structure	pages 42 to 63
	102-40	List of stakeholder groups	pages 30 to 31
	102-41	Collective bargaining agreements	None
	102-42	Identifying and selecting stakeholders	pages 30
	102-43	Approach to stakeholder engagement	pages 30 to 31
	102-44	Key topics and concerns raised	pages 30 to 31
	102-45	Entities included in the consolidated financial statements	page 98
	102-46	Defining report content and topic boundaries	page 29
	102-47	List of material topics	page 31
	102-48	Restatement of information	None
	102-49	Changes in reporting	None

GRI Standard	Disclosure		Reference / Description
	102-50	Reporting period	1 January to 31 December 2018
	102-51	Date of most recent previous report	Annual Report 2017
	102-52	Reporting cycle	Annually
	102-53	Contact point for questions about the report	page 29
	102-54	Claims if reporting in accordance with the GRI Standards	page 29
	102-55	GRI content index	pages 40 to 41
	102-56	External Assurance	We may seek external assurance in the future.
MATERIAL TOPICS			
GRI 201: Economic performance	201-1	Direct economic value generated and distributed	page 32
GRI 205: Anti-corruption	205-1	Operations assessed for risks related to corruption	page 32
GRI 302: Energy	302-1	Energy consumption within the organization	pages 33 to 34
GRI 307: Environmental compliance	307-1	Non-compliance with environmental laws and regulations	page 33
GRI 403: Occupational Health and Safety	403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	pages 36 to 37
GRI 405: Diversity and equal opportunity	405-1	Diversity of governance bodies and employees	page 35
GRI 413: Local Communities	413-1	Operations with local community engagement, impact assessments, and development programs	page 38
GRI 419: Socioeconomic Compliance	419-1	Non-compliance with laws and regulations in the social and economic area	page 37

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE

The Board of Directors (the "Board") of Sinostar PEC Holdings Limited (the "Company") recognises the importance of practicing good corporate governance as a fundamental part of its responsibilities to protect and enhance shareholders' value and the financial performance of the Group.

This Report describes the Company's ongoing efforts in FY2018 in keeping pace with the evolving corporate governance practices and complying with the Code of Corporate Governance 2012 (the "Code"). Outlined below are the policies, processes and practices adopted by the Group in compliance with the principles and spirit of the Code.

This report should be read as a whole, instead of being read separately under the different principles of the Code.

STATEMENT OF COMPLIANCE

The Board confirms that for the financial year ended 31 December 2018, the Company has generally adhered to the principles and guidelines as set out in the Code save as otherwise explained below.

BOARD MATTERS

Principle 1: THE BOARD'S CONDUCT OF AFFAIRS

As at the date of this Annual Report, the Board comprises four directors, which include one Executive Director, one Non-Executive Chairman, one Non-Executive Director, and one Independent Non-Executive Director, all of whom are from different disciplines and bring with them a diverse range of experience which will enable them to contribute effectively to the Company.

The principal functions of the Board, apart from its statutory responsibilities, include:

- Providing entrepreneurial leadership, setting strategic directions and overall corporate policies of the Group;
- Supervising, monitoring and reviewing the performance of the management team;
- Ensuring the adequacy of internal controls, risk management and periodic reviews of the Group's financial performance and compliance;
- Setting the Company's values and standards (including ethical standards) to meet its obligations to shareholders and other stakeholders, ensuring that the necessary human resources are in place;
- Approving the annual budget, major investments and divestment proposals;
- Assuming responsibility for good corporate governance practices; and
- Approving corporate or financial restructuring, share issuance, dividends and other returns to Shareholders, Interested Person Transactions of a material nature and release of the Group's results for the first three (3) quarters and full year results.

All directors objectively discharge their duties and responsibilities at all times as fiduciaries and take decisions in the interests of the Company.

Delegation of the Board

The Board has delegated specific responsibilities to four committees namely, the Audit Committee ("AC"), the Nominating Committee ("NC"), the Remuneration Committee ("RC") and the Risk and Investment Committee ("IC"), to assist in the execution of its responsibilities. These committees operate within clearly defined terms of reference. All Board committees are actively engaged and play an integral role in ensuring good corporate governance in the Company and within the Group.

CORPORATE GOVERNANCE

Attendance at Board and Board Committee Meetings

The schedule of all Board and Board committees meetings and Annual General Meeting for the next calendar year is planned ahead at the beginning of each financial year, in consultation with the directors. The Board meets at least once every quarter. It also holds ad-hoc meetings as and when circumstances require. The Company's Articles of Association provide for meetings of Directors to be held by means of telephone conference or other methods of simultaneous communication by electronic or other means. The Board and Board committees may also make decisions by way of circulating resolutions.
The attendance of the Directors at Board and committee meetings during the financial year under review is tabulated below:

Directors	Board		Audit Committee		Nominating Committee		Remuneration Committee		Risk And Investment Committee	
Name of Directors	Number of Meetings Held	Number of Meetings Attended	Number of Meetings Held	Number of Meetings Attended	Number of Meetings Held	Number of Meetings Attended	Number of Meetings Held	Number of Meetings Attended	Number of Meetings Held	Number of Meetings Attended
Li Xiang Ping	4	4	4	4	1	1	1	1	–	–
Zhang Liu Cheng	4	4	–	–	–	–	–	–	1	1
Teo Moh Gin	4	4	4	4	–	–	1	1	1	1
Wu Guozhi(1)	4	1	–	–	1	1	–	–	1	1
Zhao Jinqing	4	4	4	4	1	1	1	1	–	–

Note:

1. Mr Wu Guozhi was retired and not seeking for re-election as Non-Executive Director of the Company during the annual general meeting held on 26 April 2018.

Matters Requiring Board Approval

Matters which are specifically reserved for the decision of the full Board include:

- Group strategy, business plan and annual budget;
- material acquisition and disposal of assets;
- capital-related matters including financial re-structure, market fund-raising;
- share issuances, interim dividends and other returns to shareholders; and
- any investment or expenditures exceeding set material limit.

While matters relating to the Group's objectives, strategies and policies require the Board's decision and approval, Management is responsible for the day-to-day operation and administration of the Group.

Board Orientation and Training

When a new director is to be appointed, proper briefing or explanation will be given to the new director in respect of the regulatory requirements that a director has to comply with on appointment, and the on-going obligations of a director under the Singapore Companies Act, Chapter 50, the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST") and other regulatory requirements. The director is also given access to the Board resources, including the Company's constitutional and governing documents, Board and each committee's terms of reference, the Group's policies, Annual Reports, Board meeting papers and other pertinent information for his reference.

In addition, the Company shall conduct an orientation programme for newly appointed directors to familiarize them with the businesses, operations, financial performance and key management staff of the Group. They also have the opportunity to visit the Group's operational facilities and meet with management to obtain a better understanding of the business operations.

All directors who have no prior experience acting as directors of a listed company will undergo the necessary training and briefing on the roles and responsibilities as directors of a listed company. The Directors may also attend other appropriate courses, conferences and seminars at the Company's expenses.

Principle 2: BOARD COMPOSITION AND GUIDANCE

Currently the Board comprises one Executive Directors, two Independent Non-Executive Director and a Non-Executive Chairman. The current number of Independent Non-Executive Directors of the Company has fulfilled the Code's requirement that at least one-third of the Board should comprise of Independent Non-Executive Director. As at the date of this report, the Board comprises the following directors:

Name of Director	Board Membership	Audit Committee	Nominating Committee	Remuneration Committee	Risk and Investment Committee
Li Xiang Ping	Non-Executive (Chairman)	Member	Member	Member	–
Zhang Liu Cheng	Executive (CEO)	–	–	–	Chairman
Teo Moh Gin	Independent Non-Executive	Chairman	Member	Chairman	Member
Zhao Jinqing	Independent Non-Executive	Member	Chairman	Member	member

Board Independence

The criterion of independence is based on the guidelines provided in the Code. The Board considers an "independent" director as one who has no relationship with the Company, its related corporations, its 10% shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgement with a view to the best interests of the Group.

Each Independent Non-Executive Director is required to complete a Director's Independence Checklist annually to confirm his independence based on the guidelines as set out in the Code. The Directors must also confirm whether they consider themselves independent despite not having any relationship identified in the Code. For FY 2018 the NC is of the view that all its Independent Non-Executive Directors have satisfied such criteria of independence as a result of its review. The independence of each Independent Non-Executive Director will be reviewed annually by the NC.

Board Composition and Size

The Board's composition, size, and balance are reviewed annually by the NC to ensure that the Board has the core competencies for effective functioning and informed decision-making. Board renewal and tenure are considered together and weighed for relevant benefit in the foreseeable circumstances which are appropriate for the size and nature of activities of the Group's businesses.

Each Director has been appointed based on the strength of his calibre, experience, grasp of corporate strategy and potential to contribute to the Company and its businesses. As each director brings valuable insights from different perspectives vital to the strategic interests of the Company, the Board considers that the Directors possess the necessary competencies to provide Management with a diverse and objective perspective on issues so as to lead and govern the Company effectively.

The Directors consider the Board's 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. The biographies of the Directors are set out in this Annual Report.

CORPORATE GOVERNANCE

The Independent Non-Executive Directors also communicate regularly to discuss matters such as the Group's financial performance, corporate governance initiatives and the remuneration of the Executive Directors and executive officers. Where necessary, the Independent Non-Executive Directors meet and discuss on the Group's affairs without the presence of Management.

Principle 3: CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Non-Executive Chairman and the Chief Executive Officer of the Company are separate individuals. Mr Zhang Liu Cheng is the Chief Executive Officer and Executive Director of the Company and bears executive responsibility for the Group's business performance. He is responsible for scheduling Board meetings as and when required, setting the agenda for Board meetings in consultation with the Non-Executive Chairman and ensuring the quality, quantity and timeliness of the flow of information between the Management, the Board and shareholders. He is also responsible for ensuring compliance with the Company's guidelines on corporate governance.

As the Non-Executive Chairman, Mr Li Xiang Ping leads the Board in encouraging constructive relations between the Board and Management, as well as between Board members. He promotes high standards of corporate governance. The Non-Executive Chairman leads each Board meeting and ensures full discussion of the items on the agenda. The Board is of the view that with the establishment of the three Board committees, there are adequate safeguards in place to prevent an uneven concentration of power and authority in a single individual. In assuming their roles and responsibilities, the Non-Executive Chairman and the Chief Executive Officer consult with the Board and the respective Committees on major issues. No lead independent non-executive director has been appointed by the Board as the Chairman and Chief Executive Officer are two separate persons and it also fulfils the Code's requirement that at least one-third of the Board should comprise of Independent Non-Executive Director.

Principle 4: BOARD MEMBERSHIP

The NC comprises the following members:

Zhao Jinqing (Chairman)
Li Xiang Ping
Teo Moh Gin

Mr Zhao Jinqing (NC Chairman) and Mr Teo Moh Gin are Independent Non-Executive Director as NC Chairman, whilst Mr Li Xiang Ping is the Non- Executive Chairman.

The terms of reference of the NC have been approved and adopted. The duties and powers of the NC include:

– making recommendations to the Board on all Board appointments and re-nominations having regard to the director's contribution and performance (such as attendance, preparedness, participation and candour);

– ensuring that all directors submit themselves for re-nomination and re-election at regular intervals and at least once every three years;

– determining annually whether a director is independent in accordance with paragraph 2.3 of the Code;

– formulating and deciding whether a director is able to and has adequately carried out his duties as a director of the Company, in particular, where the director concerned has multiple board representations; and

– assessing the effectiveness of the Board as a whole and the contribution by each director to the effectiveness of the Board.

The dates of initial appointment of each Director, together with their directorships in other listed companies are set out below:

Name of director	Appointment	Date of initial appointment	Date of last re-election	Current Directorships in listed companies	Past Directorships in listed companies
Li Xiang Ping Age: 58	Non-Executive Chairman	6 July 2006	26 April 2018	None	None
Zhang Liu Cheng Age: 47	Chief Executive Officer and Executive Director	6 July 2006	26 April 2016	None	None
Teo Moh Gin Age: 60	Independent Non-Executive Director	29 June 2007	28 April 2017	None	Changjiang Fertilizers Holdings Limited Cedar Strategic Holdings Ltd
Zhao Jinqing Age: 61	Independent Non-Executive Director	7 March 2015	28 April 2017	None	None

The NC reviews annually the independence declarations made by the Company's Independent Non-Executive Directors based on the criterion of independence under the guidelines provided in the Code. For the year under review, the NC has ascertained the independence status of the two Independent Non-Executive Directors of the Company. The Board has also reviewed the number of years served by each Independent Non-Executive Director. In respect of Mr Teo Moh Gin, he has served as Independent Non-Executive Director of the Company for more than 9 years consecutively. Having considered his in-depth knowledge of the Group's business operations, past and continuous contributions at Board level in terms of impartial and constructive advice, the Board is of the view that there is no material conflict between his tenure and his ability to discharge his role as Independent Non-Executive Director.

Directors' Time Commitment

As a director's ability to commit time to the Group's affairs is essential for his contribution and performance, the NC has determined that the maximum number of listed company board representations which any Director of the Company may hold is six and all Directors have complied.

Selection Criteria and Nomination Process for New Directors

In the selection process for the appointment of new directors, the NC reviews the composition of the Board and identifies the skill sets which will enhance the Board's overall effectiveness. Potential candidates are identified from various sources. Thereafter, the NC conducts an initial assessment to review a candidate's qualifications, attributes and past experience followed by interviewing short-listed candidates. The proposed candidates' independence, expertise, background and right skills will be considered before the NC makes its recommendations to the Board.

There is no alternate director being appointed to the Board for the financial year ended 31 December 2018.

CORPORATE GOVERNANCE

Rotation and Re-election of Directors

All Directors submit themselves for re-nomination and re-election at regular intervals of at least once every three years. Pursuant to Article 104 of the Company's Articles of Association, one-third of the Directors shall retire from office at least once every three years at the Company's Annual General Meeting ("AGM"). In addition, Article 106 of the Company's Articles of Association provides that the retiring directors are eligible to offer themselves for re- election.

Pursuant to Article 114 of the Company's Articles of Association, Directors shall have power at any time to appoint any other qualified person as Director either to fill a casual vacancy or as an addition to the Board. But any Director so appointed shall hold office only until the next Annual General Meeting of the Company, and shall be eligible for re-election.

At the forthcoming AGM, Mr Teo Moh Gin and Mr Zhang Liucheng will be retiring by rotation pursuant to the Article 104 of the Articles and Association. Mr Teo Moh Gin and Mr Zhang Liucheng, being eligible for re-election have offered themselves for re-election. The key information on Mr Teo Moh Gin and Mr Zhang Liucheng can be found in the 'Board of Directors' section of the Annual Report.

Pursuant to Rule 720(6) of the Listing Manual of the SGX-ST, the information as set out in Appendix 7.4.1 relating to the above Directors to be put forward for re-election at the forthcoming Annual General Meeting is disclosed below:-

Name of Director	Teo Moh Gin	Zhang Liu Cheng
Date of appointment	29 June 2007	6 July 2006
Date of last re-appointment	28 April 2017	26 April 2016
Age	60	47
Country of principal residence	Singapore	PRC
The Board's comments on this appointment (including rationale, selection criteria, and the search and nomination process)	The Board, having considered the recommendation of the Nominating Committee and having assessed Mr. Teo Moh Gin's requisite knowledge and experiences to assume the responsibilities as Independent Director of the Company.	The Board, having considered the recommendation of the Nominating Committee and succession planning, and having assessed Zhang Liu Cheng's working experiences and leaderships in the Group, is of the view that Mr. Zhang Liu Cheng has the requisite experiences to assume the responsibilities as CEO and Executive Director of the Company.
Whether appointment is executive, and if so, the area of responsibility	Non-Executive	CEO and Executive Director and responsible for the entire business and operations of the Group.
Job title (e.g. Lead ID, AC Chairman, AC Member, etc.)	Chairman of the Audit Committee and Remuneration Committee, Member of the Nominating Committee.	CEO and Executive Director
Professional qualifications	Bachelor of Accountancy (Honours) from the National University of Singapore. Post-graduate Diploma in Business Administration University of Manchester	Bachelor Degree in Accounting Shandong University. Master in Agricultural Economy Management, China Cultural University

Name of Director	Teo Moh Gin	Zhang Liu Cheng
Any relationship (including immediate family relationships) with any existing Director, existing executive officer, the issuer and/or substantial shareholder of the listed issuer or of any of its principal subsidiaries	None.	None.
Conflict of interest (including any competing business)	None.	None.
Undertaking (in the format set out in Appendix 7.7) under Rule 720(1) has been submitted to the listed issuer	Yes.	Yes.
Working experience and occupation(s) during the past 10 years	Vive Capital Pte Ltd. ● Investment Director, 2007 till Current	Sinostar PEC Holdings Limited ● Executive Director, July 2006 till current ● CEO, March 2015 till current
Shareholding interest in the listed issuer and its subsidiaries	Yes.	Yes.
Shareholding details	100,000 ordinary shares	200,000 ordinary shares
Other Principal Commitments Including Directorships		
Past (for the last five years)	Independent Director of:- ● Changjiang Fertilizers Holdings Limited ● Cedar Strategic Holdings Ltd.	None.
Present	None	None.
Information Required Pursuant to Listing Rule 704(7)		
(a) Whether at any time during the last 10 years, an application or a petition under any bankruptcy law of any jurisdiction was filed against him/her or against a partnership of which he/she was a partner at the time when he/she was a partner or at any time within two years from the date he/she ceased to be a partner?	No.	No.

CORPORATE GOVERNANCE

Name of Director	Teo Moh Gin	Zhang Liu Cheng
(b) Whether at any time during the last 10 years, an application or a petition under any law of any jurisdiction was filed against an entity (not being a partnership) of which he/she was a Director or an equivalent person or a key executive, at the time when he/she was a Director or an equivalent person or a key executive of that entity or at any time within two years from the date he/she ceased to be a Director or an equivalent person or a key executive of that entity, for the winding up or dissolution of that entity or, where that entity is the trustee of a business trust, that business trust, on the ground of insolvency?	No.	No.
(c) Whether there is any unsatisfied judgement against him/her?	No.	No.
(d) Whether he/she has ever been convicted of any offence, in Singapore or elsewhere, involving fraud or dishonesty which is punishable with imprisonment, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he/she is aware) for such purpose?	No.	No.
(e) Whether he/she has ever been convicted of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he/she is aware) for such breach?	No.	No.
(f) Whether at any time during the last 10 years, judgement has been entered against him/her in any civil proceedings in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his/her part, or he/she has been the subject of any civil proceedings (including any pending civil proceedings of which he/she is aware) involving an allegation of fraud, misrepresentation or dishonesty on his/her part?	No.	No.

Name of Director		Teo Moh Gin	Zhang Liu Cheng
(g)	Whether he/she has ever been convicted in Singapore or elsewhere of any offence in connection with the formation or the Management of any entity or business trust?	No.	No.
(h)	Whether he/she has ever been disqualified from acting as a Director or an equivalent person of any entity (including the trustee of a business trust), or from taking part directly or indirectly in the Management of any entity or business trust?	No.	No.
(i)	Whether he/she has ever been the subject of any order, judgement or ruling of any court, tribunal or governmental body, permanently or temporarily enjoining him/her from engaging in any type of business practice or activity?	No.	No.
(j)	Whether he/she has ever, to his/her knowledge, been concerned with the Management or conduct, in Singapore or elsewhere, of the affairs of:-		
	● any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere; or	No.	No.
	● any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere; or	No.	No.
	● any business trust which has been investigated for a breach of any law or regulatory requirement governing business trusts in Singapore or elsewhere; or	No.	No.
	● any entity or business trust which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, in connection with any matter occurring or arising during that period when he/she was so concerned with the entity or business trust?	No.	No.

CORPORATE GOVERNANCE

Name of Director	Teo Moh Gin	Zhang Liu Cheng
(k) Whether he/she has been the subject of any current or past investigation or disciplinary proceedings, or has been reprimanded or issued any warning, by the Monetary Authority of Singapore or any other regulatory authority, exchange, professional body or government agency, whether in Singapore or elsewhere?	No.	No.
Disclosure Applicable to the Appointment of Director Only		
Any prior experience as a Director of an issuer listed on the Exchange? If Yes, please provide details of prior experience. If No, please state if the Director has attended or will be attending training on the roles and responsibilities of a Director of a listed issuer as prescribed by the Exchange. Please provide details of relevant experience and the Nominating Committee's reasons for not requiring the Director to undergo training as prescribed by the Exchange (if applicable) **Note:-** N.A. – Not Applicable	N.A.	N.A.

Key Information on Directors

Key information on each Director is set out on pages 22 to 24 of the Annual Report.

Principle 5: BOARD PERFORMANCE

The Board's performance is linked to the overall performance of the Group. The Board should ensure compliance with the applicable laws and the Board members should act in good faith, with due diligence and care in the best interest of the Company and its shareholders.

The NC is responsible for assessing the effectiveness of the Board as a whole and for assessing the contribution of each individual director. The Board performance assessment is undertaken collectively and informally on a continual basis by the NC with input from the other Board members. A formal review of the Board's performance is conducted annually by way of a Board Assessment Checklist, which is circulated to the Board members for completion and thereafter, for the NC to review to determine the actions required to improve the corporate governance of the company and effectiveness of the Board and committees of the Board.

For financial year ended 31 December 2018, individual assessment of directors had been conducted at the NC meeting held on 28 February 2019. The criteria for assessment include performance of principal functions and fiduciary duties, level of participation at meetings and individual attendance record.

The NC has assessed the current Board's performance to-date and is of the view that the performance of the Board as a whole is adequate to measure the effectiveness of the Board's performance. Although some of the Board members have multiple board representations, the NC is satisfied that sufficient time and attention has been given by the Directors to the Group.

Principle 6: ACCESS TO INFORMATION

Management acknowledges the importance of the complete, adequate and timely supply of information. Agenda, board papers and related materials, background or explanatory information relating to matters to be discussed at the Board meeting and Board committee meetings are distributed to all Directors in advance to allow sufficient time for Directors to prepare for meetings and facilitate the effective discussion during meetings. Any additional materials or information requested by the Directors is promptly furnished.

Any material variance between the actual results and the budgets will be explained to the Board at the relevant time at the Board or Board committee meetings. Should Directors, whether as a group or individually, require professional advice, the Group, upon direction by the Board, shall appoint a professional advisor selected by the Group or the individual, approved by the Chairman, to render the advice. The cost of such service shall be borne by the Group.

The Company Secretary attends all Board meetings and is responsible to the Board for advising on the implementation of the Group's compliance requirements pursuant to the relevant statutes and regulations. All Directors have separate and independent access to the advice and services of the Company Secretary.

The Company Secretary or their representatives attend all Board and Board Committees meetings and prepare minutes of Board and Board Committees meetings and assist the Chairman in ensuring that Board procedures are followed and reviewed in accordance with the Company's Constitution so that the Board functions effectively and the relevant rules and regulations applicable to the Company are complied with. The appointment and removal of the Company Secretaries are subjected to the approval of the Board.

Where decisions to be taken by the Board require specialised knowledge or expert opinion, the Board takes independent professional advice as and when it is necessary to enable it or the Independent Directors to discharge the responsibilities effectively.

REMUNERATION MATTERS

Principle 7: PROCEDURES FOR DEVELOPING REMUNERATION POLICIES

As at the date of this Annual Report, the RC comprises the following members:

Teo Moh Gin (Chairman)
Zhao Jinqing
Li Xiang Ping

Mr Teo Moh Gin and Mr Zhao Jinqing are Independent Non-Executive Directors, whilst Mr Li Xiang Ping is a Non- Executive Chairman.

The terms of reference of the RC have been approved and adopted. The duties and powers of the RC include:

– recommending to the Board a framework of remuneration for the directors and senior management;

– determining specific remuneration packages for each Executive Director. The RC should cover all aspects of remuneration including but not limited to directors' fees, salaries, allowances, bonuses, options and benefits in kind. In setting remuneration packages, the RC should be aware of pay and employment conditions within the industry and in comparable companies. The remuneration packages should take into account the Company's relative performance and the performance of individual Directors;

– the remuneration of Non-Executive Directors should be appropriate to the level of contribution, taking into account factors such as effort and time spent, and the responsibilities of the directors. Non-Executive Directors should not be over-compensated to the extent that their independence may be compromised;

– in the case of service contracts of Directors, reviewing and recommending to the Board the terms of renewal of the service contracts. There should be a fixed appointment period for all directors after which they are subject to re-election. The service contracts should not be excessively long or with onerous removal clauses. The RC should consider what compensation commitments the directors' contracts of service, if any, would entail in the event of early termination. The RC should aim to be fair and avoid rewarding poor performers; and

– considering the various disclosure requirements for directors' and key executives' remuneration, particularly those required by regulatory bodies such as the SGX-ST, and ensure that there is adequate disclosure in the financial statements to ensure and enhance transparency between the Company and relevant interested parties.

Procedure for setting Remuneration

The Executive Directors' remuneration packages are based on service contracts. Independent Non- Executive Directors are paid yearly directors' fees of an agreed amount and these fees are subject to shareholders' approval at AGM.

The RC's recommendations are submitted for endorsement by the entire Board. The overriding principle is that no director should be involved in deciding his own remuneration.

The RC will seek independent expert advice inside and/or outside the Company on the remuneration of Executive Directors and key management personnel, and those employees related to the Executive Directors and controlling shareholders of the Group, if necessary. The Company has not engaged any remuneration consultants.

Principle 8: LEVEL AND MIX OF REMUNERATION

Remuneration of Executive Directors and Key Management Personnel

The annual reviews of the compensation are carried out by the RC to ensure that the remuneration of the Executive Directors are commensurate with their performance and that of the Company, giving due regard to the financial and commercial health and business needs of the Group. In setting remuneration packages, the Company takes into consideration the remuneration packages and employment conditions within the industry and in comparable companies. The remuneration package also takes into account the Company's relative performance and the performance of individual Directors.

The Non-Executive and Independent Non-Executive Directors are paid Directors' fees, taking into account factors such as effort and time spent, and responsibilities of the Directors. Directors' fees are recommended by the Board for approval at the Company's AGM.

The Executive Directors do not receive Directors' fees. The remuneration packages of the Executive Directors include basic salary and year end performance bonus.

The Company has entered into service agreements with the Executive Director, Mr Zhang Liu Cheng for an initial period of three years with effect from 26 September 2007. Upon the expiry of the initial period of three years, the employment of the Executive Directors shall be automatically renewed on a year-to-year basis on such terms and conditions as the parties may agree. The service agreement provides for termination by each party giving not less than six months' notice in writing.

In respect of the use of contractual provisions to allow the Company to reclaim incentive components of remuneration from Executive Directors and key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss, the RC is of the view that this contractual provision may not be required after taken into account the variable components of the Executive Directors and the key management personnel. Apart from the foregoing, the Executive Directors owe a fiduciary duty to the Company. The Company should be able to avail itself to remedies against the Executive Directors in the event of such breach of fiduciary duties.

Notwithstanding the foregoing, the RC does not rule out the implementation of such contractual provisions in future and will review and monitor the situation regularly.

Remuneration of Non-Executive Directors

The Independent Non-Executive Directors receive directors' fees, in accordance with their contributions, taking into account factors such as responsibilities, effort and time spent for serving the Board and Board Committees. For the financial year ending 31 December 2019, directors' fees of S$344,000 are recommended by the Board and subject to the approval of shareholders at the Company's AGM to be held on 29 April 2019.

Principle 9: DISCLOSURE ON REMUNERATION

Details of the remuneration of Directors of the Company and top five key management personnel of the Group for the financial year ended 31 December 2018 are set out below:

Remuneration bands	Salary[(1)] %	Variable or performance related income/bonuses %	Directors' fees[(2)] %	Total %
Directors				
Below S$250,000				
Li Xiang Ping	–	–	100	100
Zhang Liu Cheng	70	30	–	100
Teo Moh Gin	–	–	100	100
Zhao Jinqing	–	–	100	100
Executive Officers				
Below S$250,000				
Liu Zhong Hua [(3)]	100	–	–	100
Li Bingwei	100	–	–	100
Ma Xian Dong	100	–	–	100
Tan Yew Chee William	75	25	–	100

Notes:

(1) Salary is inclusive of salary, allowances, Central Provident Fund contributions and pension funds.

(2) The total Directors' fee paid to the Independent Directors and Non-Executive Directors in FYE 31 December 2018 is S$296,000.

(3) Mr Liu Zhong Hua resigned on 20/8/2018.

In aggregate, the total remuneration paid to the top five key management personnel in financial year ended 2018 is S$349,958.

There is no employee in the Group who is an immediate family member of a director or the CEO, and whose remuneration exceeds S$50,000 during the financial year ended 31 December 2018.

The Company has not implemented any employee share scheme during the financial year ended 31 December 2018.

ACCOUNTABILITY AND AUDIT

Principle 10: ACCOUNTABILITY

The Board has a responsibility to present a fair assessment of the Group's position, including the prospects of the Group in all announcements (including financial performance reports) made to the public via SGXNET and the annual report to shareholders, as required by the SGX-ST .

The Board provides shareholders with financial statements for the first three quarters and full financial year within the timeframe in line with Rule 705 of the Listing Manual of SGX-ST. In presenting the annual and quarterly financial statement to shareholders, the Board aims to provide the shareholders with a balanced and understandable analysis and explanation of the Group's financial performance, position and prospects.

CORPORATE GOVERNANCE

Management provides the Board with management accounts, operation review and related explanation and any other information as the Board may require together with the financial statements on a quarterly basis. The Audit Committee reviews the financial statements and reports to the Board for approval. The Board authorises the release of the results to the SGX-ST and the public via SGXNET.

The Board has also taken steps to ensure compliance with legislative and regulatory requirements. In line with the requirements under the rules of the SGX-ST, the Board provides a negative assurance statement to the shareholders in respect of the interim financial statements. For the financial year under review, the CEO and CFO have provided assurance to the Board on the integrity of the Group's financial statements.

Principle 11: RISK MANAGEMENT AND INTERNAL CONTROLS

Risk Management

As the Group does not have a risk management committee, the Board, AC and Management assume the responsibility of the risk management function. Management reviews regularly the Group's business and operational activities to identify areas of significant risks as well as appropriate measures to control and mitigate these risks. Management reviews all significant policies and procedures and highlights all significant matters to the Board and the AC.

Internal Controls

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective control system will preclude all errors and irregularities, as a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Group has implemented a system of internal controls designed to provide reasonable but not absolute assurance that assets are safeguarded, proper accounting records are maintained, operational controls are adequate and business risks are suitably managed.

The AC makes enquiries with, and relies on reports, from the internal and external auditors on any material non-compliance and internal control weaknesses. The AC has reviewed with internal and external auditors their findings during their audit for the financial year under review. The external auditors, in the course of conducting their annual audit procedures on the statutory financial statements, also reviewed the Group's significant internal financial controls to the extent of their scope as laid out in their audit plan. Any material non-compliance and internal financial control weaknesses noted by the internal and external auditors are reported to the AC together with their recommendations. The Management would then take appropriate actions to rectify the weaknesses highlighted.

Based on the internal controls established and maintained by the Group, work performed by the internal and external auditors and the documentation on the Group's key risks referred to above, reviews performed by Management, AC and the Board, the AC and the Board are of the opinion that the Group's internal controls, addressing financial, operational and compliance risks, were adequate as at 31 December 2018. This is in turn supported by assurance from the CEO and the Chief Financial Officer that:

(a) the financial records of the Company have been properly maintained and the financial statements give a true and fair view of the company's operations and finances and are in accordance with the relevant accounting standards; and

(b) they have evaluated the effectiveness of the Company's internal controls and have discussed with the Company's external and internal auditors of their reporting points and note that there have been no significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarise or report financial data.

Whistle-blowing Policy

The Company has put in place a whistle-blowing policy and procedures, which provides staff with well-defined and accessible channels within the Group for reporting possible improprieties in matters of financial reporting or other matters in confidence and there is independent investigation of such matters and appropriate follow-up action.

There were no whistle-blowing letters received during the year and until the date of this report.

Interested Person Transactions

The Company is required to comply with the requisite rules under Chapter 9 of the SGX-ST Listing Manual for interested person transactions.

All interested person transactions will be properly documented and submitted to the AC for quarterly review to ensure that they are carried out on an arm's length basis, on normal commercial terms and will not be prejudicial to the interests of the shareholders.

In addition, an interested person transaction of a value equal to or more than 3% of the Group's latest audited net tangible assets will be approved by the AC prior to entry into such transactions. In the event that a member of the AC is interested in any interested person transaction, he will abstain from reviewing that particular transaction.

The Board will ensure that all disclosure, approval and other requirements on interested person transactions, including those required by prevailing legislation, the SGX-ST Listing Manual and accounting standards are complied with.

A summary of the interested person transactions for FY2018 is as follows:

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)
Dongming Zhongyou Fuel and Petrochemical Company Limited (东明中油燃料石化有限公司) - Purchase of raw LPG - Purchase of utilities - Land rent - Logistics & transport related services provided to		 RMB 1,924,784,083 RMB 4,815,404 RMB 4,364 RMB 12,585,190
Shandong Dongming Petrochem Group Co., Ltd. (山东东明石化集团有限公司) - Purchase of utilities, part & components - Land rent - Sale of processed LPG - Logistics & transport related services provided to		 RMB 18,732,838 RMB 190,000 RMB 70,496,200 RMB 215,059
Dongming Runze Petrochemical Co., Ltd (东明润泽化工有限公司) - Purchase of utilities, part & components - Land rent		 RMB 23,401,922 RMB 23,011
Dongming Crude Oil Distribution Co., Ltd (东明石油经销有限公司) - Logistics & transport related services provided to		 RMB 1,246,248

CORPORATE GOVERNANCE

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)
Shandong Dongming Lishu Petroluem Co., Ltd (山东东明梨树化学有限公司) - Sales of processed LPG - Logistics & transport related services provide to		RMB 331,592,035 RMB 17,746
Shandong Dongming Petrochem Group Hengji Chemical Co. Ltd (山东东明石化集团恒基化工有限公司） - logistic & transport related services provide to		RMB 140,142
Dongming Qianhai Petrochemical Co.,Limited (东明前海化工有限公司# - Sales of processed LPG - Logistics & transport services provided to		RMB 639,876,930 RMB 1,064,871
Dongming Runming Oil Products Distribution Co., Limited (东明润明油品销售有限公司) - Logistics & transport related services provide to		RMB 493,169
Shendong Dongming Petrochem Group Huize Co.,Ltd (山东东明石化集团汇泽有限公司) * - Sales of processed LPG		RMB 4,123,893

Transactions recorded before become a subsidiary

* Commenced from financial year 2018

Internal Code on Dealings in Securities

The Company has adopted and implemented policies in line with the Rule 1207 (19) of the SGX-ST Listing Manual in relation to the dealing of shares of the Company. The policies have been made known to Directors, executive officers and any other persons as determined by the Management who may possess unpublished material price-sensitive information of the Group.

The Company has procedures in place prohibiting Directors and officers from dealing in the Company's shares during the two weeks before the announcement of the Company's financial statements for each of the first three quarters of its financial year and the one month before the announcement of the Company's full year financial statements ("Prohibited Periods"), or if they are in possession of unpublished material price-sensitive information of the Group.

Directors and officers are required to comply with and observe the laws on insider trading even if they trade in the Company's securities outside the Prohibited Periods. They are discouraged from dealing in the Company's securities on short-term considerations and should be mindful of the law on insider trading.

The Board confirms that for the financial year ended 31 December 2018, the Company has complied with Listing Rule 1207(19).

Principle 12: AUDIT COMMITTEE

The AC comprises the following members:

Teo Moh Gin (Chairman)
Zhao Jinqing
Li Xiang Ping

Mr Teo Moh Gin and Mr Zhao Jinqing are Independent Non-Executive Directors, whilst Mr Li Xiang Ping is the Non-Executive Chairman.

The terms of reference of the AC have been approved and adopted. The roles and functions of the AC include:

– reviewing with the external auditors their audit plan, their evaluation of the system of internal accounting controls, their audit report, their management letter and the Management's response;

– reviewing the internal control and procedures and ensuring co-ordination between the external auditors and the Management, reviewing the co-operation and assistance given by the Management to the external auditors, and discussing problems and concerns, if any, arising from the interim and final audits and any matters which the auditors may wish to discuss (in the absence of the Management where necessary);

– ensuring that a review of the effectiveness of the Company's material internal controls, including financial, operational and compliance controls, and risk management, is conducted at least annually by the external auditors;

– reviewing and ensuring the integrity of the financial statements of the Group before submission to the Board focusing in particular, on significant financial reporting issues, changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit, the going concern statement, compliance with accounting standards as well as compliance with any stock exchange and statutory/ regulatory requirements;

– commissioning, reviewing and discussing with the external auditors, if necessary, any suspected fraud or irregularity, or suspected failure of internal controls, or suspected infringement of any relevant laws, rules or regulations, which has or is likely to have a material impact on the Group's operating results and/or financial position, and the Management's response;

– reviewing the scope and results of the audit and its cost effectiveness and the independence and objectivity of the external auditors, and where the external auditors also supply a substantial volume of non-audit services to the Company, keeping the nature and extent of such services under review, seeking to balance the maintenance of objectivity and value for money;

– reviewing the independence of the external auditors annually, and recommending to the Board the appointment, re-appointment or removal of the external auditors and approving the remuneration and terms of engagement of the external auditors;

– approving internal control procedures and arrangements for all interested person transactions;

– ensuring that arrangements are in place for staff to raise concerns about possible improprieties in matters of financial reporting or other matters in confidence and that there is independent investigation of such matters and for appropriate follow up action;

– reviewing transactions falling within the scope of the SGX-ST Listing Manual, in particular, matters pertaining to Interested Person Transactions and Acquisitions and Realisations as laid down in Chapters 9 and 10 respectively;
– reviewing any potential conflicts of interests;

– undertaking such other reviews and projects as may be requested by the Board and reporting to the Board its findings from time to time on matters arising and requiring the attention of the AC; and

– generally undertaking such other functions and duties as may be required by statute or the SGX-ST Listing Manual, and by such amendments made thereto from time to time.

CORPORATE GOVERNANCE

The AC held four (4) meetings during the financial year under review. It has reviewed the financial statements of the Group for the purpose of the first three (3) quarters and annual results release before they were submitted to the Board for approval. It has also met with the Company's internal and external auditors (without the presence of Management) to review their audit plans and results, and has separate and independent access to the auditors.

The AC shall have explicit authority to investigate any matter within its terms of reference, full access to and co- operation by the Management and full discretion to invite any director or executive officer of the Group to attend its meetings, and be given reasonable resources to enable it to discharge its functions properly and effectively.

In addition to the foregoing, the AC is assisted by the Risk and Investment Committee ("IC"), which was formed in FY2015 as part of the Company's efforts to strengthen its investment risk management processes and framework.

The IC comprising the following members:

Zhang Liucheng (Chairman)
Teo Moh Gin
Zhao Jinqing

Mr Zhang Liucheng is the CEO and Executive Director, Mr Teo Moh Gin and Mr Zhao Jinqing are Independent Non-Executive Directors. The terms of reference of the IC, which have been approved and adopted, are as follows:-

– to analyst the economic and systematic risk and evaluate its impact on the company;

– to develop risk management policies and processes;

– to oversight and monitor the investment risk management policies and process of the company and its subsidiaries;

– to evaluate and review major investment, capital investment and financing and made recommendation to Board for consideration;

– to determine the matters delegated by the Board on urgent basis ; and

– such other matters as may be assigned by the Board from time to time.

The AC meets with the external auditors, without the presence of the Management, at least annually.

The Company has complied with Rules 712 and 715 of the Listing Manual in the appointment of its external auditors.

For the year ended 31 December 2018 the aggregate of fees paid or payable to external auditors of the Group amounted to S$182,000, including audit fee of S$180,000 and non audit services fee at S$2,000.00. The AC has reviewed the non audited services provided by the external Auditors and is satisfied that the non audit services would not affect the independence and objectivity of the external auditors.

The AC is kept updated annually or from time to time on any changes to the accounting and financial reporting standards by the EA. No former partner or director of the Company's existing auditing firm has acted as a member of the AC.

In line with the recommendations by ACRA, Monetary Authority of Singapore and SGX, the AC can help to improve transparency and enhance the quality of corporate reporting by providing a commentary on Key Audit Matters ("KAM"). The AC considered the KAM presented by the external auditors together with Management. The AC reviewed the KAM and concurred and agreed with the external auditors and Management on their assessment, judgements and estimates on the significant matter reported by the external auditors.

Principle 13: INTERNAL AUDIT

The Company has engaged BDO LLP as an internal auditor to conduct review of the systems of internal controls in selected areas and to report independently the findings and recommendations of any internal control weaknesses to the AC and to the Management for remedial action.

The internal auditors have a direct and primary reporting line to the Chairman of the AC and the internal auditors would report administratively to the Chief Executive Officer and assist the Board in monitoring and managing business risks and internal controls of the Group. The AC reviews and approves the internal audit plan prior to the commencement of the audit. Reports from the internal auditors containing the summary of findings and recommendations for improvements (if any), are tabled and discussed at meetings by the AC members.

The internal auditors have unfettered access to all the Company's documents, records, properties and personnel, including access to the AC. The internal auditors carry out its function according to the standards set by nationally recognized professional bodies including the Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors.

The Internal Auditors are guided by the Standards for Professional Practice of Internal Auditing set by the Institute of Internal Auditors. The AC has reviewed the internal audit plan and the Internal auditor's evaluation of the Group's system of internals controls, their audit findings and the Management's response to those findings. The AC is satisfied that the internal audit function is adequately resourced and has appropriate standing within the Group.

Principle 14: SHAREHOLDER RIGHTS AND RESPONSIBILITIES

Procedures for shareholders to convene Extraordinary General Meetings and Annual General Meetings

(a) Pursuant to the Articles

Subject to the provisions of the Act as to special resolutions and special notice, at least fourteen days' notice in writing (exclusive both of the day on which the notice is served or deemed to be served and of the day for which notice is given) of every general meeting shall be given in the manner hereinafter mentioned to such persons (including the Auditors) as are under the provisions herein contained entitled to receive notice from the Company. Provided that general meeting notwithstanding that it has been called by a shorter notice than that specified above shall be deemed to have been duly called if it is so agreed:

(1) in the case of an annual general meeting by all the Members entitled to attend and vote thereat; and

(2) in the case of an extraordinary general meeting by that number or majority in number of the Members having a right to attend and vote thereat as is required by the Act.

Provided also that the accidental omission to give notice to, or the non-receipt by, any person entitled thereto shall not invalidate the proceedings at any general meeting.

(1) Every notice calling a general meeting shall specify the place and the day and hour of the meeting, and there shall appear with reasonable prominence in every such notice a statement that a Member entitled to attend and vote is entitled to appoint a proxy to attend and to vote instead of him and that a proxy need not be a Member of the Company.

(2) In the case of an annual general meeting, the notice shall also specify the meeting as such.

(3) In the case of any general meeting at which business other than routine business is to be transacted, the notice shall specify the general nature of the business; and if any resolution is to be proposed as a special resolution or as requiring special notice, the notice shall contain a statement to that effect.

CORPORATE GOVERNANCE

(b) Pursuant to the Act

(i) Convening of an extraordinary general meeting on requisition

(a) the Directors of the Company, notwithstanding anything in its Articles, shall, on the requisition of members holding at the date of the deposit of the requisition not less than 10% of such of the paid-up capital as at the date of the deposit carries the right of voting at general meetings immediately proceed duly to convene an extraordinary general meeting of the company to be held as soon as practicable but in any case not later than 2 months after the receipt by the Company of the requisition.

(b) The requisition shall state the objects of the meeting and shall be signed by the requisitionists and deposited at the registered office of the Company, and may consist of several documents in like form each signed by one or more requisitionists.

(c) If the Directors do not within 21 days after the date of the deposit of the requisition proceed to convene a meeting the requisitionists, or any of them representing more than 50% of the total voting rights of all of them, may themselves, in the same manner as nearly as possible as that in which meetings are to be convened by Directors convene a meeting, but any meeting so convened shall not be held after the expiration of 3 months from that date.

(d) Any reasonable expenses incurred by the requisitionists by reason of the failure of the Directors to convene a meeting shall be paid to the requisitionists by the Company, and any sum so paid shall be retained by the company out of any sums due or to become due from the Company by way of fees or other remuneration in respect of their services to such of the Directors as were in default.

(e) A meeting at which a special resolution is to be proposed shall be deemed not to be duly convened by the Directors if they do not give such notice thereof as is required by the Act in the case of special resolutions.

(ii) Calling of meetings

(a) Two or more members holding not less than 10% of the total number of issued shares of the Company (excluding treasury shares) may call a meeting of the Company.

(b) A meeting of a Company or of a class of members, other than a meeting for the passing of a special resolution, shall be called by notice in writing of not less than 14 days or such longer period.

(c) A meeting shall, notwithstanding that it is called by notice shorter than is required by paragraph (ii)(b), be deemed to be duly called if it is so agreed:

(1) In the case of a meeting called as the annual general meeting, by all the members entitled to attend and vote thereat; or

(2) In the case of any other meeting, by a majority in number of the members having a right to attend and vote thereat, being a majority which together holds not less than 95% of the total voting rights of all the members having a right to vote at that meeting.

Principle 15: COMMUNICATION WITH SHAREHOLDERS

The Company's quarterly, half year and full year announcements are issued via SGXNET and the Company's website at www.sinostar-pec.com. The Company discloses all material information on a timely basis and to all shareholders.

The Company supports the Code's principle to encourage communication with and participation by shareholders. Shareholders are encouraged to attend the Annual General Meeting (AGM) to ensure a greater level of shareholder participation. The Articles of Association allow a shareholder of the Company to appoint up to two proxies to attend the AGM and vote in place of the shareholder. Shareholders are given the opportunity to pose questions to the Board or the Management at the AGM. The members of the AC, NC and RC will be present at the AGM to answer questions relating to matters overseen by the committees. The external auditors will also be present to assist the directors in addressing any queries posed by the shareholders.

By supplying shareholders with reliable and timely information, the Company is able to strengthen the relationship with its shareholders based on trust and accessibility. The Company's investor relations (IR) team is led by the Chief Financial Officer who is responsible for integrating finance, accounting, corporate communications and legal compliance to enable effective communication between the Company and investors. The Company conducts briefings to present its financial results to the media and analysts. Outside of the financial announcement periods, when necessary and appropriate, the IR team will meet investors and analysts who wish to seek a better understanding of the Group's business and operations. This effort enables the Company to solicit feedback from the investment community on a range of strategic and topical issues which provide valuable insights to the Company from investors' views.

The Company does not practice selective disclosure. Price-sensitive information is first publicly released through SGXNet, before the Company meets with any investors or analysts. All shareholders of the Company will receive the Annual Report with an accompanying notice of AGM by post. The notice of AGM is also published in the newspaper within the mandatory period, the AGM of which is to be held within four months after the close of the financial year.

The Company does not have a formal dividend policy at present. The form, frequency and amount of dividends declared each year will take into consideration the Group's profit growth, cash position, positive cash flow generated from operations, projected capital requirements for business growth and other factors as the Board may deem appropriate.

Principle 16: CONDUCT OF SHAREHOLDER MEETINGS

All shareholders receive reports or circulars of the Company including notice of general meeting by post within the mandatory period. Notice of general meeting is announced through SGXNET.

All registered shareholders are invited to participate and given the right to vote on resolutions at general meetings. Every matter requiring shareholders' approval is proposed as a separate resolution. Each item of special business included in the notice of the meeting is accompanied, where appropriate, by an explanation for the proposed resolution. Proxy form is sent with notice of general meeting to all shareholders. A shareholder may appoint up to two proxies to attend and vote on his behalf at the meeting through proxy forms deposited 48 hours before the meeting. As the authentication of shareholder identity information and other related security issues still remain a concern, the Company has decided, for the time being, not to implement voting in absentia by mail, email or fax.

All Directors, Management, Company Secretary, external auditors and legal advisors (if necessary), attend the general meetings. The procedures of general meetings provide shareholders the opportunity to ask questions relating to each resolution tabled for approval and open communication are encouraged by the shareholders with the Director on their views on matters relating to the Company. Minutes of general meetings are prepared and made available to shareholders upon their requests by the Company Secretary. To enhance shareholder participation, the Company's Articles of Association allows all resolutions at general meetings to vote by poll and announces the results by showing the number of votes cast for and against each resolution and the respective percentage to the audience at the general meetings.

The polling results are also announced to the SGX-ST and posted on the Company's website after the meetings.

DIRECTORS' STATEMENT

For the financial year ended 31 December 2018

The directors present their statement to the members together with the audited consolidated financial statements of Sinostar PEC Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") for the financial year ended 31 December 2018 and the statement of financial position of the Company as at 31 December 2018.

Opinion of the directors

In the opinion of the directors,

(a) the statement of financial position of the Company and the consolidated financial statements of the Group are drawn up so as to give a true and fair view of the financial position of the Company and of the Group as at 31 December 2018 and the financial performance, changes in equity and cash flows of the Group for the year ended on that date, and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

Directors

The directors of the Company in office at the date of this statement are as follows:

Li Xiang Ping	(Non-executive chairman)
Zhang Liu Cheng	(Chief executive officer and Executive director)
Teo Moh Gin	(Independent non-executive director)
Zhao Jin Qing	(Independent non-executive director)

Arrangements to enable directors to acquire shares and debentures

During and at the end of the financial year, neither the Company nor any of its subsidiaries was a party to any arrangement of which the object was to enable the directors to acquire benefits through the acquisition of shares in, or debentures of, the Company or of any other body corporate.

Directors' interests in shares and debentures

According to the Register of Directors' Shareholdings kept by the Company under Section 164 of the Singapore Companies Act, Chapter 50, none of the directors who held office at the end of the financial year had any interest in the shares or debentures of the Company or its related corporations, except as follows:

	Holdings registered in the name of director or nominee		Holdings in which director is deemed to have an interest	
	As at 1 January 2018	As at 31 December 2018 and 21 January 2019	As at 1 January 2018	As at 31 December 2018 and 21 January 2019
The Company -				
<u>Sinostar PEC Holdings Limited</u>				
(Ordinary shares with no par value)				
Li Xiang Ping	–	–	334,056,600	336,497,600
Zhang Liu Cheng	200,000	200,000	–	–
Teo Moh Gin	100,000	100,000	–	–
Holding Company-				
<u>Intelligent People Holdings Limited</u>				
(Ordinary shares of US$1 each)				
Li Xiang Ping	10,000	10,000	–	–

Directors' interests in shares and debentures (Cont'd)

Mr Li Xiang Ping, by virtue of the provisions of Section 7 of the Singapore Companies Act, Chapter 50, is deemed to have an interest in the whole of the issued share capital of the wholly-owned subsidiary of the Company and Intelligent People Holdings Limited.

Share options

No options were granted during the financial year to take up unissued shares of the Company or its subsidiaries.

No shares were issued during the financial year by virtue of the exercise of options to take up unissued shares of the Company or its subsidiaries.

There were no unissued shares of the Company or its subsidiaries under option at the end of the financial year.

Audit Committee

The Audit Committee comprises the following members:

Teo Moh Gin (Chairman)
Zhao Jin Qing
Li Xiang Ping

All members of the Audit Committee were non-executive directors.

The Audit Committee carried out its functions in accordance with section 201B(5) of the Singapore Companies Act, Chapter 50, the Listing Manual of the Singapore Exchange and the Code of Corporate Governance. In performing those functions, the Audit Committee reviewed the following:

(i) overall scope of both the internal and external audits and the assistance given by the Company's officers to the auditor. It met with the Company's internal and external auditors to discuss the results of their respective examinations and their evaluation of the Company's system of internal accounting controls;

(ii) the audit plan of the Company's independent external auditor and any recommendations on internal accounting controls arising from the statutory audit;

(iii) the quarterly financial information and the statement of financial position of the Company and the consolidated financial statements of the Group for the financial year ended 31 December 2018 as well as the independent auditor's report thereon; and

(iv) interested person transactions (as defined in Chapter 9 of the Listing Manual of the Singapore Exchange).

The Audit Committee, together with the Board, reviewed the effectiveness of the Group's system of internal controls put in place to address the key financial, operational and compliance risks affecting the operation.

The Audit Committee has full access to management and is given the resources required for it to discharge its functions. It has full authority and the discretion to invite any director or executive officer to attend its meetings. The Audit Committee also recommends the appointment of the external auditor and reviews the level of audit and non-audit fees.

The Audit Committee is satisfied with the independence and objectivity of the external auditor and has recommended to the Board of Directors that the auditor, RT LLP, be nominated for re-appointment as auditor at the forthcoming Annual General Meeting of the Company.

Further details regarding the Audit Committee are disclosed in the Report on Corporate Governance.

DIRECTORS' STATEMENT

For the financial year ended 31 December 2018

Independent Auditor

The independent auditor, RT LLP, has expressed its willingness to accept re-appointment.

Other information required by the SGX-ST

Material information

Apart from the Service Agreements entered between the executive directors and the Company, there are no material contracts to which the Company or its subsidiaries, is a party which involve directors' interests subsisted or have been entered into during the financial year.

Interested person transactions

There were no interested person transactions as defined in Chapter 9 of Listing Manual of the Singapore Exchange conducted during the financial year except as disclosed under "Interested Person Transactions" on "Corporate Governance" and on Note 30 to the financial statements.

On behalf of the Directors

LI XIANG PING
DIRECTOR

ZHANG LIU CHENG
DIRECTOR

5 April 2019

INDEPENDENT AUDITOR'S REPORT

For the financial year ended 31 December 2018

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sinostar PEC Holdings Limited (the "Company") and its subsidiaries (the "Group"), which comprise the statements of financial position of the Group and of the Company as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the Act) and Singapore Financial Reporting Standards (International) ("SFRS(I)s") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2018 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (ACRA) *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2(a) in the financial statements which indicate that the Group's current liabilities exceeded its current assets by RMB606,755 as at 31 December 2018 (2017: Net current assets of RMB 580,868).

This is principally due to the RMB 1 billion loan from the non-controlling interest of Dongming Qianhai arising from the acquisition of Dongming Qianhai as disclosed in Note 14. This factor indicates the existence of a material uncertainty which may cast significant doubt on the Group and the Company's ability to continue as a going concern.

Notwithstanding the above, the directors of the Group have prepared the financial statements based on a going concern basis due to the following reasons:

(i) The non-controlling interest ("NCI"), Shandong Dongming Petrochem Group Co. Ltd., has given a written undertaking not to early recall the loan amounts comprising 5 tranches of RMB 200 million each aggregating RMB 1 billion;

(ii) Upon reaching the loan repayment due dates for the respective tranches of loans (as detailed in Note 14), if the loan has not been settled, the NCI will base on the Group's subsidiary (Dongming Qianhai) repayment ability and financial health at the point of due date to mutually agree on the next proposed repayment schedules;

(iii) To-date, the Group has fully settled 2 tranches of the NCI loans of RMB 200 million each on their respective due dates of 4 January 2019 and 3 April 2019.

Our opinion is not modified in respect of this matter.

INDEPENDENT AUDITOR'S REPORT

For the financial year ended 31 December 2018

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th>Key Audit Matter</th><th>Our audit performed and responses thereon</th></tr>
<tr><td>1. Business combination – Purchase price allocation and goodwill determination
(Refer to Note 7 and 8 to financial statements)

As disclosed in Note 8, on 26 December 2018, the Group completed its acquisition of Dongming Qianhai Petrochemical Co Limited ("Dongming Qianhai") from an interested party Dongming Zhongyou Fuel and Petrochemical Company Limited ("Dongming Zhongyou") for a purchase consideration of RMB317,800,000. Accordingly, as at this date, Dongming Qianhai becomes a 70% owned subsidiary of the Company through its 100% owned subsidiary, Dongming Hengchang whilst the remaining 30% equity interest is being held by the existing shareholder, Shandong Dongming Petrochem Group Co. Ltd, which becomes the Group's non-controlling interest.

SFRS(I) 3 - Business Combinations requires the Group to recognise the acquired Dongming Qianhai identifiable assets acquired and liabilities and contingent liabilities assumed at fair values at the date of business combination. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill.

Given that the last valuation was performed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("JLL") on 12 June 2017 for the assets and liabilities of Dongming Qianhai as at 31 March 2017, management has engaged an independent professional PRC valuer 山东天元同泰资产评估有限公司 who valued Dongming Qianhai to be RMB 500,955,000 as at 31 December 2018. Accordingly, the 70% equity interest in Dongming Qianhai is estimated to be RMB 350,668,500. Management thereafter applied a discount for lack of marketability of 11.61% using a Black Scholes option pricing model similar to what JLL has previously applied in their valuation on 12 June 2017 and the valuation was determined to be RMB 309,955,887. Accordingly, the Group recognised a goodwill of RMB 7,844,113.</td><td>Our audit focused on evaluating the professional qualifications of the independent external valuer ("valuer") and the key assumptions used in performing the purchase price allocation ("PPA") in relation to business combination including the following procedures:

1) Reviewed the engagement terms entered into with the valuer to ascertain if there were any matters that may have affected the independent valuation specialist's objectivity or placed limitations in the scope of their work;

2) Evaluated the qualifications and competence of the valuer;

3) Challenged the assumptions used by management with comparison to recent information, historical trend analysis as well as taking into consideration the general market outlook for the relevant industry;</td></tr>
</table>

Key Audit Matters (Cont'd)

Key Audit Matter	Our audit performed and responses thereon
1. Business combination – Purchase price allocation and goodwill determination (Cont'd) **(Refer to Note 7 and 8 to financial statements)** Management views that the engagement of the PRC valuer is adequate for the purpose of the purchase price allocation for the Business combination in view of the measurement period under Para 45 of SFRS(I) 3. This Para 45 which states that if the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the acquirer shall also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. This measurement period shall not exceed one year from the acquisition date, which is 26 December 2018. Significant judgement is applied in the identification of any intangible assets acquired and contingent liabilities assumed in the transactions. Significant assumptions and estimates are also used in the determination of the fair values of the identified assets acquired and liabilities assumed in the transactions. Accordingly, we considered this area to be a key audit matter. The detail of the Board's critical judgement are as disclosed in Note 2(a).	4) Review key assumptions and valuation methodologies used in the PPA in determining the fair values of the assets acquired and liabilities assumed and identifying intangible assets acquired, their respective values and useful lives assigned to the intangible assets identified; 5) Reviewed and performed verification work of the movement of assets and liabilities as at 31 March 2017 (which was valued by JLL on 12 June 2017) up to 26 December 2018, the date of acquisition; and 6) Performed reasonableness test and assessed management sensitivity analysis tests on the possibility of over or under recognition of goodwill.

INDEPENDENT AUDITOR'S REPORT

For the financial year ended 31 December 2018

Key Audit Matters (Cont'd)

Key Audit Matter	**Our audit performed and responses thereon**
2. Loan of RMB 1 billion from NCI **(Refer to Note 14 to financial statements)** Arising from the acquisition of Dongming Qianhai (as detailed in Point 1 above), we noted that included in Dongming Qianhai's liabilities is an internal borrowing from NCI, Shandong Dongming Petrochem Group Co. Ltd. amounting to RMB 1,000,000,000 as at the date of acquisition. This RMB 1 billion loan (meant for Dongming Qianhai's working capital purposes) arose from 5 internal loan agreements which were signed between Dongming Qianhai and Shandong Dongming Petrochem Group Co. Ltd. during 2018. The details are as follows: ● 1st tranche = RMB 200 million = Signed on 5 Jan 2018 ● 2nd tranche = RMB 200 million = Signed on 4 April 2018 ● 3rd tranche = RMB 200 million = Signed on 4 June 2018 ● 4th tranche = RMB 200 million = Signed on 29 September 2018 ● 5th tranche = RMB 200 million = Signed on 8 October 2018 These loan agreements state that with effect from their respective dates of disbursement, the 5 tranches of RMB 1 billion loan (as stated above) will bear interest rate at 4.5675% per annum and will be repayable within 12 months from the respective dates of disbursement. We have raised this matter to the Board on the Group's ability to repay this NCI loan within the next 12 months and whether there is any going concern issue arising from the payment of this RMB 1 billion loan to NCI. The Board based on their judgement is of the view that there is no going concern issue given that the NCI, Shandong Dongming Petrochem Group Co. Ltd.. had given a written undertaking not to early recall the loan amount. In addition, upon reaching the loan repayment due dates for the respective tranches of loans cited above, Shandong Dongming Petrochem Group Co. Ltd. will base on Dongming Qianhai's repayment ability and financial health at the point of due date to mutually agree on the next proposed repayment schedules.	Our audit procedures included but were not limited to the following: 1) Agree the various tranches of loan aggregating to RMB 1 billion to their respective loan agreements; 2) Inquire and made independent check on the reasonableness of the interest rate of 4.5675% per annum; 3) Inquired with the Board and the Audit Committee on the ability of the Group to repay the RMB 1 billion loans from NCI; 4) Obtained and sighted the duly signed written undertaking from Shandong Dongming Petrochem Group Co. Ltd; 5) Assessed the financial capability of Shandong Dongming Petrochem Group Co. Ltd to provide this undertaking; and 6) Discussed going concern assumption with the Board and Audit Committee.

For the financial year ended 31 December 2018

Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the information listed below that are included in the Annual Report, but does not include the financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report.

Sinostar PEC at a Glance;
Our Business Segments
Our Businesses and Key Products;
New Acquisition and Latest Developments
Chairman's Message;
Operation's Review;
Board of Directors;
Key Management;
Financial Highlights;
Corporate Information;
Sustainability Report;
Corporate Governance;
Directors' Statement;
Statistics of Shareholdings;
Notice of Annual General Meeting; and
Proxy Form

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

In addition, included in the Annual Report will be an Appendix to the Notice of Annual General Meeting (which will be dated 29 April 2019) in relation to the Proposed Renewal of the General Mandate for Interested Person Transactions, which will be prepared by RHTLaw Taylor Wessing LLP. ["Appendix for General Mandate for IPT"].

When we read the Appendix for General Mandate for IPT, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with SSAs.

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and SFRS(I)s, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

For the financial year ended 31 December 2018

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

(a) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

(d) Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

(e) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

(f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

INDEPENDENT AUDITOR'S REPORT

For the financial year ended 31 December 2018

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Mr Ong Kian Meng.

RT LLP
Public Accountants and
Chartered Accountants
Singapore

Singapore, 5 April 2019

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2018

	Note	The Group 2018 RMB'000	The Group 2017 RMB'000	The Company 2018 RMB'000	The Company 2017 RMB'000
ASSETS					
Non-current					
Property, plant and equipment	5	1,521,040	85,312	–	–
Land use rights	6	70,038	–	–	–
Goodwill on consolidation	7	10,345	2,501	–	–
Investment in subsidiaries	8	–	–	250,041	250,041
Investment security	9	30,450	–	–	–
		1,631,873	87,813	250,041	250,041
Current					
Land use rights	6	1,484	–	–	–
Inventories	10	102,253	25,443	–	–
Trade and other receivables	11	66,549	14,367	–	–
Prepayments	12	14,048	3,013		
Amount owing by a subsidiary	8	–	–	35,711	37,977
Amounts owing by affiliated companies	13	692	166,268	–	–
Amount owing by non-controlling interest	14	192,700	–	–	–
Cash and bank balances	15	426,215	438,349	2,358	111
		803,941	647,440	38,069	38,088
Total assets		2,435,814	735,253	288,110	288,129
EQUITY AND LIABILITIES					
Capital and Reserves					
Share capital	16	316,125	316,125	316,125	316,125
Retained earnings/(accumulated losses)	17	109,123	300,571	(29,006)	(29,647)
Capital reserve	18	250,000	–	–	–
Other reserves	19	60,782	51,985	–	–
		736,030	668,681	287,119	286,478
Non-controlling interests		132,838	–	–	–
Total equity		868,868	668,681	287,119	286,478
LIABILITIES					
Non-current					
Bank borrowings	20	156,250	–	–	–
Current					
Trade and other payables	21	119,614	52,719	991	1,651
Amounts owing to affiliated companies	22	160,485	10,113	–	–
Loan from non-controlling interests	14	1,000,000	–	–	–
Bank borrowings	20	125,000	–	–	–
Current tax payable		5,597	3,740	–	–
		1,410,696	66,572	991	1,651
Total equity and liabilities		2,435,814	735,253	288,110	288,129

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the financial year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Revenue	4	2,259,480	1,804,624
Cost of sales		(2,131,469)	(1,700,906)
Gross profit		128,011	103,718
Other income	23(a)	6,858	13,810
Distribution costs	23(b)	(926)	(893)
Administrative expenses	23(c)	(21,821)	(21,273)
Other operating expenses	23(d)	(96)	(17)
Profit before taxation	24	112,026	95,345
Taxation	25	(29,323)	(27,126)
Net profit, representing total comprehensive income for the financial year		82,703	68,219
Attributable to:			
Equity holders of the Company		82,703	68,219
Non-controlling interests		–	–
Net profit, representing total comprehensive income for the financial year		82,703	68,219

	Note	RMB cents	RMB cents
Earnings per share	26		
- Basic		12.92	10.66
- Diluted		12.92	10.66

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2018

	Share capital	Retained earnings	Capital reserve	Other reserves: Statutory common reserve	Other reserves: Voluntary common reserve	Other reserves: Sub-total	Equity attritubale to owners	Non-controlling interest	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as at 1 January 2017	316,125	256,190	–	43,060	797	43,857	616,172	–	616,172
Net profit, representing total comprehensive income for the year	–	68,219	–	–	–	–	68,219	–	68,219
Transactions with owners in their capacity as owners									
Dividends paid (Note 28)	–	(15,710)	–	–	–	–	(15,710)	–	(15,710)
Transfer to statutory common reserve	–	(8,128)	–	8,128	–	8,128	–	–	–
Balance as at 31 December 2017	316,125	300,571	–	51,188	797	51,985	668,681	–	668,681
On acquisition of subsidiary	–	–	–	–	–	–	–	132,838	132,838
Net profit, representing total comprehensive income for the year	–	82,703	–	–	–	–	82,703	–	82,703
Transactions with owners in their capacity as owners									
Dividends paid (Note 28)	–	(15,354)	–	–	–	–	(15,354)	–	(15,354)
Transfer to statutory common reserve	–	(8,797)	–	8,797	–	8,797	–	–	–
Transfer to capital reserve	–	(250,000)	250,000	–	–	–	–	–	–
Balance as at 31 December 2018	316,125	109,123	250,000	59,985	797	60,782	736,030	132,838	868,868

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Operating Activities			
Profit before taxation		112,026	95,345
Adjustments for:			
Depreciation of property, plant and equipment	5	23,001	25,874
Loss on disposal of property, plant and equipment	23(c)	511	106
Interest income	23(a)	(5,620)	(8,980)
Operating profit before working capital changes		129,918	112,345
(Increase)/decrease in inventories		(4,542)	8,829
(Increase)/decrease in amount owing by/(to) affiliated company - Trade		(3,402)	12,877
(Increase)/decrease in operating receivables		(22,405)	5,360
(Decrease)/increase in operating payables		(11,027)	4,313
Cash generated from operations		88,542	143,724
Tax paid		(27,466)	(26,812)
Net cash generated from operating activities		61,076	116,912
Investing Activities			
Acquisition of property, plant and equipment (Note A)		(69,245)	(12,665)
On acquisition of a subsidiary	8	503	–
Decrease in amount owing by affiliated company - Non trade	13	–	(158,900)
Interest received		10,782	14,142
Proceed from disposal of property, plant and equipments		104	–
Net cash used in investing activities		(57,856)	(157,423)
Financing Activity			
Dividends paid	28	(15,354)	(15,710)
Net cash used in financing activity		(15,354)	(15,710)
Net decrease in cash and cash equivalents		(12,134)	(56,221)
Cash and cash equivalents at beginning of financial year		438,349	494,570
Cash and cash equivalents at end of financial year	15	426,215	438,349

Note A:

Property, plant and equipment

During the financial year, the Group acquired property, plant and equipment with an aggregate cost of RMB69,245,000 (2017: RMB12,665,000). Cash payments of RMB69,245,000 (2017: RMB12,665,000) were made.

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

1 General information

The Company is listed on the Singapore Exchange Mainboard (SGX-ST) and incorporated and domiciled in Singapore as a limited liability company.

The immediate and ultimate holding company of the Company is Intelligent People Holdings Limited ("Intelligent People"), a company incorporated in the British Virgin Islands ("BVI").

The Company's registered office is located at Six Battery Road, #10-01, Singapore 049909.

The principal activity of the Company is that of an investment holding company. The principal activities of its subsidiaries are stated in Note 8 to the financial statements.

The financial statements of the Company and of the Group for the financial year ended 31 December 2018 were authorised for issue in accordance with a resolution of the directors on the date of the Directors' Statement.

2(a) Basis of preparation

The financial statements have been prepared in accordance with the historical cost basis, except as disclosed in the accounting policies below, and are drawn up in accordance with the provisions of the Singapore Companies Act and Singapore Financial Reporting Standards International ("SFRS(I)").

For all period up to and including the year ended 31 December 2017, the Group prepared its financial statements in accordance with Financial Reporting Standards in Singapore ("FRS"). These financial statements for year ended 31 December 2018 are the first the Group has prepared in accordance with SFRS(I). Refer to Note 2(b) for information on how the Group adopted SFRS(I).

The Group's principal operations are conducted in the People's Republic of China ("PRC") and hence the financial statements are presented in Renminbi ("RMB"), being the functional and presentation currency of the Company and presentation currency of the Group. All financial information are presented in RMB, rounded to the nearest thousand (RMB'000), unless otherwise stated.

Going concern

Following the completion of the acquisition of Dongming Qianhai on 26 December 2018 (Note 8), the Group's current liabilities exceeded its current assets by RMB606,755 (2017: Net current assets of RMB 580,868).

This is principally due to the RMB 1 billion loan from the non-controlling interest of Dongming Qianhai arising from the acquisition of Dongming Qianhai as disclosed in Note 14. This factor indicates the existence of a material uncertainty which may cast significant doubt on the Group and the Company's ability to continue as a going concern.

Notwithstanding the above, the directors of the Group have prepared the financial statements based on a going concern basis due to the following reasons:

(i) The NCI, Shandong Dongming Petrochem Group Co. Ltd., has given a written undertaking not to early recall the loan amounts comprising 5 tranches of RMB 200 million each aggregating RMB 1 billion;

(ii) Upon reaching the loan repayment due dates for the respective tranches of loans (as detailed in Note 14), if the loan has not been settled, the NCI will base on the Group's subsidiary (Dongming Qianhai) repayment ability and financial health at the point of due date to mutually agree on the next proposed repayment schedules;

(iii) To-date, the Group has fully settled 2 tranches of the NCI loans of RMB 200 million each on their respective due dates of 4 January 2019 and 3 April 2019.

If for any reason the Group is unable to continue as a going concern, the Group and the Company may be unable to discharge their liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the statements of financial position.

2(a) Basis of preparation (Cont'd)

Going concern (Cont'd)

In addition, the Group and the Company may have to provide for further liabilities which may arise and to reclassify non-current assets and liabilities as "current assets" and "current liabilities" respectively. No such adjustments have been made to the financial statements of the Group and the Company in respect of these.

Significant accounting estimates and judgements

The preparation of the financial statements in conformity with SFRS(I) requires management to exercise judgements in the process of applying the Group's accounting policies and requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the end of the reporting periods, and the reported amounts of revenue and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the financial year in which the estimate is revised if the revision affects only the financial year or in the future year of the revision and future financial years if the revision affects both current and future financial years.

Critical judgements made in applying accounting policies

In the process of applying the Group's accounting policies, which are described in Note 3 to the financial statements, management had made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

i) <u>Provision for expected credit losses ("ECLs") of trade receivables</u>

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust historical credit loss experience with forward-looking information. At every reporting date, historical default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in Note 32.3.

The carrying amount of trade receivables is disclosed in Note 11.

ii) <u>Environmental remediation</u>

The Group has not incurred any expenditure for environmental remediation, is currently not involved in any environmental remediation, and has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. However, the PRC government may move further towards more rigorous enforcement of applicable laws, and towards the adoption of more stringent environmental standards. The outcome of environmental liabilities under proposed or future environmental legislation cannot be reasonably estimated at present and hence not provided for but which could be material.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

2(a) Basis of preparation (Cont'd)

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Group based its assumptions and estimate on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future development however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumption when they occur.

i) Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis after deducting the residual value over their estimated useful lives. Management estimates the useful lives of property, plant and equipment to be within 3 to 20 years. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets. Therefore future depreciation charges could be revised. The carrying amount of the Group's property, plant and equipment as at 31 December 2018 is RMB1,521,040,000 (2017: RMB85,312,000).

ii) Income taxes

The Group has exposure to income taxes in Singapore and PRC. Significant judgement is involved in determining the provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The PRC subsidiaries make tax submissions to the local tax authorities in accordance with interpretations and local practices. Management has assessed and concluded that all tax submissions are approprioate and except for the outstanding payments so determined, there are no further tax and related liabilities.

As at 31 December 2018, the Group did not recognise deferred tax liabilities in relation to temporary differences arising from undistributed profits of a subsidiary because the Group has not fully utilised the subsidiary's unremitted earnings before 31 December 2007. The details of taxation are disclosed in Note 25 to the financial statements.

iii) Allowance for inventory obsolescence

The Group reviews the aging analysis of inventories at the end of each reporting period, and makes allowance for obsolete and slow moving inventory items identified that are no longer suitable for sale. The net realisable value for such inventories are estimated based primarily on the latest invoice prices and current market conditions to assess future demand for products. Possible changes in these estimates could result in revisions to the valuation of inventories. The carrying amount of inventories is disclosed in Note 10 to the financial statements.

iv) Recoverability of refundable deposits of RMB 38,850,000

As disclosed in Note 11, the Group's subsidiary, Dongming Qianhai (prior to its acquisition by the Group on 26 December 2018) placed a deposit amounting to RMB 38,850,000 in Dec 2017 with the PRC government for the purpose of securing 3 plots of state owned land in the PRC with land area of 189,863 square meters. The Group has since successfully acquired these 3 plots of land of 188,863 square meters and had obtained the land use right as disclosed in Note 6 where Dongming Qianhai's plant and equipment currently reside in. However, to-date, the PRC government has yet to refund this deposits.

The Board is confident that this refundable deposit amounting to RMB38,850,000 will be refunded to Dongming Qianhai by the PRC government in due course.

2(a) Basis of preparation (Cont'd)

Key sources of estimation uncertainty (Cont'd)

v) Valuation of goodwill through business combination

Business combination is accounted for by applying the acquisition method. Purchase price allocation exercise requires a significant amount of management estimation, particularly in relation to the identification and valuation of intangible assets and assignment of their useful lives. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The fair value of such assets and liabilities are estimated by management and independent professional valuer where significant or using the market value basis (i.e. market approach and cost approach) which requires significant judgement and estimation to be made. Market approach is adopted where active secondary market data are available, whereas cost approach is adopted where there is a lack of active secondary data.

In arriving at the goodwill computation, management had applied a discount of 11.61% to the fair value of the identifiable assets and liabilities taken over as at 26 December 2018. This discount rate of 11.61% is after considering the lack of marketability using a Black Scholes option pricing model previously adopted by the professional valuer JLL in their valuation report dated 12 June 2017 for determining the identifiable assets and liabilities as at 31 March 2017.

If discount rate had been 3% higher or lower and all other variables were held constant, the valuation of goodwill would be lower by RMB10,520,055 or higher by RMB10,520,055 respectively. Consequently, the Group's profit for the financial year would be higher or lower by RMB2,675,942 and nil respectively.

The Group completed the business combination of Dongming Qianhai Petrochemical Co., Limited on 26 December 2018 as disclosed in Note 8 to the financial statements.

2(b) First-time adoption of Singapore Financial Reporting Standards (International) ["SFRS(I)"]

These financial statements for the year ended 31 December 2018 are the first the Group and the Company have prepared in accordance with SFRS(I). Accordingly, the Group and the Company have prepared financial statements that comply with SFRS(I) applicable as at 31 December 2018, together with the comparative period data for the year ended 31 December 2017, as described in the summary of significant accounting policies. On preparing the financial statements, the Group's and the Company's opening balance sheets were prepared as at 1 January 2017, the Group's and the Company's date of transition to SFRS(I).

The principal adjustments made by the Group on adoption of SFRS(I) and the adoption of the new standards that are effective on 1 January 2018 are disclosed below.

Exemptions applied on adoption of SFRS(I)

SFRS(I) allows first-time adopters exemptions from the retrospective application of certain requirements under SFRS(I). The Group has applied the following exemptions:

- SFRS (I) 3 *Business Combinations* had not been applied to either acquisitions of subsidiaries that are considered business under SFRS(I), or acquisitions of interests in associates and joint ventures that occurred before 1 January 2017. The carrying amounts of assets and liabilities at the date of transition to SFRS(I) is the same as previously reported under FRS.

- SFRS (I) 1-21 *The Effects of Changes in Foreign Exchanges Rates* has not been applied retrospectively to fair value adjustments and goodwill from business combinations that occurred before the date of transition to SFRS(I). Such fair value adjustments and goodwill are treated as assets and liabilities of the parent rather than as assets and liabilities of the acquire. Therefore, those assets and liabilities are already expressed in the funtioncal currency of the parent or are non-monetary foreign currency items and no further translation differences occur.

- The comparative information do not comply with SFRS(I) 9 *Financial Instruments* or SFRS(I) 7 *Financial Instruments: Disclosures* to the extent the disclosures related to items within the scope of SFRS(I) 9.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

2(b) First-time adoption of Singapore Financial Reporting Standards (International) ["SFRS(I)"] (Cont'd)

New accounting standards effective on 1 January 2018

The accounting policies adopted are consistent with those previously applied under FRS except that in the current financial year, the Group has adopted all the SFRS(I) which are effective for annual financial periods beginning on or after 1 January 2018. The adoption of these standards does not have any impact to the financial performance or position of the Group and the Company.

SFRS(I) 15 Revenue from Contracts with Customers

The Group adopted SFRS(I) 15 which is effective for annual periods beginning on or after 1 January 2018.

With respect to new SFRS(I) 15, management has assessed and concluded that there has no significant impact on its revenue recognition policy due to the following reasons:

- There is no variation consideration involved as the contracts does not provide customers with (a) right of returns; (b) trade discounts; (c) volume rebates.
- There is no service-type of warranties nor the option to purchase extended warranties.
- There is no contract that are recognised upon completion basis.
- There is no capitalised of contract cost.

Accordingly, the initial application of SFRS(I) 15 have no significant impact to the Group's Financial Statements.

SFRS(I) 9 Financial Instruments

The Group adopted SFRS(I) 9 which is effective for annual periods beginning on or after 1 January 2018.

With respect to new SFRS(I) 9, management has assessed and concluded that there is no significant impact arising from the adoption of SFRS(I) 9 due to the following reasons:

- The Group's financial assets in the previous financial year comprise only loans and receivables which in the current financial year are classified as financial assets at amortised costs.

  There is no significant impact arising from the impairment assessment for the new SFRS (I) 9 which requires assessment of expected credit losses associated with its debt financial assets carried at amortised costs. This is because the Group's trade and other receivables of RMB 27,699,000 as at 31 December 2017 is insignificant and these trade receivables are mainly current and repayment is expected within the next 2 to 3 months. The Group also has no history of significant bad debts and neither was allowance for trade receivables considered necessary in prior years.
- The Group does not have any financial assets in the last financial year that are currently classified as fair value through other comprehensive income or as fair value through profit or loss.

2(c) Standard issued but not yet effective

The Group has not adopted the following standards applicable to the Group that have been issued but not yet effective:

Description	**Effective for annual periods beginning on or after**
SFRS(I) 16 *Leases*	1 Jan 2019

Currently management is still assessing the impact of SFRS(I) 16 but does not expect to have any significant impact on the financial statements.

2(c) Standard issued but not yet effective (Cont'd)

SFRS(I) 16 *Leases*

SFRS(I) 16 requires lessees to recognise most leases on balance sheets. The standard includes two recognition exemptions for lessees – leases of 'low value' assets and short-term leases. SFRS(I) 16 is effective for annual periods beginning on or after 1 January 2019. At commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

The Group plans to adopt SFRS(I) 16 retrospectively with the cumulative effect of initially applying the standard as an adjustment to the opening retained earnings at the date of initial application, 1 January 2019.

On the adoption of SFRS(I) 16, the Group expects to choose, on a lease-by-lease basis, to measure the right-of-use asset at either:

(i) its carrying amount as if SFRS(I) 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate as of 1 January 2019; or

(ii) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before 1 January 2019.

In addition, the Group plans to elect the following practical expedients:

- not to reassess whether a contract is, or contains a lease at the date of initial application and to apply FRS 116 to all contracts that were previously identified as leases;

- to apply the exemption not to recognise right-of-use asset and lease liabilities to leases for which the lease term ends within 12 months as of 1 January 2019; and

- to apply a single discount rate to a portfolio of leases with reasonably similar characteristics.

The Group has performed a preliminary impact assessment based on currently available information, and the assessment may be subject to changes arising from ongoing analysis until the Group adopts SFRS(I) 16 in 2019.

On the adoption of SFRS(I) 16, the Group expects an increase in total assets and total liabilities, EBITDA and gearing ratio.

3 Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Group accounting

Consolidation

The financial statements of the Group include the financial statements of the Company and its subsidiaries made up to the end of the financial year. Information on its subsidiaries is given in Note 8 to the financial statements.

Subsidiaries are entities (including structure entity) which the Group has control. Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has rights to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns

3 Summary of significant accounting policies (Cont'd)

Group accounting (Cont'd)

Consolidation (Cont'd)

Consolidation of the subsidiaries in PRC is based on the subsidiaries financial statements prepared in accordance with SFRS(I). Profits reflected in the financial statements prepared in accordance with SFRS(I) may differ from those reflected in the PRC statutory financial statements of the subsidiary, prepared for PRC reporting purposes. In accordance with the relevant laws and regulations in PRC, profit available for distribution by the PRC subsidiaries are based on the amounts stated in the PRC statutory financial statements.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated but are considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests comprise the portion of a subsidiary's net results of operations and its net assets, which is attributable to the interests that are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity, and statements of financial position. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary, even if this results in the non-controlling interests having a deficit balance.

Acquisitions

The acquisition method of accounting is used to account for business combinations entered into by the Group.

The consideration transferred for the acquisition of a subsidiary or business comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes any contingent consideration arrangement and any pre-existing equity interest in the subsidiary measured at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree at the date of acquisition either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill.

Disposals

When a change in the Group's ownership interest in a subsidiary results in a loss of control over the subsidiary, the assets and liabilities of the subsidiary including any goodwill are derecognised. Amounts previously recognised in other comprehensive income in respect of that entity are also reclassified to profit or loss or transferred directly to retained earnings if required by a specific Standard.

Any retained equity interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained interest at the date when control is lost and its fair value is recognised in profit or loss.

3 **Summary of significant accounting policies (Cont'd)**

Group accounting (Cont'd)

Transactions with non-controlling interests

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control over the subsidiary are accounted for as transactions with equity owners of the Company. Any difference between the change in the carrying amounts of the non-controlling interest and the fair value of the consideration paid or received is recognised in a separate reserve within equity attributable to the equity holders of the Company.

Property, plant and equipment and depreciation

Property, plant and equipment are initially measured at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is computed using the straight-line method to write off the cost of the assets after deducting the residual value over the estimated useful lives as follows:

Buildings on leasehold land	20 years
Plant and machinery	5 - 20 years
Electronic system and equipment	3 - 20 years
Motor vehicles	4 - 5 years
Office equipment	5 years

Construction-in-progress, which represents plant and equipment under construction, is stated at cost less any impairment losses, if any. Cost comprises direct costs incurred during the periods of constructions, installation and testing. Capitalisation of these costs ceases and construction-in-progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed and the assets are available to use.

The cost of property, plant and equipment includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Dismantlement, removal or restoration costs are included as part of the cost of property, plant and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset.

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits, in excess of the standard of performance of the asset before the expenditure was made, will flow to the Group and the cost can be reliably measured. All other repair and maintenance expenses are recognised in profit or loss when incurred.

The carrying amount of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

For acquisitions and disposals during the financial year, depreciation is provided from the month after acquisition and to the month of disposal respectively. Fully depreciated property, plant and equipment are retained in the financial statements until they are no longer in use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in profit or loss in the year the asset is derecognised.

At the end of each reporting period, the residual values and useful lives of property, plant and equipment are reviewed, and adjusted prospectively, if appropriate. The useful lives and depreciation method are reviewed at each financial year-end to ensure that the method and year of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

3 Summary of significant accounting policies (Cont'd)

Land use rights

Land use rights are initially measured at cost. Following initial recognition, land use rights are measured at cost less accumulated amortisation. The land use rights are amortised on a straight-line basis over the lease term of 50 years.

Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined on a weighted-average basis and includes all costs in bringing the inventories to their present location and condition. In the case of manufactured inventories, cost includes all direct expenditure and production overheads based on the normal level of activity.

Where a production process result in more than one product being produced simultaneously, such when there is a main product and a by-product, and when the costs of conversion of each product are not separately identifiable, they are allocated between the products using their relative sales value or net realisable value, where applicable.

Allowance is made for obsolete, slow-moving and defective inventories in arriving at the net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sales.

Financial assets

The accounting for financial assets before 1 January 2018 are as follows:

Financial assets, other than hedging instruments, are classified into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the assets were acquired. The designation of financial assets is re-evaluated and classification may be changed at each reporting date with the exception that the designation of financial assets at fair value through profit or loss is irrevocable.

All financial assets are recognised on their trade date - the date on which the Company and the Group commit to purchase or sell the asset. Financial assets are initially recognised at fair value, plus directly attributable transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value.

Derecognition of financial assets occurs when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company and the Group have transferred substantially all of the risks and rewards of ownership.

An assessment for impairment is undertaken at least at the end of each reporting period whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

Non-compounding interest and other cash flows resulting from holding financial assets are recognised in profit or loss when received, regardless of how the related carrying amount of financial assets is measured.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, only when the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the amount and settle the liabilitiy simultenously.

Other than loans and receivables, the Company and the Group do not hold any financial assets at fair value through profit or loss, held-to-maturity investments or available-for-sale financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company and the Group provide money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

3 Summary of significant accounting policies (Cont'd)

Financial assets (Cont'd)

Loans and receivables (Cont'd)

Loans and receivables include trade and other receivables (excluding value added tax receivable, advances made to suppliers and prepayments), amount owing by a subsidiary, amounts owing by affliated companies and cash and bank balances. They are subsequently measured at amortised cost using the effective interest method, less impairment. If there is objective evidence that the asset has been impaired, the financial asset is measured at the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. The impairment or writeback is recognised in profit or loss.

The accounting for financial assets after 1 January 2018 are as follows:

Classification and measurement

Financial assets are in the following measurement categories:

- Amortised cost;
- Fair value through other comprehensive income (FVOCI); and
- Fair value through profit or loss (FVPL).

The classification depends on the Group's business model for managing the financial assets as well as the contractual terms of the cash flows of the financial asset.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group reclassifies debt instruments when and only when its business model for managing those assets changes.

At initial recognition

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

At subsequent measurement

(i) Debt instruments

Debt instruments mainly comprise of cash and bank balances, trade and other receivables, amounts owing by a subsidiary and amounts owing by affiliated companies.

There are three subsequent measurement categories, depending on the Group's business model for managing the asset and the cash flow characteristics of the asset:

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the contractual cash flow characteristics of the asset. The three measurement categories for classification of debt instruments are amortised cost, FVOCI and FVPL. The Group only has debt instruments at amortised cost.

Financial assets that are held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the assets are derecognised or impaired, and through the amortisation process.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

3 Summary of significant accounting policies (Cont'd)

Financial assets (Cont'd)

The accounting for financial assets after 1 January 2018 are as follows: (Cont'd)

At subsequent measurement (Cont'd)

(ii) Equity investments

The Group subsequently measures all its equity investments at their fair values. Equity investments are classified as FVPL with movements in their fair values recognised in profit or loss in the period in which the changes arise and presented in "other gains and losses", except for those equity securities which are not held for trading. The Group has elected to recognise changes in fair value of equity securities not held for trading in other comprehensive income as these are strategic investments and the Group considers this to be more relevant. Movements in fair values of investments classified as FVOCI are presented as "fair value gains / losses" in Other Comprehensive Income. Dividends from equity investments are recognised in profit or loss as "dividend income".

Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt financial assets carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by the SFRS(I) 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash at bank and on hand and deposits with financial institutions which are subject to an insignificant risk of change in value.

Investment in subsidiaries

In the Company's financial statements, investment in subsidiaries are carried at cost less accumulated impairment losses, if any. On disposal of such investments, the difference between disposal proceeds and the carrying amounts of investments are recognised in profit or loss.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

Borrowings

Borrowings are initially recognised at fair value (net of transaction costs) and subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowing costs

Borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

3 **Summary of significant accounting policies (Cont'd)**

Dividends

Final dividends proposed by the directors are not accounted for in shareholders' equity as an appropriation of retained earnings, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the articles of association of the Company grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised directly as a liability when they are proposed and declared.

Financial liabilities

The Group's financial liabilities include trade and other payables, and amounts owing to affliated companies.

Financial liabilities are recognised when the Company and the Group become a party to the contractual agreements of the instrument. All interest-related charges are recognised as an expense in "finance costs" in profit or loss. Financial liabilities are derecognised if the Company's and the Group's obligations specified in the contract expire or are discharged or cancelled.

Trade and other payables are initially measured at fair value, and subsequently measured at amortised cost, using the effective interest method.

Provisions

Provisions are recognised when the Company and the Group have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Present obligations arising from onerous contracts are recognised as provisions.

The directors review the provisions annually and where in their opinion, the provision is inadequate or excessive, due adjustment is made.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance costs.

Operating leases

Leases of assets in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Rentals on operating leases are charged to profit or loss on a straight-line basis over the lease term. Lease incentives, if any, are recognised as an integral part of the net consideration agreed for the use of the leased asset. Penalty payments on early termination, if any, are recognised in profit or loss when incurred.

Income taxes

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period, in the countries where the Group operates and generates taxable income.

PRC corporate income tax is provided at rates applicable to an enterprise in the PRC on income for financial reporting purpose, adjusted for income and expenses items which are not assessable or deductible for income tax purposes.

3 Summary of significant accounting policies (Cont'd)

Income taxes (Cont'd)

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting or taxable profit or loss at the time of the transaction.

A deferred income tax liability is recognised on temporary differences arising on investments in subsidiaries, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

Deferred income tax is measured:

(i) at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period; and

(ii) based on the tax consequence that will follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income taxes are recognised as income or expense in profit or loss, except to the extent that the tax arises from a business combination or a transaction which is recognised either in other comprehensive income or directly in equity. Deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax except where the sales tax incurred in a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statements of financial position.

Value-added tax

The Group's sales of goods in the PRC are subject to value-added tax ("VAT") at the applicable tax rate of 17% for PRC domestic sales. Input VAT on purchases can be deducted from output VAT. The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statements of financial position, respectively.

Revenue, expenses and assets are recognised net of the amount of VAT except:

(i) where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

(ii) receivables and payables that are stated with the amount of VAT included.

3 Summary of significant accounting policies (Cont'd)

Impairment of non-financial assets

The carrying amounts of the Company's and the Group's non-financial assets subject to impairment are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

If it is not possible to estimate the recoverable amount of the individual asset, then the recoverable amount of the cash-generating unit to which the assets belong will be identified.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Company and the Group at which management controls the related cash flows.

Individual assets or cash-generating units that include goodwill and other intangible assets, if any, with an indefinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs of disposal and value-in-use. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

Any impairment loss is charged to profit or loss unless it reverses a previous revaluation in which case it is charged to equity.

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount or when there is an indication that the impairment loss recognised for the asset no longer exists or decreases.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

An impairment loss in respect of goodwill is not reversed, even if it relates to impairment loss recognised in an interim period that would have been reduced or avoided had the impairment assessment been made at a subsequent reporting or end of reporting period.

Revenue recognition

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Revenue is recognised when the Group satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognised is the amount allocated to the satisfied performance obligation.

Revenue excludes VAT and is arrived at after deduction of trade discounts, if any. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

3 Summary of significant accounting policies (Cont'd)

Revenue recognition (Cont'd)

Gas separation

Revenue from sale of propylene, polypropylene and liquefied petroleum gas ("LPG") products is recognised when goods are sold to customers, which generally coincides with their delivery and acceptance.

Transport and logistic services

Revenue from rendering of transport and logistic services is recognised as and when services are completed. The lead time for rendering transport and logistic service is usually very short, lasting usually not more than two to three weeks.

Interest income is recognised using the effective interest method.

Employee benefits

Pension obligations

The Company and the Group participate in the defined contribution national pension and other welfare schemes as provided by the laws of the countries in which it has operations.

Pursuant to the relevant regulations of the PRC government, the Group participates in a local municipal government retirement benefits scheme (the "Scheme"), whereby the PRC subsidiaries are required to contribute a certain percentage of the basic salaries of its employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the PRC subsidiaries.

The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Scheme mentioned above. The contributions to these Schemes are charged to profit or loss in the period to which the contributions relate.

Employee leave entitlements

No accrual has been made for employee leave entitlements as any unconsumed annual leave not utilised will be forfeited.

Key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity. Directors and certain general managers are considered key management personnel.

Foreign currencies

Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The financial statements of the Company and the Group are presented in RMB, which is also the functional currency of the Company.

Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates at the dates of the transactions. Currency translation differences arising from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the end of the reporting period are recognised in profit or loss.

3 Summary of significant accounting policies (Cont'd)

Foreign currencies (Cont'd)

<u>Transactions and balances</u> (Cont'd)

Non-monetary items are not retranslated at the end of the reporting period and are measured at historical cost (translated using the exchange rates at transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when the fair value was determined.

Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the board committee whose members are responsible for allocating resources and assessing performance of the operating segments.

Related parties

A related party is defined as follows:

a) A person or a close member of that person's family is related to the Group and Company if that person:

  (i) has control or joint control over the Company;

  (ii) has significant influence over the Company; or

  (iii) is a member of the key management personnel of the Group or Company or of a parent of the Company.

b) An entity is related to the Group and the Company if any of the following conditions applies:

  (i) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

  (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

  (iii) both entities are joint ventures of the same third party.

  (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third party.

  (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company;

  (vi) the entity is controlled or jointly controlled by a person identified in (a);

  (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

  (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

3 Summary of significant accounting policies (Cont'd)

Related parties (Cont'd)

c) Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or dometic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner

Government grant

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the grant relates to an asset, the fair value is recognised as deferred capital grant on the statement of financial position and is amortised to profit or loss over the expected useful life of the relevant asset by equal annual installments.

Where loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favourable interest is regarded as additional government grant.

4 Revenue

Revenue comprises sale of propylene, polypropylene, LPG products and transport services, excluding applicable VAT, and is detailed as follows:

	Gas Separation		Transport & Logistic Service		Total	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Revenue:						
Liquefied petroleum gas	1,362,485	1,018,756	–	–	1,362,485	1,018,756
Propylene	418,013	292,330	–	–	418,013	292,330
Polypropylene	337,172	317,378	–	–	337,172	317,378
Transport and logistic services	–	–	141,810	176,160	141,810	176,160
Total revenue	2,117,670	1,628,464	141,810	176,160	2,259,480	1,804,624
Timing of transfer of goods or service						
At a point in time	2,117,670	1,628,464	141,810	176,160	2,259,480	1,804,624
Over time	–	–	–	–	–	–
	2,117,670	1,628,464	141,810	176,160	2,259,480	1,804,624

5 Property, plant and equipment

The Group	Buildings on leasehold land RMB'000	Plant and machinery RMB'000	Electronic system and equipment RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Construction-in-progress RMB'000	Total RMB'000
Cost:							
Balance as at 1 January 2017	10,453	120,733	19,566	53,827	290	–	204,869
Additions	12	593	742	834	11	10,473	12,665
Disposals	–	(697)	(5)	(738)	–	–	(1,440)
Balance as at 31 December 2017	10,465	120,629	20,303	53,923	301	10,473	216,094
Acquisition of a subsidiary (Note 8)	691,174	621,665	77,125	134	–	–	1,390,098
Additions	779	1,687	3,567	–	338	62,874	69,245
Disposals	–	(3,057)	(1,509)	(2,503)	–	–	(7,069)
Balance as at 31 December 2018	702,418	740,924	99,486	51,554	639	73,347	1,668,368
Accumulated depreciation:							
Balance as at 1 January 2017	7,354	74,401	12,433	11,764	290	–	106,242
Depreciation for the year	434	13,006	319	12,105	10	–	25,874
Disposals	–	(627)	(5)	(702)	–	–	(1,334)
Balance as at 31 December 2017	7,788	86,780	12,747	23,167	300	–	130,782
Depreciation for the year	303	10,150	287	12,176	85	–	23,001
Disposals	–	(2,778)	(1,400)	(2,277)	–	–	(6,455)
Balance as at 31 December 2018	8,091	94,152	11,634	33,066	385	–	147,328
Carrying amount:							
Balance as at 31 December 2018	694,327	646,772	87,852	18,488	254	73,347	1,521,040
Balance as at 31 December 2017	2,677	33,849	7,556	30,756	1	10,473	85,312

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

5 Property, plant and equipment (Cont'd)

Construction-in-progress in the last financial year related to costs incurred during the financial year for engaging a professional firm to perform feasilibity study for constructing plant and equipment for the manufacturing of Polypropylene.

In the current financial year, construction-in-progress relates to the costs of construction of polypropylene production plant as disclosed in Note 29.2.

The Company	Electronic system and equipment RMB'000
Cost	
Balance as at 31 December 2017 and 2018	27
Accumulated depreciation	
Balance as at 31 December 2017 and 2018	27
Carrying amount	
Balance as at 31 December 2017 and 2018	–

The Group	Note	2018 RMB'000	2017 RMB'000
Depreciation expense charged to:			
Cost of sales/inventories		22,852	25,816
Distribution costs	23(b)	1	20
Administrative expenses	23(c)	148	38
		23,001	25,874

6 Land use rights

The Group	RMB'000
Cost	
Acquisition of a subsidiary (Note 8)	71,522
Balance as at 31 December 2018	71,522
Carrying amount	
Balance as at 31 December 2018	71,522
Amount to be amortised:	
- Not later than one financial year	1,484
- Later than one year but not later than five financial years	7,421
- Later than five financial years	62,617
	71,522

6 **Land use rights (Cont'd)**

The Group	**RMB'000**
Current	1,484
Non-current	70,038
	71,522

The land use rights relate to the following parcels of land:

Location	**Lease period**	**Land area**
东明县菜园集李屯行政村	50 years (commenced on March 2016 to February 2066)	123,873 square meters
	50 years (Commenced on April 2018 to March 2068)	189,863 square meters

As at 31 December 2018, the land use rights have remaining tenures ranging from 47 to 49 years.

7 **Goodwill on consolidation**

The Group	**2018 RMB'000**	**2017 RMB'000**
Cost		
Beginning of financial year	2,501	2,501
Acquisition of a subsidiary (Note 8)	7,844	–
End of financial year	10,345	2,501
Accumulated impairment		
Beginning and end of financial year	–	–
Carrying amount	10,345	2,501

8 **Investment in subsidiaries/Amount owing by a subsidiary**

The Company	**2018 RMB'000**	**2017 RMB'000**
Investment in subsidiaries	250,041	250,041
Amount owing by a subsidiary		
- Loan to subsidiary	13,711	15,377
- Dividends receivable	22,000	22,600
	35,711	37,977

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

8 Investment in subsidiaries/Amount owing by a subsidiary (Cont'd)

The Group has the following investment in subsidiaries:

Name	Country of incorporation /principal of business	Cost of investment		Effective percentage of equity held		Principal activities
		2018 RMB'000	2017 RMB'000	2018	2017	
Subsidiary held by the Company						
Dongming Hengchang Petrochemical Co., Ltd.[(1)] (东明恒昌化工有限公司) ("Dongming Hengchang")	The People's Republic of China	250,041	250,041	100%	100%	Manufacture and sale of propylene, polypropylene and LPG products
Subsidiaries held by Dongming Hengchang						
Dongming Changshun Transport Company Limited [(1)(2)] (东明县昌顺运输有限公司) ("Changshun Transport")	The People's Republic of China	–	–	100%	100%	Provide logistics and transportation for petroleum products
Dongming Qianghai Petrochemical Co., Limited[(1)(3)] (东明前海化工有限公司) ("Dongming Qianhai")	The People's Republic of China	–	–	70%	–	Manufacture and sale of propylene, purified isobutylene and methyl tert-butyl ether, commonly known as MTBE
		250,041	250,041			

(1) Audited by RT LLP, Singapore for the purpose of expressing an opinion on the consolidated financial statements for the financial year ended 31 December 2018
(2) Acquired on 12 August 2015
(3) Acquired on 26 December 2018

Loan to subsidiary relates to unsecured advances and accrued interest on the advances, both of which are repayable by 28 November 2019 (2017: 28 November 2018). Interest is charged at 3% (2017: 3%) per annum. The carrying value approximates the fair value of the advances.

The amount owing by a subsidiary is denominated in RMB.

8 **Investment in subsidiaries/Amount owing by a subsidiary (Cont'd)**

Acquisition of a subsidiary during the financial year

Background information

On 3 May 2017, the Company announced that its wholly-owned subsidiary Dongming Hengchang Petrochemical Co., Ltd ("Dongming Hengchang") ("Purchaser") entered into a non-binding letter of intent in relation to a potential acquisition with a view to strengthen the Group's turnover and profit and to enhance shareholders' value and return.

On 29 June 2017, the Company announced that Dongming Hengchang has executed a conditional equity interest transfer agreement relating to the proposed acquisition of 70% equity interest in the total registered and paid-up capital of Dongming Qianhai Petrochemical Co Limited ("Dongming Qianhai") from an interested party, Dongming Zhongyou Fuel and Petrochemical Company Limited ("Dongming Zhongyou") ("Vendor") for a purchase consideration of RMB317,800,000 ("Proposed Acquisition"). The purchase consideration will be satisfied fully in cash.

Upon the completion of the Proposed Acquisition, Dongming Qianhai will become a 70% owned subsidiary of the Company via Dongming Hengchang whilst the remaining 30% equity interest will be held by the existing shareholder, Shandong Dongming Petrochem Group Co., Limited, which becomes the Group's non-controlling interest.

For the purpose of the Proposed Acquisition, the Company appointed Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("JLL") as the independent valuer to conduct a valuation to estimate the market value of DMQH as at 31 March 2017. The proposed acquisition was approved by shareholders at an Extraordinary General Meeting ("EGM") held on 22 December 2017.

Based on the Circular dated 7 December 2017 which was approved in the EGM on 22 December 2017, the terms of payment for the purchase consideration of RMB317,800,000 are as follows:

- 10% of the Purchase Consideration as deposit shall be paid after execution of the Agreement;
- 40% of the Purchase Consideration after all relevant internal approvals and consents including shareholder's approval;
- 40% of the Purchase Consideration upon Completion Audit;
- 10% of the Purchase Consideration after 1 year from the completion date and this can be used to deduct against any losses and damages arising from breach of the Agreement.

On 31 January 2018, the Company announced that Dongming Qianhai is still at trial run stage and in order to achieve the estimated production capacity and to satisfy the relevant designing requirements, Dongming Qianhai needs more time to complete such trial run. Accordingly, the Purchaser and Vendor entered into a new supplemental agreement in respect of the Agreement ("New Supplemental Agreement") on the date of this announcement.

Pursuant to the New Supplemental Agreement, the Purchaser and the Vendor (the "Parties") agreed to extend the Long Stop Date of the Proposed Acquisition to 30 April 2018. Subsequently, the Company further announced several extension dates for the acquisition of Dongming Qianhai during the financial year.

On 26 December 2018 (the "acquisition date"), Dongming Hengchang has legally completed is acquisition of its 70% equity interest in Dongming Qianhai for a cash consideration of RMB 317,800,000. Upon the acquisition, Dongming Qianhai became a subsidiary of the Group.

8 Investment in subsidiaries/Amount owing by a subsidiary (Cont'd)

The fair value of the identifiable assets and liabilities of Dongming Qianhai as at the acquisition date were:

	RMB'000
Property, plant and equipment (Note 5)	1,390,098
Land use rights (Note 6)	71,522
Investment securities (Note 9)	30,450
Trade and other receivables	45,975
Amount owing by non-controlling interest	192,700
Inventories	72,268
Cash and bank balances	503
Total assets	1,803,516
Trade and other payables	77,922
Amount owing to affiliated companies	1,550
Borrowings	1,281,250
Total liabilities	1,360,722
Total identifiable net assets acquired at fair value	442,794
Less: Non-controlling interests measured at the NCI's proportionate value of Dongming Qianhai's net identifiable assets	(132,838)
Add: Goodwill arising from acquisition (Note 7)	7,844
Purchase consideration	317,800
Less: Cash and cash equivalents in subsidiary acquired	(503)
Net cash payable on acquisition	317,297
Effect of acquisition of Dongming Qianhai on cash flows:	
Total purchase consideration	317,800
Less: 50% payment made in 2017 to 东明中油燃料石化有限公司 (Note 13)	(158,900)
Amount payable (Note 22)	158,900
Effect on cash flows of the Group:	
Cash paid	–
Less: Cash and cash equivalents in subsidiary acquired	(503)
Cash inflow on acquisiton	(503)

The Group measured the fair value of the identifiable assets and liabilities of Dongming Qianhai as at 31 December 2018 based on an independent valuation report from a professional PRC valuer, 山东天元同泰资产评估有限公司 dated 22 February 2019.

Purchase consideration

The purchase consideration was satisfied fully in cash.

Acquisition-related costs

Acquisition-related costs of RMB 427,000 are included in "administrative expenses" in the consolidated statement of comprehensive income and in operating cash flows in the consolidated statement of cash flows in the financial year ended 31 December 2017.

Non-controlling interests

The Group has chosen to recognise the non-controlling interests at the non-controlling interest's proportionate shares of Dongming Qianhai net identifiable assets.

8 Investment in subsidiaries/Amount owing by a subsidiary (Cont'd)

Revenue and profit contribution

There are no contributed revenue and profit to the Group for the acquired business from 26 December 2018 (date of acquisition) to 31 December 2018 as the Group has assumed the acquisition date to be on 31 December 2018.

Had Dongming Qianhai been acquired from 1 January 2018, consolidated revenue and consolidated profit for the year ended 31 December 2018 would have been RMB 4,877,515,794 and RMB 238,326,530 respectively.

Acquired receivables

The fair value of trade and other receivables is RMB45,974,398 and includes trade receivables with a fair value of RMB5,433,325, which is equivalent to its carrying amounts.

Fair values

The fair value of the acquired identifiable intangible assets of RMB71,522,000 (land use right) was substantially finalised subsequent to the financial year but before the date of the Directors' Statemetn.

The fair value is as determined by a professional PRC valuer, 山东天元同泰资产评估有限公司. No material adjustments were required to be recognised.

Goodwill

The goodwill of RMB7,844,113 arising from the acquisition comprises the value of strengthening the Group's market position in the processing and production of propylence related products which is a strategic fit to the Group's business expansion plans and creates business synergy. This goodwill is not deductible for tax purposes.

The Group has the following subsidiary that have NCI that are material to the Group.

Name of subsidiary	Principal place of business	Proportion of ownership interest held by noncontrolling interest	Profit/(Loss) allocated to NCI during the reporting period RMB'000	Accumulated NCI at the end of reporting period RMB'000
31 December 2018				
Dongming Qianhai	PRC	30%	–	132,838

Summarised financial information about subsidiaries with material NCI.

Summarised financial information including goodwill on acquisition and consolidation adjustments but before intercompany eliminations of subsidiaries with material noncontrolling interests are as follows:

Summarised statement of financial position

	Dongming Qianhai	
	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Current		
Assets	311,446	–
Liabilities	(1,204,473)	–
Net current liabilities	(893,027)	–
		–
Non-current		
Assets	1,492,071	–
Liabilities	(156,250)	–
Net non-current assets	1,335,821	–
Net assets	442,794	–

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

9 Investment security

Financial instruments as at 31 December 2018

	RMB'000
At fair value through other comprehensive income	
Equity security (Unquoted) [Note 8]	
东明前海热力有限公司	30,450

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.

10 Inventories

The Group	2018 RMB'000	2017 RMB'000
Raw materials	46,657	4,300
Finished goods	55,441	21,143
Consumables	155	–
	102,253	25,443
Inventories charged to cost of sales	2,131,469	1,700,906

11 Trade and other receivables

	The Group		The Company	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Trade receivables (i)	5,727	12,296	–	–
Accrued revenue (ii)	17,719	–		
Advance payments	190	96	–	–
Advances made to staff (iii)	–	914	–	–
Interest receivables	1,053	553	–	–
Refundable deposits (iv)	38,850	–		
Other receivables	3,010	508	–	–
	66,549	14,367	–	–

The age analysis of trade receivables that are neither past due nor impaired is as follows:

The Group	2018 RMB'000	2017 RMB'000
Current (within 30 days)	5,727	12,296

(i) Trade receivables that are neither past due nor impaired belong to customers who have made payments regularly and the Group did not foresee any credit issues with these customers. The carrying values of these trade receivables approximate the fair values.

The credit term for transport and logistic business is usually not more than two to three weeks.

11 Trade and other receivables (Cont'd)

(ii) Accrued revenue relates to revenue recognised based on goods delivered or services rendered that were not billed. These will be billed in the next billing cycle.

(iii) Advances made to staff were for business purposes. The carrying values approximate their fair values.

(iv) Refundable deposits of RMB38,850,000 relates to deposits placed by Dongming Qianhai in Dec 2017 with the PRC government for the purpose of securing 3 plots of state owned land in the PRC with land area of 189,863 square meters. The Group has since successfully acquired these 3 plots of land of 189,863 square meters and had obtained the land use right as disclosed in Note 6 where Dongming Qianhai's plant and equipment currently reside in.

The Board informed that this refundable deposit amounting to RMB38,850,000 will be refunded to Dongming Qianhai by the PRC government in due course.

Trade and other receivables are denominated in RMB.

12 Prepayment

	The Group		The Company	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayment for future land use	9,716	–	–	–
Prepayments	4,332	3,013	–	–
	14,048	3,013	–	–

Prepayment for future land use of RMB 9.716 million relates to prepayment for a piece of land of 129,548 square meters in the PRC, where no formal contract or agreement was signed with the relevant local authorities and no land title has been obtained. The land use right prepayment was made in connection with proposed investment in relation to construction of a polypropylene production plant in Dongming County, Shandong Province, China as announced by the Company on 14 September 2018 (Note 29.3). The polypropylene production plant will completed and have an estimated production capacity of processing 200,000 tonnes of polypropylene per annum. The lease amortisation will commence upon the receipt of the land title.

Prepayments relates to prepaid expenses for toll card, petrol card and insurance expenses for trucks.

13 Amounts owing by affiliated companies

	2018	2017
The Group	**RMB'000**	**RMB'000**
Trade		
- 山东东明石化集团有限公司	418	807
- 山东东明梨树化学有限公司	–	2,571
- 东明前海化工有限公司	–	3,615
- 东明润明油品销售有限公司	–	375
- 东明中油燃料石化有限公司	274	–
	692	7,368
Non-trade		
- 东明中油燃料石化有限公司 (i)	–	158,900
	692	166,268

13 Amounts owing by affiliated companies (Cont'd)

Affiliated companies refer to companies which a director of the Company has an indirect equity interest.

The amounts owing by affiliated companies relate to unsecured advances which are interest-free and repayable on demand. The carrying values approximate their fair values.

Amounts owing by affiliated companies are denominated in RMB.

Note (i):

The amount due from Dongming Zhongyou Fuel and Petrochemical Company Limited (东明中油燃料石化有限公司) related to the 50% of payment for the proposed acquisition of Dongming Qianhai Petrochemical Co., Limited in 2017. As the acquisition was completed on 26 December 2018, this amount has been revised.

14 Amount owing by non-controlling interest / Loan from non-controlling interest

The Group	2018 RMB'000	2017 RMB'000
Amount owing by non-controlling interest	192,700	–
Loan from non-controlling interest		
Current:		
Loan 1	200,000	–
Loan 2	200,000	–
Loan 3	200,000	–
Loan 4	200,000	–
Loan 5	200,000	–
	1,000,000	–

Loan 1

The loan bears interest rate at 4.5675% per annum and due on 4 January 2019. This loan has been repaid as at the date of this report.

Loan 2

The loan bears interest rate at 4.5675% per annum and due on 3 April 2019. This loan has been repaid as at the date of this report.

Loan 3

The loan bears interest rate at 4.5675% per annum and due on 3 June 2019.

Loan 4

The loan bears interest rate at 4.5675% per annum and due on 8 September 2019.

Loan 5

The loan bears interest rate at 4.5675% per annum and due on 7 October 2019.

14 Amount owing by non-controlling interest / Loan from non-controlling interest (Cont'd)

These loans from NCI were previously drawndown by Dongming Qianhai for its working capital purposes prior to 2018 and was subsequently renew last year and this year. These loans do not have any convenants.

The NCI has given a written undertaking not to early recall the loan amounts.

In addition, upon reaching the loan repayment due dates for the respective tranches of loans cited above, NCI will base on the Group subsidiary's repayment ability and financial health at the point of due date to mutually agree on the next proposed repayment schedules.

As at the date of this Report, the Board informed that management will be negotiating with banks to secure banking facilities for Dongming Qianhai (for its working capital purposes) so as to replace these NCI loans.

A reconciliation of liabilities arising from financing activities is as follows:

	2017	Cash flows	Non-cash changes Acquisition	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Loan from non-controlling interest				
- Current	–	–	1,000,000	–
	–	–	1,000,000	–
Bank borrowings (Note 20)				
- Current	–	–	156,250	–
- Non-current	–	–	125,000	–
	–	–	281,250	–

15 Cash and bank balances

	The Group		The Company	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Cash on hand	57	124	31	88
Bank balances	319,158	311,225	2,327	23
Fixed deposit	107,000	127,000	–	–
	426,215	438,349	2,358	111

The fixed deposit earned interest at 2.30%-3.40% (2017: 2.30%-3.40%) per annum with maturity period of 1 year (2017: 1 year).

For the purpose of presenting the consolidated statement of cash flows, cash and cash equivalents is equal to cash and bank balances.

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15 Cash and bank balances (Cont'd)

Cash and bank balances are denominated in the following currencies:

	The Group		The Company	
	2018	**2017**	**2018**	**2017**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Singapore dollar	2,345	98	2,345	98
United States dollar	13	12	13	13
Renminbi	423,857	438,239	–	–
	426,215	438,349	2,358	111

Cash and cash equivalents of RMB423,857,000 (2017: RMB438,239,000) held in the PRC are subject to local exchange control regulations. These regulations place restriction on the amount of currency being exported other than through dividends.

16 Share capital

	No. of shares		Amount	
	2018	**2017**	**2018**	**2017**
The Group and The Company			**RMB'000**	**RMB'000**
Issued and fully paid, with no par value:				
Balance at beginning and end of year	640,000,000	640,000,000	316,125	316,125

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings of the Company. All shares rank equally with regard to the Company's residual assets.

17 Retained earnings / (accumulated losses)

	The Group	
	2018	**2017**
	RMB'000	**RMB'000**
Retained earnings / (accumulated losses)		
- Balance at beginning of the year	300,571	256,190
- Total comprehensive income for the financial year	82,703	68,219
- Transfer to statutory common Reserve (Note 19)	(8,797)	(8,128)
- Dividends paid (Note 26)	(15,354)	(15,710)
- Transfer to capital reserve (Note 18)	(250,000)	–
- Balance at end of the year	109,123	300,571

18 Capital reserve

As requested by the Board, the capital reserve arises from the transfer of a PRC subsidiary's retained earnings to the PRC subsidiary's own share capital account for the purpose of enlarging its share capital without any cash outlay as permitted under the PRC regulations.

This capital reserve is a non-distributable reserve.

19 **Other reserves**

The Group	2018 RMB'000	2017 RMB'000
Other reserves comprised the following:		
Statutory common reserve		
- Balance at beginning of financial year	51,188	43,060
- Transfer from retained earnings (Note 17)	8,797	8,128
- Balance at end of the year	59,985	51,188
Voluntary common reserve		
- Balance as at beginning and end of the year	797	797
Total reserves	60,782	51,985

In accordance with the relevant laws and regulations of the PRC, the subsidiaries are required to transfer between 5% and 10% of its profit after taxation to the statutory common reserve until the statutory common reserve balance reaches 50% of the respective registered capital. For the purpose of calculating the transfer to this reserve, the profit after taxation shall be the amount determined under the PRC accounting standards. The transfer to this reserve must be made before the distribution of dividends to shareholders.

Statutory common reserve can be used to make good previous year's losses and for conversion to capital, if any, subject to approval from the PRC authorities and provided that the balance remains not less than 25% of the registered capital.

The voluntary common reserve has been combined with statutory common reserve in prior years under PRC statutory accounts.

20 **Bank borrowings**

	The Group		The Company	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Secured loans from bank:				
Industrial and Commercial Bank of China	281,250	–	–	–
Current	125,000	–	–	–
Non-current	156,250	–	–	–
	281,250	–	–	–

The bank borrowings from Dongming Qianhai were previously secured by a mortgage over the property, plant and equipments of its affliated company, 东明润泽化工有限公司 before the acquisition by Dongming Hengchang. This bank borrowings continue to be mortgage over the affiliated company's property, plant and equipments after the acquisition.

The bank borrowings bears interest at 4.75% per annum and will be repaid on quarterly basis from the date of drawdown on 1 June 2017.

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20 Bank borrowings (Cont'd)

Fair value of non-current bank borrowings

	The Group		The Company	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current	156,250	–	–	–
	156,250	–	–	–

The fair values above are determined from the cash flow analyses, discounted at market borrowing rates of an equivalent instrument at the balance sheet date which is close to the effective interest rate of the Group's existing borrowings as follows:

	The Group		The Company	
	2018	2017	2018	2017
Bank borrowings	4.75%	–	–	–

21 Trade and other payables

	The Group		The Company	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables(i)	60,659	7,116	–	–
Accrual for salaries and related costs	3,523	4,778	–	275
VAT payables	23,576	8,996	–	–
Provision for directors' fees	343	740	343	740
Advances received from customers(ii)	16,900	17,466	–	–
Amount owing to directors(v)	70	70	–	–
Amount owing to staff	135	50	–	–
Amount owing to outsourced transportation companies(iv)	684	4,723	–	–
Refundable deposits received from third parties(iii)	7,838	7,914	–	–
Amount owing to sundry creditors	5,886	866	648	636
	119,614	52,719	991	1,651

Note:

(i) The carrying amount of trade and other payables approximate its fair value due to the relative short duration of realisation.

Trade payable are normally settled on 60-day term while other payables have an average term of six months.

(ii) Advances received from customers represent down-payment for sales orders placed. The amounts are interest-free.

(iii) Refundable deposits received from third parties represent money received from outsourced transport and logistic companies which are interest-free and repayable upon completion of the transport and logistic service.

(iv) Amount owing to outsourced transportation companies approximate its fair value due to the relative short duration of realisation.

(v) Amount owing to directors represents unsecured advances from directors which are interest-free and repayable on demand. These amount approximate their fair values.

21 Trade and other payables (Cont'd)

Trade and other payables are denominated in the following currencies:

	The Group		The Company	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Singapore dollar	991	1,651	991	1,651
Renminbi	118,623	51,068	–	–
	119,614	52,719	991	1,651

22 Amounts owing to affiliated companies

The Group	2018 RMB'000	2017 RMB'000
Trade		
山东东明石化集团有限公司	35	–
东明中油燃料石化有限公司 (Note 8)	158,900	10,113
石化集团鲁班建筑有限公司直属队	1,550	–
	160,485	10,113

Affiliated companies refer to companies which a director of the Company has an indirect equity interest.

Amount owing to affiliated companies are unsecured, non-interest bearing and payable on demand. These amount approximate their fair values.

23(a) Other income

The Group	2018 RMB'000	2017 RMB'000
Interest income - bank	5,620	8,980
Subsidies from PRC Government	830	4,004
Others	408	826
	6,858	13,810

Subsidies from PRC Government related to monetary reward incentive received by Dongming Changshun Transport Company for promoting the business activities in Ganyu and for contributing to more tax payments.

23(b) Distribution costs

The Group	Note	2018 RMB'000	2017 RMB'000
Employee benefits expense	23(e)	711	646
Depreciation of property, plant and equipment	5	1	20
Travelling expenses		–	1
Operating lease rentals - equipments		109	108
Others		105	118
		926	893

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23(c) Administrative expenses

The Group	Note	2018 RMB'000	2017 RMB'000
Depreciation of property, plant and equipment	5	148	38
Directors' fees		1,453	1,686
Employee benefits expense	23(e)	5,868	5,521
Exchange loss		208	–
Operating lease rentals		217	215
Entertainment expenses		427	446
Travelling and accommodation		925	623
Stamp duty & property tax		–	150
Repair and maintenance		77	157
Environment fee		131	143
Professional fee		485	1,085
Audit fee	24	884	870
Cleaning expense		216	216
Non-claimable value added tax		6,550	6,039
Loss on disposal of property, plant and equipment		511	106
Others		3,721	3,978
		21,821	21,273

23(d) Other operating expenses

The Group	2018 RMB'000	2017 RMB'000
Bank charges	81	1
Fines	–	3
Others	15	13
	96	17

23(e) Employee benefits expense

The Group	Note	2018 RMB'000	2017 RMB'000
Directors' remuneration			
- salaries and related costs		1,225	1,236
- defined contributions		1	14
Key management personnel (other than directors)			
- salaries and related costs		1,392	1,316
- defined contributions		139	98
Other than directors and key management personnel			
- salaries and related costs		29,716	41,638
- defined contributions		1,670	1,368
		34,143	45,670
As disclosed in:			
Cost of sales/inventories		27,564	39,503
Distribution costs	23(b)	711	646
Administrative expenses	23(c)	5,868	5,521
		34,143	45,670

24 Profit before taxation

The Group	Note	2018 RMB'000	2017 RMB'000
Profit before taxation has been arrived at after charging and (crediting):			
Depreciation of property, plant and equipment	5	23,001	25,874
Operating lease rentals		326	323
Audit fee	23(c)	884	870

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For the financial year ended 31 December 2018

25 Taxation

The Group	2018 RMB'000	2017 RMB'000
Current taxation	29,323	27,126

The tax expense on the results of the financial year varies from the amount of income tax determined by applying the relevant statutory rate of income tax on the Group's profit as a result of the following:

The Group	2017 RMB'000	2016 RMB'000
Profit before taxation	112,026	95,345
Tax at statutory rate of 25% (2017 : 25%)	29,723	25,848
Tax at statutory rate of 17% (2017 : 17%)	(1,167)	(1,368)
Adjustments:		
Tax effect on non-taxable income	(260)	(200)
Tax effect on non-deductible expenses	19	1,790
Detererd tax assets not recognised	1,008	1,056
	29.323	27,126

No provision for Singapore tax has been made as the Company did not derive any significant taxable income in Singapore.

The applicable tax rates of the Group's subsidiaries in the PRC, Dongming Hengchang, and Changshun Transport for the financial year ended 31 December 2018 are 25% (2017 : 25%).

Unappropriated profits

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on the dividends to foreign investors from foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investor. As the amount of unappropriated profits prior to 1 January 2008 amounted to RMB68,214,846 (2017: RMB83,569,000) which has not yet been utilised, the directors are of the view that no deferred tax liabilities arising from unappropriated profits is required at the end of the reporting period.

Unrecognised deferred tax liabilities

As at 31 December 2018, the aggregate amount of temporary differences relating to undistributed profits of a subsidiary for which deferred tax liabilities have not been recognised is RMB104,046,508 (2017: RMB95,175,691). No deferred tax liability has been recognised because the Group has not fully utilised the subsidiary's unremitted earnings before 31 December 2007 as discussed above.

Unabsorbed losses and unrecognised deferred tax assets

As at 31 December 2018, the Group has untilised tax losses amounting to RMB8,256,960 (2017: RMB4,224,000), which arose solely from Changshun Transport. No deferred tax assets have been recognised in respect of the untilised tax benefits arising from these unabsorbed losses as the directors are of the view that it is not probable that future taxable profits will be available against which the Group can utilised the benefits.

26 Earnings per share

The Group

The basic earnings per share is calculated on the Group's profit after taxation attributable to equity holders of the Company of RMB82,703,000 (2016: RMB68,219,000) based on the weighted average number of ordinary shares in issue of 640,000,000 (2017: 640,000,000) shares during the financial year.

The diluted earnings per share is calculated on the Group's profit after taxation attributable to equity holders of the Company of RMB82,703,000 (2016: RMB68,219,000) based on the weighted average number of ordinary shares in issue of 640,000,000 (2017: 640,000,000) shares during the financial year.

There are no dilutive potential ordinary shares that were outstanding during the financial year.

27 Retirement benefit plans

The eligible employees of the Group, who are citizens of the PRC, are members of a state-managed retirement benefit scheme operated by the local government. The Group is required to contribute a certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to profit or loss for the financial year representing defined contribution national pension plan is:

The Group	2018 RMB'000	2017 RMB'000
Defined contribution national pension plan	1,493	1,292

28 Dividends

The Group and The Company	2018 RMB'000	2017 RMB'000
Ordinary dividends paid		
- final tax-exempt (one-tier) dividend paid in respect of previous financial year of S$0.005 (equivalent to RMB 0.0239) [2017: S$0.005 (equivalent to RMB 0.0245)] per share	15,354	15,710

	2018 SGD'000	2017 SGD'000
Proposed but not recognised as a liability as at 31 December:		
Dividends on ordinary shares, subject to shareholders' approval at an Annual General Meeting to be convened		
- final tax-exempt (one-tier) dividend for 2018: S$0.005 (2017: S$ 0.005) per share	3,200	3,200

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For the financial year ended 31 December 2018

29 Commitments

29.1 Operating lease commitments (non-cancellable)

At the end of the reporting period, the Group was committed to make the following lease rental payments under non-cancellable operating leases for leasehold land, office building and offices:

The Group	2017 RMB'000	2016 RMB'000
Not later than one year	359	359
Later than one year and not later than five years	1,796	1,796
Later than five years	6,133	6,492

The lease on the Group's leasehold land with an area of 48,653.3 sq. m on which rental is payable for the parcel of land located at 27 Huanghe Road, Dongming County, Shandong Province, PRC (中华人民共和国山东省东明县黄河路27号) will expire in 2053. The current rent payable on the lease is RMB197,000 per annum.

The lease on the Group's leasehold land with an area of 91,524.04 sq. m on which rental is payable for the parcel of land located at 山东省东明县菜园集乡经济园区 will expire in 2058. The current rent payable on the lease is RMB371,000 per annum. The agreement was cancelled during 2016.

The leases on the Group's office building and offices on which rentals are payable will expire between 31 December 2025, the earliest date, and 1 May 2026, the latest date. The current rents payable on the leases expiring on 31 December 2025 are RMB1,800, RMB12,000 and RMB120,000 per annum, and the lease expiring on 1 May 2026 is RMB3,000.

29.2 Purchase commitments

At the end of reporting period, the Group entered into purchase commitment for the supply of LPG materials from the following supplier:

- 东明中油燃料石化有限公司 31 May 2016 to 30 May 2036

The ordering quantities are on the basis of as and when required for which the pricing is based on the prevailing market rate.

29.3 Capital Commitments

Capital expenditure contracted for as at the end of reporting period but not recognised in the financial statements are as follow:

The Group	2017 RMB'000	2016 RMB'000
Capital commitments in respect of property, plant and equipments and land use rights	1,116,937	–

On 14 September 2018, the Group announced that the Board has approved the proposed investment ("Proposed Investment") by its subsidiary, Dongming Hengchang for the construction of a polypropylene production plant ("Plant") which will have an estimated production capacity of processing 200,000 tonnes of polypropylene per annum.

The Proposed Investment is part of the Group's long-term growth plan. It is currently expected that it will take approximately two years for the Plant to be fully constructed and ready for trial runs.

Dongming Hengchang will undertake the Proposed Investment by acquiring a plot of land where the Plant will be built on ("Land Acquisition"), and will subsequently construct the factory building and install the processing facilities.

29.3 Capital Commitments (Cont'd)

The total costs of the Proposed Investment are currently estimated by the Board to be approximately RMB 1.2 billion. This would include the estimated cost of:

(a) the construction of the factory building - RMB 130,000,000;
(b) the production facilities - RMB 880,000,000; and
(c) other related matters including the Land Acquisition - RMB 190,000,000.

To-date, an amount of RMB 9.716 million of prepayment has been made for a piece of land of 129,548 square meters in the PRC, where no formal contract or agreement was signed with the relevant local authorities and no land title has been obtained (Note 12).

30 Related party transactions

According to management, there are no related party transactions in accordance with the definition of related party as disclosed in the accounting policy under Note 3.

Affiliated companies transactions

As an additional disclosure, the Group disclosed the following significant affiliated companies transactions entered into between the Group and its affiliated companies at terms agreed between the companies:

The Group	2018 RMB'000	2017 RMB'000
Sales to affiliated companies		
- 东明中油燃料石化有限公司	12,585	5,601
- 山东东明石化集团恒基化工有限公司	140	–
- 山东东明梨树化学有限公司	331,610	238,041
- 山东东明石化集团有限公司	70,711	76,114
- 东明石油经销有限公司	1,246	13,942
- 东明润明油品销售有限公司	494	489
- 东明前海化工有限公司	640,942	267,574
- 山东东明石化集团汇泽有限公司	4,124	–
	1,061,852	601,761
Purchases from affiliated companies		
- 东明中油燃料石化有限公司	1,924,784	1,444,142
Rental and utilities charged by affiliated companies		
- 东明中油燃料石化有限公司	4,820	5,022
- 山东东明石化集团有限公司	18,922	22,030
- 东明润泽化工有限公司	23,425	15,996
	47,167	43,048

Affiliated companies refer to companies which a director of the Company has an indirect equity interest.

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31 Disclosure of directors' remuneration

	2018	2017
Number of directors		
RMB750,000 to RMB1,000,000	1	1
RMB500,000 to RMB749,999	1	1
RMB250,000 to RMB499,999	3	3
Below RMB250,000	–	–

32 Financial risk management objectives and policies

The Group has documented financial risk management policies. These policies set out the Group's overall business strategies and its risk management philosophy. The Group is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks included foreign currency risk, interest rate risk, credit risk, liquidity risk and market price risk.

The board of directors meets periodically to analyse and formulate measures to manage the Group's exposure to market risk, including principally changes in interest rates and currency exchange rates. Generally, the Group employs a conservative strategy regarding its risk management. As the Group's exposure to market risk is kept at a minimum level, the Group has not used any derivatives or other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.

The Group's financial instruments carried on the statements of financial position include cash and bank balances, receivables and payables.

32.1 Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises when transactions are denominated in foreign currencies.

The Group has minimal monetary balances denominated in Singapore dollar. Accordingly, the exposure to foreign exchange risk is minimal. In addition, the Group's operational activities are mainly carried out in RMB. The risk arising from movements in foreign exchange rates is minimised as the Group has minimal transactions in foreign currencies.

Exposure to foreign currency risk is insignificant as the Group's income and related expenses, assets and liabilities are substantially denominated in RMB which is the functional currency of the Group entities. The exposure is monitored on an ongoing basis and the Group endeavours to keep the net exposure at an acceptable level.

No sensitivity analysis had been presented as management was of the view that any changes in foreign currency denominated financial assets and liabilities was unlikely to be material to the Group.

32.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The exposure of the Company and the Group to interest rate risk relates mainly to its bank deposits and cash funds placed with financial institutions as shown in Note 10 to the financial statements.

The Group is exposed to limited interest rate risk on its balances with banks.

No sensitivity analysis had been presented as management was of the view that any changes in interest rates on its balances with banks was unlikely to be material to the Group.

32 Financial risk management objectives and policies (Cont'd)

32.3 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the Group to incur a financial loss. The Group's exposure to credit risk arises primarily from trade and other receivables. The Group adopts the policy of dealing only with customers of appropriate credit history, and obtaining sufficient security where appropriate to mitigate credit risk. For other financial assets, the Company and the Group adopt the policy of dealing only with high credit quality counterparties.

The Company's and the Group's objective is to seek continual growth while minimising losses incurred due to increased credit risk exposure.

As the Company and the Group do not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the statements of financial position.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period.

The Group has determined the default event on a financial asset to be when the counterparty fails to make contractual payments, within 30 days when they fall due, which are derived based on the Group's historical information.

The Group considers "low risk" to be an investment grade credit rating with at least one major rating agency for those investments with credit rating. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at reporting date with the risk of default as at the date of initial recognition. The Group considers available reasonable and supportive forwarding-looking information which includes the following indicators:

- Internal credit rating
- External credit rating
- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtor's ability to meet its obligations
- Actual or expected significant changes in the operating results of the borrower
- Significant increases in credit risk on other financial instruments of the same borrower
- Significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making contractual payment.

The Group determined that its financial assets are credit-impaired when:

- There is significant difficulty of the borrower
- A breach of contract, such as a default or past due event
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation
- There is a disappearance of an active market for that financial asset because of financial difficulty

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

32 Financial risk management objectives and policies (Cont'd)

32.3 Credit risk (Cont'd)

The Group categorises a loan or receivable for potential write-off when a debtor fails to make contractual payments more than 120 days past due. Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. Where loans and receivables have been written off, the Group continues to engage enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

The Group did not recognise impairment on the Group's trade receivables as the computed amount is deemed immaterial by the Group.

Credit risk concentration profile

The trade receivables of transport and logistic business comprise 5 debtors (2017: 5) that collectively contributed 33% (2017: 46%) of the Group's trade receivables. These 5 (2017: 5) individually represented between 5%-18% (2017: 6% - 17%) of the Group's trade receivables.

Further details of credit risks on trade and other receivables are disclosed in Note 8.

32.4 Liquidity risk

Liquidity risk is the risk that the Company and the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments that are settled by delivering cash or another financial asset. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. The Company's and the Group's financial liabilities based on contractual undiscounted cash flows is disclosed in the notes to the financial statements.

The Company and the Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Company and the Group manage its liquidity risk by ensuring the availability of adequate funds to meet all its obligations in a timely and cost-effective manner and to maintain a balance between continuity of funding and flexibility through the use of borrowing facilities.

The Company and the Group finances its working capital requirements through a combination of funds generated from operations and bank borrowings. The ability of the Company and the Group to pay its debts as and when they fall due is also dependent on the written undertaking of its non-controlling interest as disclosed in Note 2 (a). The directors are satisfied that funds are available to finance the operations of the Company.

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Group's and the Company's financial liabilities at the end of the reporting period based on contractual undiscounted repayment obligations.

The Group	Carrying amount RMB'000	Contractual cash flows RMB'000	Within 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000
2018					
Financial liabilities					
Borrowings (Note 20)	281,250	297,949	136,133	130,195	31,621
Trade and other other payables (Note 21)	119,614	119,614	119,614	–	–
Amount owing to affiliated companies (Note 22)	160,485	160,485	160,485	–	–
Loan from non-controlling interests (Note 14)	1,000,000	1,045,675	1,045,675	–	–
	1,561,349	1,623,723	1,461,907	130,195	31,621

32 Financial risk management objectives and policies (Cont'd)

32.4 Liquidity risk (Cont'd)

The Company	Carrying amount RMB'000	Contractual cash flows RMB'000	Within 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000
2018					
Financial liabilities					
Trade and other other payables (Note 21)	991	991	991	–	–
	991	991	991	–	–

32.5 Market price risk

Price risk is the risk that the value of a financial instrument will fluctuate due to changes in market prices.

As the Company and the Group do not hold any quoted or marketable financial instrument, they are not exposed to any movement in market prices.

32.6 Categories of financial instruments

The carrying amount of the different categories of financial instruments is as disclosed on the face of the balance sheet except for the following:

	The Group		The Company	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Financial assets				
Amortised cost				
Cash and bank balances	426,215	438,349	2,358	111
Trade and other receivables	27,509	14,271	–	–
Amount owing by a subsidiary	–	–	35,711	37,977
Amount owing by non-controlling interest	192,700	–	–	–
Amounts owing by affiliated companies	692	166,268	–	–
	647,116	618,888	38,069	38,088
FVOCI				
Investment security	30,450	–	–	–
	677,566	618,888	38,069	38,088
Financial liabilities				
Amortised cost				
Trade and other other payables	92,463	26,257	991	1,615
Amount owing to affiliated companies	160,485	10,113	–	–
	252,948	36,370	991	1,615

32.7 Commodity price risk

Unlike the sales and purchase of gasoline and diesel in PRC which is subjected to price regulatory control by the authorities, the petrochemical business in PRC is not subject to any regulatory control by the authorities. Accordingly, the Group does not need to engage in hedging for commodity price risk.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

32 Financial risk management objectives and policies (Cont'd)

32.8 Fair value measurements

The carrying amount of financial assets and financial liabilities with a maturity of less than one year is assumed to approximate their fair values.

The table below presents assets and liabilities measured and carried at fair value and classified by level of the following fair value measure hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can assess at the measurement date (Level 1);

(b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e as prices) or indirectly (i.e derived from prices) (Level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

	Group
	Level 2
2018	**RMB'000**
Fair value through OCI	
Investment security	30,450

The fair values is determined by the Group's 18% proportionate share of the net assets of the investment security as at 31 December 2018. The Board and management is of the view that the net assets of the investment security approximate its fair value. The fair values are within Level 2 of the fair value hierarchy.

33 Segment information

For management purposes, the Group is organised into business units based on their products and services, and has two reportable operating segments as follows:

1. The gas separation segment is the manufacturing and sales of LPG, propylene and polypropylene.

2. The transport and logistic services segment is the provision of logistics and transportation for petroleum products.

Except as indicated above, no operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated statement of profit or loss and other comprehensive income. Distribution costs, administrative expenses, other operating expenses and income taxes are managed on a group basis and are not allocated to operating segments.

Allocation basis and transfer pricing

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly other income, expenses and income tax expense.

Transfer prices between operating segments, if any, are at terms agreed between the parties.

33 Segment information (Cont'd)

(a) Reportable segments

	Gas Separation		Transport & Logistic Service		Total	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
REVENUE:						
External customers	2,117,670	1,628,464	141,810	176,160	2,259,480	1,804,624
Inter-segment sales	–	–	–	–	–	–
Total revenue	2,117,670	1,628,464	141,810	176,160	2,259,480	1,804,624
Segment assets	2,112,722	484,734	59,847	83,924	2,172,569	568,658
Segment liabilities	67,635	10,113	9,847	7,116	77,482	17,229
Results						
Segment results	126,208	97,532	1,803	6,186	128,011	103,718
Unallocated expenses:						
Unallocated corporate expenses					(21,605)	(17,353)
Profit from operations					106,406	86,365
Finance income					5,620	8,980
Profit before taxation					112,026	95,345
Taxation					(29,323)	(27,126)
Profit after taxation					82,703	68,219

	Total	
	2018 RMB'000	2017 RMB'000
Segments' assets for reportable segments	2,172,569	568,658
Other assets		
Unallocated		
Amount owing by affiliated companies	692	158,900
Amount owing by non-controlling interest	192,700	–
Cash and bank balances	2,358	110
Other receivables	57,150	5,084
Goodwill on consolidation	10,345	2,501
	2,435,814	735,253
Segments' liabilities for reportable segments	1,358,732	17,229
Other liabilities		
Unallocated		
Other payables	42,132	45,603
Amount owing to affiliated companies	160,485	–
Current tax payable	5,597	3,740
	1,566,946	66,572

33 Segment information (Cont'd)

(a) Reportable segments (Cont'd)

	2018 RMB'000	2017 RMB'000
Customer 1	331,610	238,041
Customer 2	640,942	266,732

Both the above 2 customers individually contributed 10% or more of the Group revenue and this are attributtable to the Gas Separation segment.

(b) Geographical information

No information on geographical information is presented as the principal operation of the Group relates to the manufacture and sale of propylene, polypropylene and LPG products and provision of transport and logistic services entirely in the PRC.

34 Capital management

The Group's objectives when managing capital are:

(a) To safeguard the Group's ability to continue as a going concern;

(b) To support the Group's stability and growth;

(c) To provide capital for the purpose of strengthening the Group's risk management capability; and

(d) To provide an adequate return to shareholders.

The Group's capital structure consists of equity attributable to owners of the parent, comprising issued capital, retained earnings and other reserves.

The Group monitors capital on the basis of the carrying amount of equity less cash and bank balances as presented in the statement of financial position.

There were no changes in the Group's approach to capital management during the year. As disclosed in Note 18, the subsidiaries in the PRC are required by the Foreign Enterprise Law of the PRC to contribute to and maintain a non-distributable statutory reserve fund whose utilisation is subject to approval by the relevant PRC authorities. This externally imposed capital requirements in accordance with the directors, has been complied by the PRC subsidiaries for the financial years ended 31 December 2018 and 2017.

The primary objectives of the Group's capital management are to ensure that it maintains a strong credit rating and to maintain an optimal capital structure to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue new shares or convertible loans. No changes were made in the objectives, policies or processes during the years ended 31 December 2018 and 2017.

SHAREHOLDINGS STATISTICS

As at 29 March 2019

DISTRIBUTION OF SHAREHOLDINGS

Number of Issued shares	:	640,000,000
No of Treasury Share Held	:	Nil
Class of shares	:	Ordinary shares fully paid
Voting rights	:	One vote of each ordinary share

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 - 99	0	0.00	0	0.00
100 - 1,000	117	4.91	108,000	0.02
1,001 - 10,000	1,131	47.46	7,842,700	1.22
10,001 - 1,000,000	1,119	46.96	57,151,900	8.93
1,000,001 AND ABOVE	16	0.67	574,897,400	89.83
TOTAL	**2,383**	**100.00**	**640,000,000**	**100.00**

SHAREHOLDINGS HELD IN HANDS OF PUBLIC

Based on information available to the Company as at 29 March 2019, approximately 44.25 % of the issued ordinary shares of the Company is held by the public and therefore Rule 723 of the Listing Manual issued by SGX-ST is complied with.

TWENTY LARGEST SHAREHOLDERS

NO.	NAME	NO. OF SHARES	%
1	INTELLIGENT PEOPLE HOLDINGS LIMITED	329,996,000	51.56
2	UOB KAY HIAN PRIVATE LIMITED	103,696,400	16.20
3	PHILLIP SECURITIES PTE LTD	63,020,200	9.85
4	RHB SECURITIES SINGAPORE PTE. LTD.	26,866,800	4.20
5	RAFFLES NOMINEES (PTE.) LIMITED	18,534,500	2.90
6	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	9,076,700	1.42
7	DBS NOMINEES (PRIVATE) LIMITED	5,775,300	0.90
8	CITIBANK NOMINEES SINGAPORE PTE LTD	3,793,000	0.59
9	OCBC SECURITIES PRIVATE LIMITED	2,959,300	0.46
10	SEE GIM TEE OR SEI KIM HOE	2,079,600	0.32
11	WEI RAN	2,017,000	0.32
12	MOK TIAN SOON	1,814,100	0.28
13	UNITED OVERSEAS BANK NOMINEES (PRIVATE) LIMITED	1,792,000	0.28
14	TIAN TIAN	1,265,500	0.20
15	CHUAH POH TIN	1,200,000	0.19
16	SEE GIM TEE	1,011,000	0.16
17	AW YONG SAI CHIN	1,000,000	0.16
18	MAYBANK KIM ENG SECURITIES PTE. LTD.	906,000	0.14
19	OCBC NOMINEES SINGAPORE PRIVATE LIMITED	880,600	0.14
20	WENG TUCK WAH	750,000	0.12
	TOTAL	578,434,000	90.39

SHAREHOLDINGS STATISTICS

As at 29 March 2019

SUBSTANTIAL SHAREHOLDERS

	Direct Interests		Deemed Interest		Total	
	Number of Shares	%	Number of Shares	%	Number of Shares	%
Substantial Shareholders						
Intelligent People Holdings Limited	329,996,000	51.56	26,805,800(1)	4.19	356,801,800	55.75
Li Xiang Ping			356,801,800(2)	55.75	356,801,800	55.75

Note:

(1) Intelligent People Holdings limited is deemed to be interested in 26,805,800 ordinary shares held under the name of RHB Securities Singapore Pte Ltd.

(2) Li Xiang Ping is deemed to be interested in 356,801,800 shares held by Intelligent People Holdings Limited and RHB Securities Singapore Pte Ltd.by virtue of Section 7 of the Companies Act, Cap. 50.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Sinostar PEC Holdings Limited the "Company") will be held at Grand Salon Ballroom Level 2, Conrad Centennial Singapore,2 Temasek Boulevard Singapore 038982 on Monday, 29 April 2019 at 9.30 a.m. for the purpose of transacting the following businesses:

As Ordinary Business:

1. To receive and adopt the Directors' Report and Audited Accounts for the financial year ended 31 December 2018 and the Auditors' Report thereon. **(Resolution 1)**

2. To declare a first and final exempt (one-tier) dividend of SGD 0.5 cents per share for the financial year ended 31 December 2018. **(Resolution 2)**

3. To re-elect the following Directors retiring pursuant to the Company's Articles of Association:

   Mr Zhang Liucheng (Article 104) **(Resolution 3)**
   Mr Teo Moh Gin (Article 104) **(See Explanatory Note 1)** **(Resolution 4)**

4. To approve the payment of Directors' Fees of S$344,000 (2018 S$344,000) for the financial year ending 31 December 2019, to be paid quarterly in arrears. **(Resolution 5)**

5. To re-appoint RT LLP as the Auditors of the Company and to authorise the Directors to fix their remuneration. **(Resolution 6)**

6. To transact any other ordinary business which may properly be transacted at an annual general meeting.

As Special Business:

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:

7. **Renewal of shareholders' mandate for interested person transactions** **(Resolution 7)**

   "That:

   (a) approval be and is hereby given, for the purposes of Chapter 9 of the Listing Manual of Singapore Exchange Securities Trading Limited ("**SGX-ST**"), for the renewal of the mandate for interested person transactions (the "**IPT General Mandate**") which has been amended to incorporate certain changes including the revised individual and aggregate thresholds, particulars of which are set out in the Appendix to the Company's FY2018 Annual Report for the Company and its subsidiaries or any of them to enter into any of the transactions falling within the types of the interested person transactions described in the said Appendix;

   (b) the IPT General Mandate shall, unless revoked or varied by the Company in general meeting, continue to be in force until the next Annual General Meeting of the Company; and

   (c) the Directors of the Company be and are hereby authorised to complete and do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary or in the interests of the Company to give effect to this Resolution."

8. **Authority to allot and issue shares in the capital of the Company ("Shares") – Share Issue Mandate**

   "That, pursuant to Section 161 of the Companies Act, Chapter 50 of Singapore (the "**Companies Act**") and Rule 806 of the Listing Manual (the "**Listing Manual**") of the Singapore Exchange Securities Trading Limited ("**SGX-ST**"), the Directors of the Company be authorized and empowered to:

   (A) (i) issue Shares in the Company whether by way of rights, bonus or otherwise; and/or

NOTICE OF ANNUAL GENERAL MEETING

(ii) make or grant offers, agreements or options (collectively, "Instruments") that might or would require Shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into Shares,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors of the Company shall in their absolute discretion deem fit; and

(B) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue Shares in pursuance of any Instrument made or granted by the Directors while this Resolution was in force,

provided that:

(1) the aggregate number of Shares (including Shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) and convertible securities to be issued pursuant to this Resolution shall not exceed fifty per cent. (50%) of the total number of issued Shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of Shares and convertible securities to be issued other than on a pro-rata basis to the shareholders of the Company shall not exceed twenty per cent. (20%) of the total number of issued Shares (excluding treasury shares) in the capital of the Company (as at the time of passing of this Resolution);

(2) (subject to such calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of Shares and convertible securities that may be issued under sub-paragraph (1) above on a pro-rata basis, the total number of issued Shares (excluding treasury shares) in the capital of the Company shall be based on the total number of issued Shares (excluding treasury shares) in the capital of the Company at the time of the passing of this Resolution, after adjusting for:

(a) new Shares arising from the conversion or exercise of convertible securities;

(b) new Shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time of the passing of this Resolution, provided the options or awards were granted in compliance with the rules of the Listing Manual of the SGX-ST; and

(c) any subsequent bonus issue, consolidation or subdivision of Shares.

(3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST as amended from time to time (unless such compliance has been waived by the SGX-ST) and the Articles of Association of the Company; and

(4) unless revoked or varied by the Company in a general meeting, such authority shall continue in force until the conclusion of the next annual general meeting of the Company or the date by which the next annual general meeting is required by law to be held, whichever is the earlier."
(See Explanatory Note 2) **(Resolution 8)**

By Order of the Board

Tan Chee How
Company Secretary

Singapore, 12 April 2019

NOTICE OF ANNUAL GENERAL MEETING

Explanatory Notes:

1. Mr Teo Moh Gin is an Independent, Non-Executive Director of the Company. He also serves as Chairman of the Audit Committee and Remuneration Committee as well as a member of Nomnating Committee and Investment Committee . Upon his re-election, Mr Teo will continue to serve as as Chairman of the Audit Committee and Remuneration Committee as well as a member of Nomnating Committee and Investment Committee. The detailed information of Mr Teo Moh Gin can be found under the section entitled 'Board of Directors' in the Annual Report.

2. The Ordinary Resolution 8 proposed in item 8 above, if passed, will empower the Directors of the Company to issue Shares, make or grant instruments convertible into Shares and to issue Shares pursuant to such instruments, up to a number not exceeding, in total, 50% of the total number of issued Shares (excluding treasury shares) in the capital of the Company, of which up to 20% may be issued other than on a pro-rata basis to shareholders.

   For determining the aggregate number of Shares that may be issued on a pro-rata basis, the total number of issued Shares (excluding treasury shares) will be calculated based on the total number of issued Shares (excluding treasury shares) in the capital of the Company at the time this Ordinary Resolution is passed after adjusting for new Shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time when this Ordinary Resolution is passed and any subsequent bonus issue, consolidation or subdivision of Shares. In determining the 20% which may be issued other than on a pro-rata basis, the total number of issued Shares (excluding treasury shares) will be calculated based on the total number of issued Shares (excluding treasury shares) in the capital of he Company at the time the Ordinary Resolution 8 is passed.

Notes:

1. A Member (other than a Relevant Intermediary*) entitled to attend and vote at the Annual General Meeting (the "Meeting") is entitled to appoint not more than two proxies to attend and vote in his/her stead. A proxy need not be a Member of the Company.

2. A Relevant Intermediary may appoint more than two proxies, but each proxy must be appointed to exercise the rights attached to a different share or shares held by him (which number and class of shares shall be specified).

3. Where a member appoints two proxies, he/she/it shall specify the proportion of his shareholding to be represented by each proxy in the instrument appointing the proxies.
4. A member of the Company which is a corporation is entitled to appoint its authorised representative or proxy to vote on its behalf. The appointment of proxy must be executed under seal or the hand of its duly authorised officer or attorney in writing.

5. The instrument appointing a proxy must be deposited at the registered office of the Company at Six Battery Road #10-01 Singapore 049909 not less than Seventy Two (72) hours before the meeting.

* A Relevant Intermediary is:

(a) a banking corporation licensed under the Banking Act (Chapter 19) or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity; or

(b) a person holding a capital markets services licence to provide custodial services for securities under the Securities and Futures Act (Chapter 289) and who holds shares in that capacity; or

(c) the Central Provident Fund Board established by the Central Provident Fund Act (Chapter 36), in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.

Personal Data Privacy

By submitting a proxy form appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the AGM and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the AGM (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

PROXY FORM
ANNUAL GENERAL MEETING

SINOSTAR PEC HOLDINGS LIMITED

Company No. 200609833N
(Incorporated in Singapore with limited liabilities)

IMPORTANT:

1. For investors who have used their CPF monies to buy shares in the capital of Sinostar PEC Holdings Limited, this Annual Report is forwarded to them at the request of the CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.
2. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

I/We, ______________________________ (Name)

of ______________________________ (Address)

being a member/members of SINOSTAR PEC HOLDINGS LIMITED (the "Company"), hereby appoint:

Name	Address	NRIC/Passport No.	Proportion of Shareholdings %

and/or (delete as appropriate)

Name	Address	NRIC/Passport No.	Proportion of Shareholdings %

or failing him/her, the Chairman of the Meeting as my/our proxy/proxies to vote for me/us on my/our behalf at the Annual General Meeting ("Meeting") of the Company to be held on Monday, 29 April 2019, at 9.30 a.m. at Grand Salon Room Level 2, Conrad Centennial Singapore, 2 Temasek Boulevard Singapore 038982 and at any adjournment thereof. I/We direct my/our proxy/proxies to vote on the business before the Meeting as indicated below. If no specific direction as to voting is given, the proxy/proxies will vote or abstain from voting at his/her discretion, as he/she will on any other matter arising at the Meeting:

No.	Resolutions relating to:	For	Against
1.	Directors' Report and Audited Accounts for the Financial year ended 31 December 2018.		
2.	To declare a first and final exempt (one-tier) dividend of SGD 0.5 cents per share for the financial year ended 31 December 2018		
3.	Re-election of Mr Zhang Liucheng as a Director		
4.	Re-election of Mr Teo Moh Gin as a Director		
5.	Approval of the payment of Directors' Fees of S$344,000 for the financial year ending 31 December 2019.		
6.	Re-appointment of RT LLP as Auditors		
7.	Renewal of shareholders' mandate for interested person transactions		
8.	Authority to allot and issue shares in the capital of the Company – Share Issue Mandate		

(Please indicate with a cross [X] in the space provided whether you wish your vote to be cast for or against the Resolutions as set out in the Notice of the Meeting).

Dated this __________ day of ____________________ 2019

TOTAL NUMBER OF SHARES IN:	
(a) CDP Register	
(b) Register of Members	

____
Signature(s) of Shareholder(s) or
Common Seal of Corporate Shareholder

IMPORTANT: PLEASE READ NOTES OVERLEAF

Notes:

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 81SF of the Securities and Futures Act, Chapter 289 of Singapore), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.

2. A member of the Company (other than a Relevant Intermediary*) entitled to attend and vote at a meeting of the Company is entitled to appoint not more than two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.

3. Where a member (other than a Relevant Intermediary*) appoints two proxies, the appointments shall be invalid unless he/she specifies the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy.

4. A Relevant Intermediary may appoint more than two proxies, but each proxy must be appointed to exercise the rights attached to a different share or shares held by him (which number or class of shares shall be specified).

5. Subject to note 9, completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the meeting in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the Meeting.

6. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at Six Battery Road #10-01 Singapore 049909 not less than 72 hours before the time appointed for the Meeting.

7. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.

8. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore, and the person so authorised shall upon production of a copy of such resolution certified by a director of the corporation to be a true copy, be entitled to exercise the powers on behalf of the corporation so represented as the corporation could exercise in person if it were an individual.

9. An investor who holds shares under the Central Provident Fund Investment Scheme ("CPF Investor") and/or the Supplementary Retirement Scheme ("SRS Investors") (as may be applicable) may attend and cast his vote(s) at the Meeting in person. CPF and SRS Investors who are unable to attend the Meeting but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the Meeting to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the Meeting.

*A Relevant Intermediary is:

(a) a banking corporation licensed under the Banking Act (Chapter 19) or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity; or

(b) a person holding a capital markets services licence to provide custodial services for securities under the Securities and Futures Act (Chapter 289) and who holds shares in that capacity; or

(c) the Central Provident Fund Board established by the Central Provident Fund Act (Chapter 36), in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the B Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.

General:

The Company shall be entitled to reject a Proxy Form which is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified on the Proxy Form. In addition, in the case of shares entered in the Depository Register, the Company may reject a Proxy Form if the member, being the appointor, is not shown to have shares entered against his name in the Depository Register as at 72 hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.

Personal Data Privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 12 April 2019.

中星石化
SINOSTAR

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