



# SHAPING OUR FUTURE

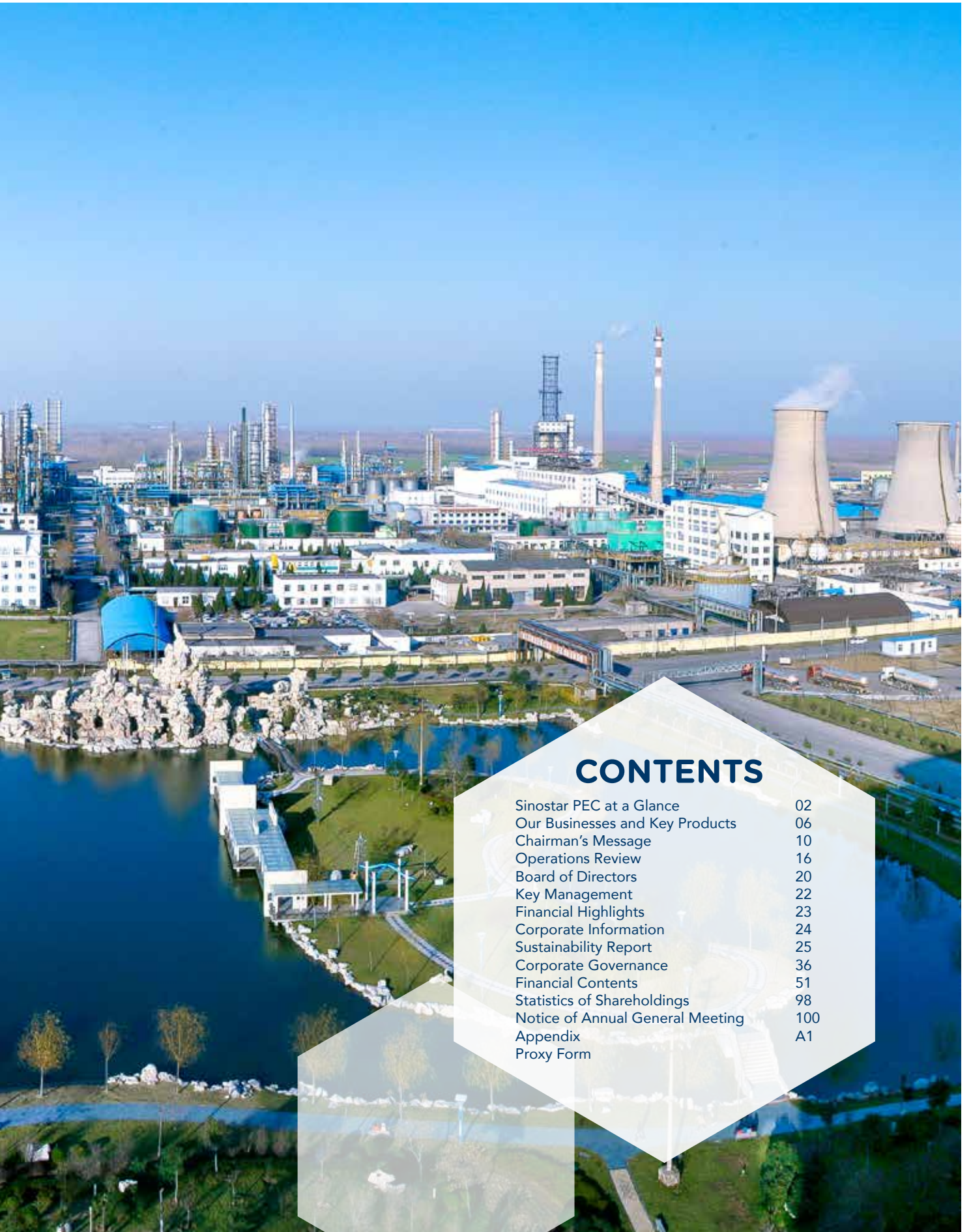
SINOSTAR PEC HOLDINGS LIMITED  
ANNUAL REPORT 2017

An aerial photograph of a large industrial complex, likely a petrochemical plant. In the foreground, there is a large, calm blue lake with a modern architectural structure on a small island. The middle ground features several large, white, multi-story buildings with blue accents, surrounded by parking lots and landscaped areas with trees. In the background, the industrial facility itself is visible, consisting of numerous tall distillation columns, towers, and storage tanks under a clear blue sky. Two large, light blue hexagonal shapes are overlaid on the top left of the image, framing the text.

## **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.





## CONTENTS

Sinostar PEC at a Glance	02
Our Businesses and Key Products	06
Chairman's Message	10
Operations Review	16
Board of Directors	20
Key Management	22
Financial Highlights	23
Corporate Information	24
Sustainability Report	25
Corporate Governance	36
Financial Contents	51
Statistics of Shareholdings	98
Notice of Annual General Meeting	100
Appendix	A1
Proxy Form	

# 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, Hebei, Hubei and Zhejiang.

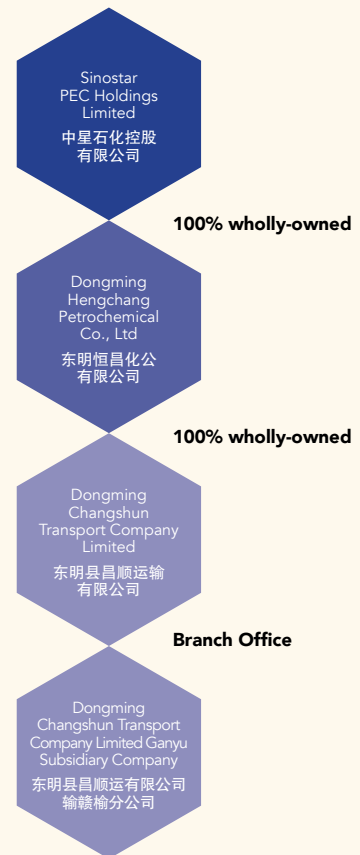
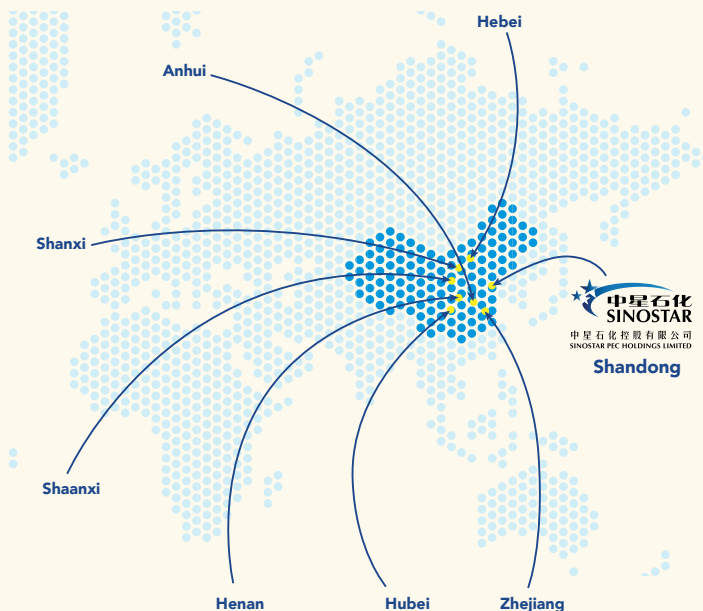
We aspire to be more than an experienced producer of petrochemical goods as well as a committed supplier of product quality, prompt delivery and good customer service.

## OUR CORPORATE STRUCTURE

Our Group comprises Sinostar PEC Holdings Limited and our PRC 100% controlled subsidiary, Dongming Hengchang Petrochemical Co., Ltd. who run 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.

### PEOPLE'S REPUBLIC OF CHINA







### **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.

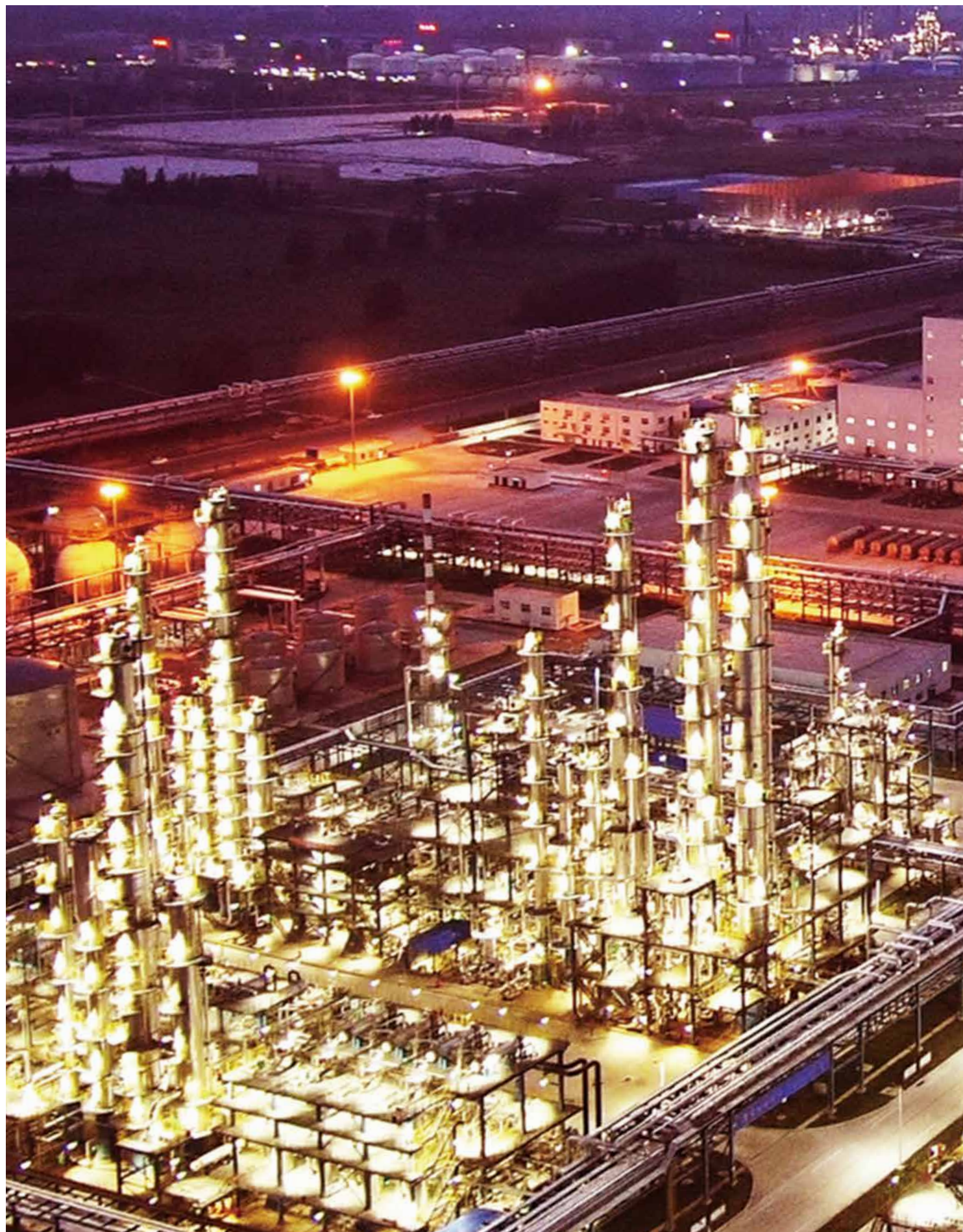
Dongming Hengchang was originally set up in 2000 as a joint venture between Dongming Petrochem and its key management staff, in line with the PRC’s broad policy of reforming its state-owned enterprise, in particular, for the non-strategic downstream petrochemical activities. It was based on the premise of exclusive supply contracts with some of the companies within Dongming Petrochem Group to secure a stable and secure provision of its major new 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 tons 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.









# Forging Ahead



# 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 114 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, vinyl.

## 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 114 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.









# Unlocking Value









# CHAIRMAN'S MESSAGE



Dongming Changshun, acquired in FY2015, has integrated well into our Logistics and Transport-related business. We have been able to leverage on its capabilities to reach out to new customers through a widened delivery network and put us ahead of competitors by improving the reliability and turnaround time for our product deliveries.

## Dear Shareholders,

FY2017 was a challenging year with the business environment beset by volatile oil prices and an oversupply of refined oil and petrochemical products in the domestic market. Despite this, the Group posted a stable set of results achieving a 15.7% increase in revenue to RMB 1,804.6 million in FY2017 from RMB 1,559.9 million in FY2016. In addition, the Group achieved a net profit of RMB 68.2 million, which was 24.0% lower than the year before.

Accounting for 90% of the Group's total sales, our Petrochemicals business remains our core focus in FY2017. In FY2017, we recorded better sales from all three of our key petrochemical product categories – Processed LPG, Propylene and Polypropylene which increased 20.7%, 10.4% and 20.0% respectively. This was mainly

attributable to higher prices and sustained demand for our products.

Sales from the Group's Logistics & Transport-related business, making up the remaining 10% of our revenue, dipped by 5.7% to RMB 176.1 million. This weaker performance was largely due to two scheduled maintenance at our production plants that resulted lower delivery during the year as well as higher compliance cost to keep in line with stringent rules set in place for transportation of flammable materials.

In line with our long-term strategy to buttress the Group's market-leadership position in the industry, we have identified a strategic investment in Dongming Qianhai Petrochemical Co Limited ("Dongming Qianhai"), a subsidiary of our long-term strategic partner Dongming Zhongyou Fuel and



Petrochemical Company. On 22 December 2017, we received an overwhelming support to follow through on our 70% equity interest in Dongming Qianhai, at a consideration of RMB 317.8 million, at our Extraordinary General Meeting (“EGM”). Integrating Dongming Qianhai into the Group will broaden our product lines, equip the Group with greater production capacities as well as give us the flexibility to produce a diverse range of other higher-margin propylene processed petrochemical products.

### Outlook

The Group expects global growth rates to remain uneven throughout 2018 and beyond. Thus, we will continue to focus our efforts on improving production efficiencies, implement stringent cost control measures and maintain a healthy balance sheet.

In addition, even as oil prices continue its stabilise from its 2016 troughs, we expect volatility to persist. On this basis, we must ensure that we remain prudent and attentive as this may impact the Group’s gross margins.

Even as we take measured approach to our business, we are heartened to continue seeing a sustained demand for our products and services, and are working towards increasing production capacities via operational efficiencies and strategic acquisitions. This will further entrench us at the forefront of our industry and ensure we are able to keep up with our customers’ growing needs.

To help us do this, our strategy of exploring organic and inorganic growth and investment opportunities for the Group is critical for our long-term growth. While we improve our internal processes, our investments – in Dongming Changshun in FY2015 and potentially Dongming Qianhai in FY2018 – plays an important role.







### Strategic Acquisitions

Dongming Changshun, acquired in FY2015, has integrated well into our Logistics and Transport-related business. We have been able to leverage on its capabilities to reach out to new customers through a widened delivery network and put us ahead of competitors by improving the reliability and turnaround time for our product deliveries.

Similarly, we expect the acquisition of Dongming Qianhai to further strengthen the Group with its line of products and services. To-date, we have mutually agreed to extend the Long Stop Date of the Proposed Acquisition to 30 April 2018. This is to allow Dongming Qianhai, which is still in its trial phase, to achieve its estimated production capacity and satisfy other relevant requirements. When necessary, we will make further announcements for the Proposed Acquisition of Dongming Qianhai.

Meanwhile, we are gearing up our business to include Dongming

Qianhai's production capacities and expertise in processing and selling propylene, purified isobutylene and methyl tert-butyl ether (MTBE). This will enable us to extend 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.

Given that we operate in complementary spaces, we are also optimistic that upon our acquisition of Dongming Qianhai, we will be able to quickly integrate it into the Group and enhance its production capacities. As Dongming Qianhai will significantly boost our propylene capacity, we will have greater flexibility to channel raw materials into producing more propylene or polypropylene. On top of this, we







will have the ability to process a greater volume of higher-margin polypropylene without disrupting our existing customer's demand.

In the longer-term, we are confident of delivering new expansion and investment opportunities for the Group. To achieve this, we will continue tapping on our close working relationships with our suppliers and business partners



for new products and business, as well as organically and inorganically boost production capacities of our propylene and higher-margin polypropylene products via new investments and constructing new production plants.

#### Dividend

The Board is pleased to recommend a final tax-exempt 1-tier dividend of 0.5 Singapore cents per ordinary share for the fiscal year. This translates into a dividend yield of approximately to 2.3%.

#### Appreciation

While China's economy remains robust, we cannot take it for granted as global geopolitical uncertainties and muted economic growth may affect the local business environment. We will continue to expand the Group's capabilities and strengthen its value chain. This means working closely with strategic business partners, seeking new avenues of growth and exploring investment

opportunities within our core petrochemical markets.

On behalf of the Board of Directors and the management team, I would like to thank our shareholders for your unwavering support. We will continue to do our best to ensure we unlock greater value for you.

**Li Xiang Ping**  
Non-Executive Chairman



# 致股东们的一封信



尊敬的各位股东，

非常高兴在此向大家做年度工作汇报。2017年，国际油价震荡上扬给予了我们良好的经营机遇，而中国炼厂持续高开工率加剧了国内炼化产品供过于求的矛盾，同时安全环保形势制约生产和需求对我们的生产经营带来了诸多困难。在机遇与挑战面前，我们准确预判市场，把握住了机遇。用智慧和胆略迎接各种挑战，克服了各种困难。取得了良好的业绩，现将一年来的主要工作汇报如下：

## 一、2017年取得的工作成绩

2017年，公司实现销售收入18.046亿元，较2016年增长了15.7%；实现净利润6820万元，较2016年降低24.0%。销售收入和利润相对稳定。

## 二、2017年采取的重要工作举措

### 1、持续提升化工产品的产销量和销售收入

2017年，公司以做好化工产品版块为工作重点，通过开展“管理提升年”和“对标”活动，强化安全管理、生产管理和经营管理，确保了公司各套装置的安全平稳满负荷运行，推动了节

能增效和产品收率提升工作，扩大了产品市场，提升了销售价格。通过努力，2017年，公司的成品液化气、丙烯及聚丙烯三大产品的产销量均有较大提升，三个产品的销售额同比分别增长20.7%、10.4%和20.0%。

### 2、持续推进物流运输业务的健康持续发展

2017年，公司强化了物流运输板块的合规化运行，提升物流运输的安全性和车辆利用效率，确保了物流运输安全稳定运行。全年实现销售收入1.761亿元人民币，同比减少了5.7%。收入减少主要受政府交通部门相继出台对危化品车辆的超载限装限行的严管政策实施影响，车辆的合规运行成本有所增加。同时东明石化生产装置检修产量略有下滑及销售渠道转向零售使得物流配送业务量有所下降。

### 3、持续拓展公司业务，投资东明前海化工。

把握住东明石化炼化转型的良好时机，强化公司在化工品市场的份额，我们召开了特别股东大会，决定投资3.178亿元人民币收购东明前海化工有限公司（东明前海化工）70%的股权。投资东明前海化工会推展公司的

经营范围，延长的产品链条，提升公司高附加值产品的结构比例，更进一步巩固并扩大公司与东明石化的良好合作关系。

## 三、2018年的工作思路

### 1、正确认识新的机遇和挑战

2017年，中国经济保持了稳健高速增长态势。同时，“一带一路”、新旧动能转换、减税改革等政策的实施将稳固中国经济的健康稳定增长，也将继续推动对炼化产品的需求。

2018年随着国家部署的七大炼化产业基地中大连恒力等多个炼化项目的上马，中国的炼化产能也在持续增长，炼化产品的供需矛盾依然严峻，市场竞争进一步加剧。

国际油价虽从2016年的低谷中反弹，并继续稳定上升，但也有预测2018年，油价存在下行压力，对采购成本及效益会造成冲击，需要持续关注市场的变化。

### 2、坚持实施稳健经营的理念

2018年，我们将持续改善内部管理，优化管理流程，实施严谨的成本





控制措施，提升来自于原料、政策、投资等诸多方面的风险防控能力，维持健康的资产负债表。

在提高生产效率、产品质量和市场开拓上下功夫，巩固在安全生产、产品质量、收率、客户开发、营销服务等诸多方面取得的成果，并在2018年中持续提升。

### 3、提升资本运营效率，拓展资本投资渠道

我们将以市场需求为导向，提升公司资本运营效率，采取发掘有机增长和无机增长的投资机会策略扩大对外投资，做好战略收购工作（包括2015年收购东明昌顺，以及2018年计划对东明前海的投资），以提高公司的整体产能，扩大产品范围和业务渠道，寻求新的效益增长点。同时也推动公司的多元化发展，提升抵抗风险的能力，利于公司的长远发展。

### 4、拓展昌顺物流公司业务，提升市场竞争力

优化物流程序，提升物流车辆的运转效率，降低物流成本，提升配送服务质量和时效，获得更多的客户认可，打造行业标杆。

主动开拓物流运输业务，拓展配送客户群体，争取新客户群，拓展物流行业渠道，获取更广泛的物流业务，提升运输业务板块的销售收入和利润。

### 5、做好前海收购及后续规划的准备工作

前海化工产品丙烯与公司现有产品聚丙烯的市场关联度极高，前期聚丙烯的产销和管理经验为收购前海化工打下了良好的基础，我们对前海化工的发展前景充满信心。我们要进一步做好前海化工收购后的产能增加的供、产、销等各项准备工作，我们将继续需求新的收购意向或投资建设新的聚丙烯项目，提升现有产品丙烯的附加值，追求效益最优。

### 四、股息

董事会建议2017年派发免税（一层）末期股息每普通股新元0.5分的股息，相等于约2.3%股息收益率。

### 五、致谢

当前集团公司稳健的运营模式增强了公司应对风险和把握时机的能力，为集团的健康发展打下基础。成绩的

取得与股东们支持和信任密不可分，借此机会，我谨代表董事会和公司管理团队，对股东们的支持和信任表示衷心的感谢。

2018年，国际国内政治经济形势多变，充满了竞争和挑战。请股东们放心，公司管理层将致力于发掘新的、可靠的市场投资机遇，延伸业务价值链条，提升公司新的利润增长空间，不辜负股东们的重托和期望，公司全体员工会为股东取得更多的收益而不懈努力。

非执行主席  
李湘平

<sup>1</sup>根据截至2017年12月31日0.22新元的股价估算



# OPERATIONS REVIEW



## FINANCIAL PERFORMANCE

In FY2017, the Group experienced heightened volatility in oil prices as well as had to operate within an uncertain global economic landscape. Taking this into consideration, we managed to post a stable set of results.

The Group's revenue increased by 15.7% to RMB 1,804.6 million in FY2017 compared to RMB 1,559.9 million in FY2016. This was primarily due to higher sales recorded in all three of our core Petrochemical products – Processed LPG, Propylene and Polypropylene – despite two scheduled maintenance stoppages interrupting production output.

Adding to this, our bottomline was further buffeted by an increase in our cost of sales and lower output, which narrowed our gross margins throughout the year. Consequently, the Group's net profit attributable equity holders declined 24.0% to RMB 68.2 million in FY2017 from RMB 89.8 million in FY2016.

## PERFORMANCE BY BUSINESS SEGMENTS

### Processed LPG

On the back of a 22.7% increase in the average selling price ("ASP") of its Processed LPG in FY2017, the Group achieved a 20.7% increase in revenue to RMB 1,018.8 million compared to RMB 843.9 million in FY2016. This also saw Processed LPG retain its position as the Group's largest revenue contributor with a 56% share of total sales in FY2017.

During the year, the Group scheduled two separate plant maintenances between April to May and July to August 2017. While this was necessary to keep its facilities running at safe and optimal levels, it spelled a 1.6% decrease in output volumes.

### Propylene

In FY2017, the ASP of propylene increased by 24.4%, helping boost its sales by 10.4% to RMB 292.3 million from RMB 264.7 million in FY2016. This accounted for 16% of its revenue or the third largest slice of the Group's sales.

Also due to the same two plant maintenance works during the year, output volume for Propylene declined 11.2%.

### Polypropylene

On the back of a 15.8% increase in the ASP of its Polypropylene during the year, the Group's revenue from the segment rose

20.0% to RMB 317.4 million from RMB 264.4 million. As a result of this, Polypropylene overtook Propylene to become the Group's second largest revenue contributor with an 18% share.

Despite the two scheduled plant maintenance works, the Group managed to optimise the volume of our Polypropylene production by 3.8%, which was further processing of the Propylene output.

### Logistics and Transport-related

Revenue from the Group's Logistics & Transport-related business declined 5.7% to RMB 176.1 million from RMB 186.9 million. The segment remained the smallest revenue generator contributing a 10% share.

In FY2017, the Group's deliveries were lower and uneven due to the two scheduled plant maintenance works and we also had to contend with intense competition in the segment. The Group also had to fork out higher compliance cost to meet more stringent rules implemented for the transportation of flammable materials.

## PROFITABILITY

Incurring thinner margins largely due to volatile oil prices and cost of raw materials as well as producing lower volumes in FY2017, the Group's gross profit dipped 11.3% to RMB 103.7 million in FY2017 from RMB 116.9 million in FY2016. This was slightly offset by price increases for all three products in the Group's core Petrochemicals business.

In addition, the Group's growing cash reserves held with financial institutions boosted its other income by 28.1% to RMB 13.8 million from RMB 10.8 million. Administrative costs increased to RMB 2.0 million due to an additional China government tax as well as approximately RMB 0.4 million on professional fees the Group incurred for its proposed acquisition of Dongming Qianhai. The Group also sustained an 88.2% increase in taxes to RMB 27.1 million in FY2017 from RMB 14.4 million in FY2016 mainly due to losses that were brought forward from FY2015 has been utilised fully. Distribution cost decreased 79.5% to RMB 0.9 million from RMB 4.4 million due to the cessation of a transport-related charge incurred on the behalf of a major customer and a reclassification of certain expenses to cost of sales.

Due to these factors, our net profit attributable to shareholders declined 24.0% to RMB 68.2 million in FY2017 from RMB 89.8 million in FY2016.



## BALANCE SHEET

For the full year ended 31 December 2017, the Group pared down its inventories level to RMB 25.4 million from RMB 34.3 million. The bulk of this comprised both raw materials and finished goods amounting to RMB 4.3 million and RMB 21.1 million respectively.

The Group also posted RMB 166.3 million worth of receivables from affiliated companies. This is mainly comprised its 50% consideration worth RMB 158.9 million for the acquisition of Dongming Qianhai paid to Dongming Zhongyou Fuel and Petrochemical Company Limited. In addition, this includes RMB 0.8 million receivable from Dongming Petrochem Group Co. Limited; RMB 2.6 million from Shandong Dongming Lishu Petroleum Co., Ltd.; and RMB 3.6 million from Dongming Qianhai.

As at 31 December 2017, the Group has maintained a healthy cash and cash equivalent of RMB 438.3 million, representing an 11.4% decline from 31 December 2016.

As at 31 December 2017, the Group has RMB 10.1 million in payables to affiliated companies. This amount mainly comprise RMB 10.1 payable to Dongming Zongyou Fuel and Petrochemical Company Limited for the purchase of raw materials.

To remain prudent, the Group also increased its reserves to RMB 52.0 million from RMB 43.9 million by setting aside 10% on profits made by its Chinese subsidiaries.

## CASHFLOW

As at 31 December 2017, net cash generated from operating activities has increased from RMB71.1 million to RMB 116.9 million. This was primarily due to net increase in trade amount owing by affiliated companies of RMB 57.5 million partially offset by higher tax paid.

Increased in net cash used in investing activities was mainly due to increase in non-trade amount owing to affiliated companies comprising a 50% cash consideration worth RMB 158.9 million that we paid for the acquisition of Dongming Qianhai.

Net cash used in financing activities was mainly due to dividend payment declared for FY2016 and paid in FY2017.

Notwithstanding the lower free cash flow generated for FY2017, the Group's free cash flow remains at a healthy level of RMB 438.3 million as at 31 December 2017.

## OUTLOOK

Mindful that uncertainty in the global economy may leak into China's business landscape, the Group will remain prudent in pursuing any investment and business opportunities. It will continue relying on its strong network of strategic suppliers and business partners to seek new opportunities.

Nevertheless, the Group remains optimistic about its long-term future as it has fortified its position in the petrochemical industry in China, forged close working relationships with suppliers and partners as well as continuously expanded along its core petrochemical value chain to strengthen its business.

Moreover, with greater political and economic stability in China, especially on the back of the country's first GDP growth acceleration since 2010 this year, we will remain vigilante to both risks and opportunities.

Having successfully integrated Dongming Changshun into the Group's Logistics & Transport-related business, we look forward to onboarding Dongming Qianhai in the coming months. Its inclusion into the Group's line-up will undoubtedly put us in a stronger position to pursue new business opportunities, expand our network to reach new customer bases and improve our ability to offer end-to-end solutions for new and existing customers. Operationally, with its capacity and expertise in processing and selling propylene, purified isobutylene and methyl tert-butyl ether (MTBE), we will also benefit from extending and diversifying our product lines as well as gain the flexibility to channel more resources into higher-margin propylene and polypropylene products without impacting our existing customer demands.

**Zhang Liu Cheng**  
CEO and Executive Director









# Building Trust



# BOARD OF DIRECTORS



Li Xiang Ping

Teo Moh Gin

Zhang Liu Cheng

Zhao Jinqing

Wu Guo Zhi

### **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.

Since 2015, Mr Li has been appointed as the chairman of the Association of oil & petrochemical Refinery in the Shandong province (山东省炼油化工协会)

### **MR WU GUO ZHI**

Non-Executive Director

Mr Wu Guozhi has more than 40 years of experience in the China petroleum industry. He started his career in 1970 in the Oil Transportation Bureau in Jilin Province where he rose quickly to become the Vice Chairman of the Trade Union, as well as Master and Party Branch Secretary of Xinmiao Oil Pump Station. In 1979, he went on to join the Tibet Autonomous Region Oil and Gas Company and served as the vice manager of its petroleum department. Between 1981 and 2010, Mr Wu took on various positions within PetroChina Company Limited and retired from the Group in June 2010 from his last position as its general manager and chairman based in Beijing.

Mr Wu holds a Bachelor's degree in 1986 from the Daqing petroleum Institute in Business Administration.

### **MR ZHANG LIU CHENG**

Chief Executive Officer and Executive Director

Mr Zhang Liu Cheng is also Deputy General Manager (Finance and Administration) of our subsidiary, Dongming Hengchang. Mr Zhang worked in the 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.

### **MR TEO MOH GIN**

Independent Non-Executive Director

Mr Teo Moh Gin currently also holds directorship in Vive Capital Pte. Ltd and is involved in the 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. He 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



## **LIU ZHONG HUA**

Deputy General Manager (Sales and Procurement)

Mr Liu Zhong Hua is responsible and oversees the operation of the sales and procurement functions of Dongming Hengchang. Mr Liu started his career as a technician in Dongming County Petroleum Refining Factory in 1990 and was mainly responsible for managing the operational efficiency and effectiveness of the company.

He was subsequently responsible for the procurement of crude oil and related materials for the Group prior to joining us. Mr Liu obtained a Bachelor's degree in Management Engineering from China University of Petroleum in July 1990 and a Masters in Industrial Engineering from Shandong Technology University in June 2006. He received a professional senior economist qualification from the Economic Profession Accreditation Committee in October 2002.

## **YANG GUILIAN**

General Manager (Dongming Changshun)

Ms Yang Guilian was appointed as General Manager of Dongming Changshun in August 2017.

Ms Yang joined Shandong Petroleum in 1995 and served in the Monomer Casting Nylon Division until 2001. She was promoted to the Director of the Liquefied Petroleum Division in 2012, after working in the division from 2001. From 2013 to 2015, she acted as the Deputy General Manager of the Jiangsu Xinhai Petroleum Company. In 2016, she then returned to Shandong Dongming as Deputy General Manager.

Ms Yang obtained a post-graduate degree from the Beijing University for Business Administration in 2011 and completed her undergraduate degree at Xidan University. In 2012, she attended the China University of Petroleum in Huadong. Ms Yang is also studied Economics and Management at the Party School of the Shandong Provincial Committee of the Communist Party of China.

## **TAN YEW CHEE WILLIAM**

Chief Financial Officer

Mr William Tan joined the Group on 2 May 2008 and he is responsible for the overall financial and accounting functions of our Group. He is also the acting financial controller of subsidiary Dongming Hengchang Petrochemical Co.,Ltd.

Mr Tan started his career as an audit assistant at a local audit firm in 1990. From 1992 to 2001, he was 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, William 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, William Tan was engaged as a financial consultant by Sinocom Solar Group, a solar energy solutions provider in Beijing. From 2012 to 2015, William 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



	2013# RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000
<b>REVENUE &amp; PROFITABILITY</b>					
Sales	6,286,351*	982,972	1,446,110	1,559,881	1,804,624
Gross Profit / (Loss)	(20,461)	33,439	48,966	116,968	103,718
Net Profit / (Loss)	(59,871)	3,701	40,735	89,803	68,219
<b>FINANCIAL STRENGTH</b>					
Cash and bank balances	86,792	326,954	461,559	494,570	438,349
Short-term Debt & borrowings	50,000	-	-	-	-
Net current assets	241,233	419,178	450,828	515,044	580,868
Shareholders' equity	532,852	500,988	541,723	616,172	668,681
<b>CASH FLOW</b>					
Operating cash flow	62,594	181,391	97,028	71,078	116,912
Investing cash flow	(12,605)	40,039	37,577	(22,713)	(157,423)
Financing cash flow	(50,000)	18,732	-	(15,354)	(15,710)
<b>SHAREHOLDERS' WEALTH</b>					
Number of shares on issue	640,000	640,000	640,000	640,000	640,000
Basic earnings per share (RMB cents)	(3.89)	3.46	6.36	14.03	10.65
Net asset value per share (RMB cents)	83.25	78.28	84.64	96.28	104.48
Net cash value per share (RMB cents)	13.56	51.09	72.12	77.27	68.49
Dividend yield	na	13.2%	4.5%	3.3%	2.3%
<b>TOTAL MARKET CAPITALISATION</b>					
<b>MARKET PRICE</b>					
High	\$0.136	\$0.095	\$0.150	\$0.160	0.255
Low	\$0.012	\$0.050	\$0.060	\$0.060	0.155
Closing	\$0.076	\$0.076	\$0.110	\$0.150	0.220

\* Include the results of disposed subsidiary Dongming Runchang Pterochemical Co., Ltd.

# Figures are computed based on numbers that are not re-presented due to discontinued operation.



# CORPORATE INFORMATION



## BOARD OF DIRECTORS

Li Xiang Ping (Non-Executive Chairman)  
Zhang Liu Cheng (Chief Executive Officer and Executive Director)  
Wu Guo Zhi (Non-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  
Wu Guo Zhi

## RISK AND INVESTMENT COMMITTEE

Zhang Liu Cheng (Chairman)  
Wu Guo Zhi  
Teo Moh Gin

## 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 6259492  
Fax: (86) 530 7286492

## 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  
Singapore 048616  
Partner-in-charge: Ong Kian Meng  
(Year of first appointment:  
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

# SUSTAINABILITY REPORT





# ABOUT THIS REPORT

We are pleased to present Sinostar PEC Holdings Limited's (Sinostar Pec's) inaugural annual Sustainability Report, for our financial year ended 31 December 2017. This report is set out on a "comply or explain" basis in accordance with Rule 711B and Practice Note 7.6 of the Singapore Exchange Securities Trading Limited (SGX-ST) Listing Manual on Continuing Listing Obligations. Sinostar Pec has chosen the Global Reporting Initiative (GRI) framework as it is the most established international sustainability reporting standard and in respect of the extent to which such framework is applied, this report has been prepared in accordance with the Global Reporting Initiative (GRI) G4 reporting guidelines, at Core level. Corresponding to G4's emphasis on materiality, the report highlights the key environmental, social and governance related initiatives carried out throughout the 12-month period, from 1 January to 31 December 2017.

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](mailto:william.tan@sinostar-pec.com).



# OUR APPROACH TO SUSTAINABILITY

## SUSTAINABILITY GOVERNANCE

At Sinostar Pec, we believe that strong governance is the key to a sustainable business. Throughout 2017, we continue to comply with the Code of Corporate Governance. Please refer to the Financial Statements pages 36 to 50 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. We meet all environmental and safety standards that are expected of us.

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.

## BUSINESS ETHICS, ANTI-CORRUPTION AND COMPLIANCE

Here at Sinostar Pec, we do not tolerate corruption in any form. 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.

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. Our target is to ensure all allegation received are promptly addressed. 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. We prohibit corruption in all forms, including extortion and bribery.

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 FY2017, there were no significant fines or non-monetary sanctions for non-compliance with laws and regulations. There have also been no reported incidents of corruption during the reporting period. It is Sinostar Pec's goal to maintain zero incidents of corruption. We will regularly review policies on whistleblowing and anti-corruption.

## ENTERPRISE RISK MANAGEMENT (ERM)

ERM is an integral part of good corporate governance as well as resource management. A thorough and comprehensive ERM framework enables Sinostar Pec to identify, communicate and manage its risks and exposures in an integrated, systematic and consistent manner. For detailed disclosure on ERM, please refer to our Annual Report, pages 28 to 35.



# STAKEHOLDERS AND MATERIALITY

## 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 Platforms	Key Concerns Raised
<b>Employees</b>	Networking sessions Open dialogues among teams Intranet portal	Career advancement Learning and development needs
<b>Customers</b>	Hotline Email queries Customer visit	Price of products and services Time lead and quality Future needs and requirements
<b>Suppliers and Service Providers</b>	Face-to-face meetings Annual review and feedback sessions	Compliance with contract terms for timely payment Quality of product supplied
<b>Investors / Shareholders</b>	Group Annual Report Annual General Meeting Group Result Announcement	Corporate governance Financial performance Business outlook
<b>Government and Regulators</b>	Face-to-face meetings Regular reports Participation in discussions	Compliance with laws and regulations Statutory support to the regulators and community

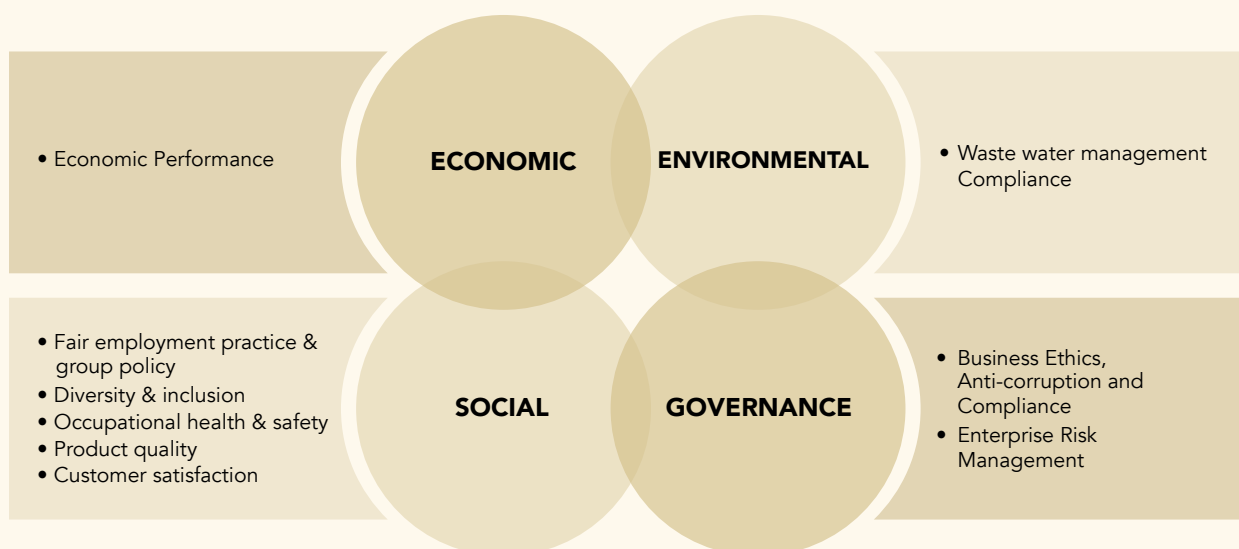
## MATERIAL ASPECTS ASSESSMENT

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

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 2017:

- Financial Highlights, page 23
- Operations Review, page 16 – 17
- Financial Contents, page 51 – 97

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.

## MARKET PRESENCE

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, Shaanxi, 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.





# ENVIRONMENT

The Group is aware of the environmental impact from manufacturing activities and 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/T19001-1994/ISO9001:1994 to GB/T19001-2016/ISO9001:2015;
- GB/T24001-2004/ISO14001:2004 to GB/T24001-2016/ISO14001:2015; and
- GB/T28001-2001/OHSAS18001 to GB/T28001-2011/OHSAS18001.

The Group complies with all regulations and requirements on water pollution, adheres to the environmental protection concept of "Green Operation and Sustainable Development", enhances the level of environmental protection management and strengthens measures to contribute towards a resource-saving and environment-friendly society.

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 of 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 2017, the Group spent a total of RMB 590,000 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.

## ENERGY CONSUMPTION

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 has increased is in line with the higher production volume, we are pleased to share that the energy consumption per unit of production has decreased as shown in the table below. Actual performance is better than the 2% reduction target we set for ourselves.

Total energy consumption	2017	2016
Steam	65,290 (t)	62,235 (t)
Electricity	11,375,347 (kwh)	10,097,388 (kwh)
Fresh water	81,943 (t)	73,159 (t)

Per unit energy consumption	2017	2016	Decrease from 2016
Steam	0.3288 (t/t)	0.3629 (t/t)	9%
Electricity	57.25 (kwh/t)	58.89 (kwh/t)	3%
Fresh water	0.412 (t/t)	0.42 (t/t)	3%



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 energy management to eliminate waste;
4. Reduce utilisation of equipment whenever possible;
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 equipment. 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; and
7. Establish an energy management system, adopt effective energy-saving measures, and carry out internal audits of energy plants.



# SOCIAL

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 2017, we provided the following training to our employees:

- New employee on-boarding;
- Professionalism;
- Leadership training for Head of department;
- Job rotation training;
- Sales management;

- Production management;
- Equipment management;
- Safety knowledge and skills training; and
- Quality, Safety and Occupational Health, Environment and Energy management.

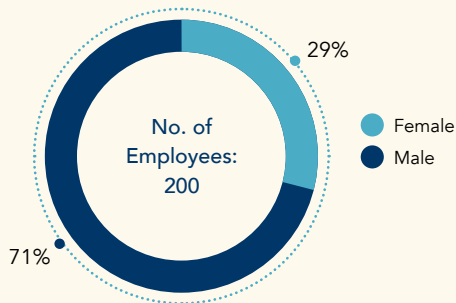
The company provides competitive remuneration based on merit to all our employees. Our employees are not covered by collective bargaining agreements, but are given the right to exercise freedom of association.

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

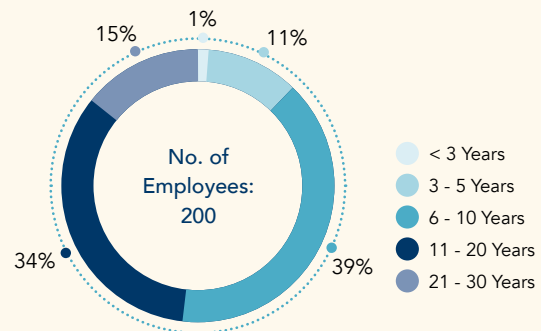
## DIVERSITY AND INCLUSION

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.

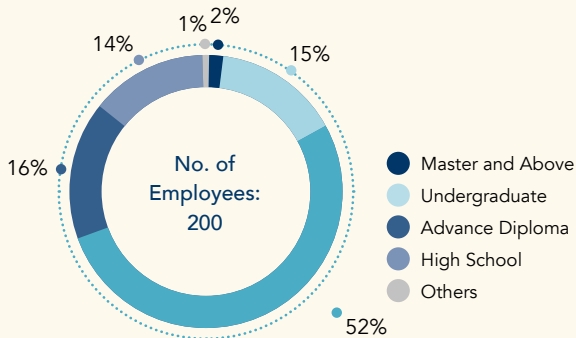
**Gender Breakdown**



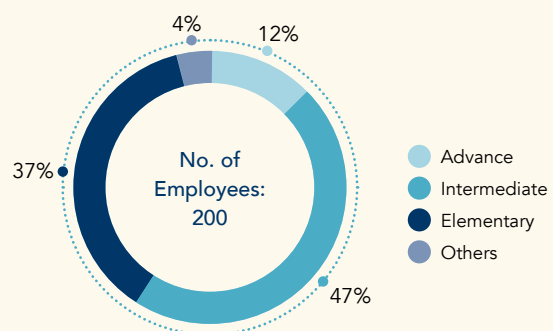
**Length Service**



**Education**



**Certification**



## 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 wellbeing 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. Staff perform an annual check using our Plant Safety & Health Audit Checklist to ensure that

training on new employees 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 are no obstruction in the event 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 man-day lost for FY2017. 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 an annual 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; and
- 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.

## AWARDS

Our products and services are well received by our customers and formally recognized. "Hengchang" polypropylene is awarded "Shandong Province Famous Brand", and "Hengchang" trademark is awarded "Shandong famous brand".



## CSR ACTIVITIES

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.

In 2017, the company launched the “Tomorrow for Compassion” campaign. Led by Chairman Li Xiangping and together with the staff, the company raised a donation of more than RMB 18,000. Because of this activity, a number of cadres and workers have stated that they will participate more actively in social public welfare initiatives in future.



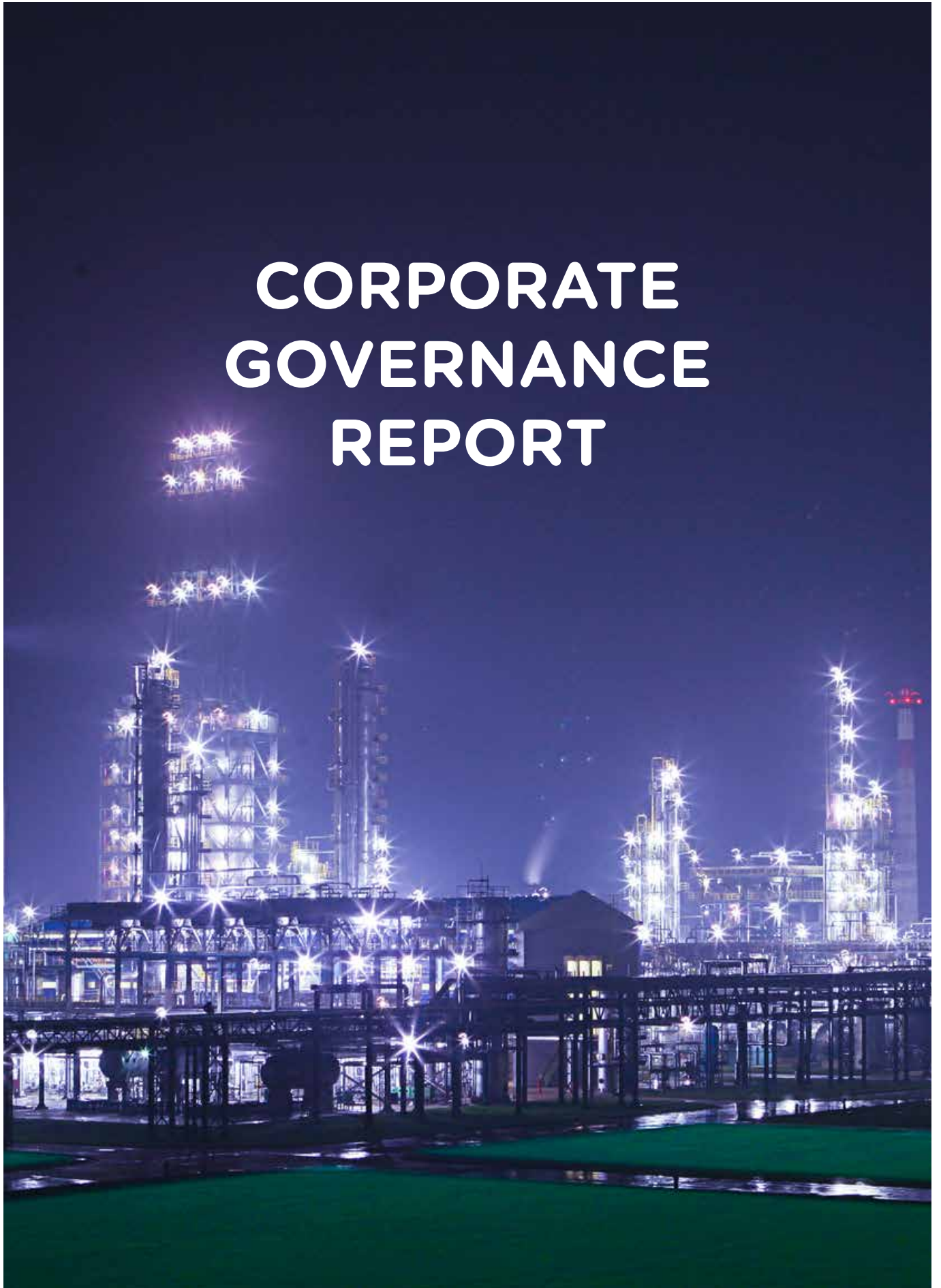
The company responded positively to the Party Central Committee’s call for poverty alleviation and established the “Double Joint, Double Creation” Precision Poverty Alleviation Leading Group with Party Committee Secretary and Chairman Li Xiangping as Group Leader, Party Committee Member as Deputy Team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

Just prior to the Lunar New Year, 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.





# CORPORATE GOVERNANCE REPORT



# CORPORATE GOVERNANCE REPORT

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 FY2017 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 2017, 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 five directors, which include one Executive Director, one Non-Executive Chairman, one Non-Executive Director, and two Independent Non-Executive Directors, 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:

- reviewing and overseeing the management of the Group’s business affairs and financial controls, performance and resource allocation;
- approving matters such as corporate strategy and business plans, corporate restructuring, mergers and acquisitions, major investments and divestments, material acquisitions and disposals of assets and major corporate policies on key areas of operations; and
- approving the release of the Group’s quarterly and full-year financial results and related party transactions of a material nature.

### 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 Investment Committee, 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.

### 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.



# CORPORATE GOVERNANCE (Cont'd)

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	
	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	3	4	3	1	1	1	1	-	-
Zhang Liu Cheng	4	4	-	-	-	-	-	-	1	1
Teo Moh Gin	4	4	4	4	-	-	1	1	1	1
Wu Guozhi	4	4	-	-	1	1	-	-	1	1
Zhao Jinqing	4	4	4	4	1	1	1	1	-	-

## 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.

# CORPORATE GOVERNANCE (Cont'd)

## Principle 2: BOARD COMPOSITION AND GUIDANCE

Currently the Board comprises one Executive Directors, One Non-Executive Director, two Independent Non-Executive Directors 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 Directors. 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	-	Chairman	Member
Wu Guo Zhi	Non-Executive	-	Member	-	Member
Zhao Jinqing	Independent Non-Executive	Member	Chairman	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 2017 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.

The Directors consider the Board's present size of 5 members and composition appropriate to facilitate effective decision making, taking into account the nature and scope of the Group's operations, the wide spectrum of skills and knowledge of the Directors. The biographies of the Directors are set out in this Annual Report.

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.



# CORPORATE GOVERNANCE (Cont'd)

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.

## Principle 4: BOARD MEMBERSHIP

The NC comprises the following members:

Zhao Jinqing (Chairman)  
Li Xiang Ping  
Wu Guozhi

Mr Zhao Jinqing is Independent Non-Executive Director as NC Chairman, and Mr Wu Guozhi is Non-Executive Director, 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: 57	Non-Executive Chairman	6 July 2006	27 April 2015	None	None
Zhang Liu Cheng Age: 46	Chief Executive Officer and Executive Director	6 July 2006	28 April 2016	None	None
Wu Guozhi Age: 67	Non - Executive Director	27 April 2011	28 April 2016	None	None
Teo Moh Gin Age: 59	Independent Non-Executive Director	29 June 2007	28 April 2017	None	Changjiang Fertilizers Holdings Limited YangZhiJiang Shipbuilding Holdings Ltd Asia Fashion Holdings Ltd Chinasun Biochemical Holding Ltd Cedar Strategic Holdings Ltd
Zhao Jinqing Age: 60	Independent Non-Executive Director	7 March 2015	28 April 2017	None	None

# CORPORATE GOVERNANCE (Cont'd)

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.

## 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 Li Xiangping and Mr Wu Guozhi will be retiring by rotation pursuant to the Article 104 of the Articles and Association. Mr Li Xiangping, being eligible for re-election have offered himself for re-election. However Mr Wu Guozhi has notified the Company that he will not be seeking for re-election as a Director in the coming AGM. The key information on Mr Li Xiangping and Mr Wu Guozhi can be found in the 'Board of Directors' section of the Annual Report.

## Key Information on Directors

Key information on each Director is set out on pages 21 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 2017, individual assessment of directors had been conducted at the NC meeting held on 27 February 2018. The criteria for assessment include performance of principal functions and fiduciary duties, level of participation at meetings and individual attendance record.



# CORPORATE GOVERNANCE (Cont'd)

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.

## 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.

# CORPORATE GOVERNANCE (Cont'd)

## 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.

## 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 2018, 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 26 April 2018.



# CORPORATE GOVERNANCE (Cont'd)

## Principle 9: DISCLOSURE ON REMUNERATION

Details of the remuneration of Executive Directors of the Company and top five key management personnel of the Group for the financial year ended 31 December 2017 are set out below:

Remuneration bands	Salary <sup>(1)</sup> %	Variable or performance related income/ bonuses %	Directors' fees <sup>(2)</sup> %	Total %
<b>Directors</b>				
<b>Below S\$250,000</b>				
Li Xiang Ping	-	-	100	100
Zhang Liu Cheng	84	16	-	100
Wu Guo Zhi		-	100	100
Teo Moh Gin	-	-	100	100
Zhao Jinqing	-	-	100	100
<b>Executive Officers</b>				
<b>Below S\$250,000</b>				
Liu Zhong Hua	100	-	-	100
Tan Yew Chee William	70	30	-	100

### Notes:

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

(2) Directors' fees are subject to approval of the shareholders at the forthcoming AGM.

In aggregate, the total remuneration paid to the top five key management personnel in financial year ended 2017 is S\$553,758.

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 2017.

The Company has not implemented any employee share scheme during the financial year ended 31 December 2017.

## ACCOUNTABILITY AND AUDIT

### Principle 10: ACCOUNTABILITY

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.

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 also provides negative assurance confirmation to shareholders for the quarterly financial statements in accordance with Rule 705(5) of the Listing Manual of SGX-ST.

# CORPORATE GOVERNANCE (Cont'd)

## 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 2017. 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.



## CORPORATE GOVERNANCE (Cont'd)

On 16 July 2014, the Company had in its extraordinary general meeting (“EGM”) obtained the approval of the shareholders to enter into recurrent IPTs with Dongming Petrochem Group pursuant to Chapter 9 of the Listing Manual, provided that they are transacted on normal commercial terms and will not be on terms or conditions that would be prejudicial to the interests of the Company and/or its minority shareholders (“2014 IPT General Mandate”). Particulars of the 2014 IPT General Mandate were set out in its circular to the shareholders dated 1 July 2014 (“2014 Circular”).

The 2014 IPT General Mandate had continued in force until the conclusion of the Company’s annual general meeting held on 27 April 2015 (“2015 AGM”), where the Company had inadvertently omitted to renew the 2014 IPT General Mandate. Accordingly, the 2014 IPT Mandate had lapsed and the past IPTs with Dongming Petrochem Group, which have occurred since the expiration of the 2014 IPT Mandate were carried out without any shareholders’ mandate.

The Company had convened an EGM and obtained shareholders’ ratification, confirmation and approval of the Past Recurrent IPTs which occurred after the expiration of the 2014 IPT General Mandate (the “Proposed Ratification of Past Recurrent IPTs”) on 28 April 2017. A new IPT General Mandate for FY2017 was also obtained in the EGM. A summary of the interested person transactions for FY2017 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 – Logistics & transport related services provided to		RMB 1,444,142,021 RMB 5,023,313 RMB 5,601,188
Shandong Dongming Petrochem Group Co., Ltd. (山东东明石化集团有限公司) – Purchase of utilities, part & components – Sale of processed LPG – Logistics & transport related services provided to		RMB 22,030,807 RMB 75,750,803 RMB 362,850
Dongming Runze Petrochemical Co., Ltd (东明润泽化工有限公司) – Purchase of utilities, part & components		RMB 15,996,229
Dongming Crude Oil Distribution Co., Ltd (东明石油经销有限公司) – Logistics & transport related services provided to		RMB 13,942,212
Shandong Dongming Lishu Petroleum Co., Ltd (山东东明梨树化学有限公司) – Sales of processed LPG		RMB 238,040,753
Dongming Qianhai Petrochemical Co., Limited (东明前海化工有限公司) – Sales of processed LPG – Logistics & transport related services provided to		RMB 266,720,192 RMB 851,276
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 488,747

# CORPORATE GOVERNANCE (Cont'd)

## 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 2017, 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;

## CORPORATE GOVERNANCE (Cont'd)

- 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.

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  
Wu Guozhi

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 IC, which have been approved and adopted, are as follows:-

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

- to develop risk management policies and processes;
- to oversee 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 make 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 2017, the aggregate amount of fees paid or payable to external auditors of the Group amounted to S\$152,200, including audit fee of S\$150,000 and non-audit services fee at S\$2,200. The AC has reviewed the non-audit services provided by the external auditor and is satisfied that the non-audit services would not affect the independence and objectivity of 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.



# CORPORATE GOVERNANCE (Cont'd)

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 AC has reviewed the internal audit plan and the Internal auditor's evaluation of the Group's system of internal 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.

### (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.

# CORPORATE GOVERNANCE (Cont'd)

- (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](http://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.

## 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. 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.

# Contents

Directors' Statement	52
Independent Auditor's Report	55
Statements of Financial Position	60
Consolidated Statement of Profit or Loss and Other Comprehensive Income	61
Consolidated Statement of Changes in Equity	62
Consolidated Statement of Cash Flows	63
Notes to the Financial Statements	64



# DIRECTORS' STATEMENT

For the financial year ended 31 December 2017

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 2017 and the statement of financial position of the Company as at 31 December 2017.

## 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 2017 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)
Wu Guo Zhi	(Non-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 2017	As at 31 December 2017 and 21 January 2018	As at 1 January 2017	As at 31 December 2017 and 21 January 2018
The Company - <u>Sinostar PEC Holdings Limited</u> (Ordinary shares with no par value)				
Li Xiang Ping	–	–	334,056,600	<b>336,497,600</b>
Zhang Liu Cheng	200,000	<b>200,000</b>	–	–
Teo Moh Gin	100,000	<b>100,000</b>	–	–

# DIRECTORS' STATEMENT (Cont'd)

For the financial year ended 31 December 2017

## Directors' interests in shares and debentures (cont'd)

	Holdings registered in the name of director or nominee		Holdings in which director is deemed to have an interest	
	As at 1 January 2017	As at 31 December 2017 and 21 January 2018	As at 1 January 2017	As at 31 December 2017 and 21 January 2018
Holding Company - <u>Intelligent People Holdings Limited</u> (Ordinary shares of US\$1 each)				
Li Xiang Ping	10,000	10,000	–	–

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.

There are no changes to the above shareholdings as at 21 January 2018.

## 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 2017 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).

# DIRECTORS' STATEMENT (Cont'd)

For the financial year ended 31 December 2017

## Audit Committee (Cont'd)

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.

## 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 23 to the financial statements.

On behalf of the Directors

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**LI XIANG PING**  
DIRECTOR

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**ZHANG LIU CHENG**  
DIRECTOR

3 April 2018



# INDEPENDENT AUDITOR'S REPORT

For the financial year ended 31 December 2017

## 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 2017, 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 Financial Reporting Standards in Singapore (FRSs) 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 2017 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.

### 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.

# INDEPENDENT AUDITOR'S REPORT (Cont'd)

For the financial year ended 31 December 2017

## Key Audit Matters (Cont'd)

Key Audit Matter	Our audit performed and responses thereon																		
<p><b>Significant concentration of credit risk with a significant customer for transport and logistics services</b></p> <p>The Group's revenue for the financial year ended 31 December 2017 comprises the following types of revenue:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">The Group</th> <th style="text-align: right;">2017 RMB'000</th> <th style="text-align: right;">2016 RMB'000</th> </tr> </thead> <tbody> <tr> <td>Liquefied petroleum gas</td> <td style="text-align: right;">1,018,756</td> <td style="text-align: right;">843,860</td> </tr> <tr> <td>Propylene</td> <td style="text-align: right;">292,330</td> <td style="text-align: right;">264,725</td> </tr> <tr> <td>Polypropylene</td> <td style="text-align: right;">317,378</td> <td style="text-align: right;">264,399</td> </tr> <tr> <td>Transport and logistic services</td> <td style="text-align: right;">176,160</td> <td style="text-align: right;">186,897</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">1,804,624</td> <td style="text-align: right; border-top: 1px solid black;">1,559,881</td> </tr> </tbody> </table> <p>During the financial year, for transport and logistic services, the Group's subsidiary, Dongming Changshun Transport Company Limited ("DMCS") branch in Ganyu ("Ganyu Branch") has transacted RMB 122, 556,798 with a customer, 江苏新海石化有限公司 ("Significant Customer"). This Significant Customer alone constitutes 64.8% of the Group's transport and logistic revenue.</p> <p>As at 31 December 2017, there is no amount outstanding from 江苏新海石化有限公司 but instead, the Group owes this Significant Customer RMB 10 million.</p> <p>Management informed us that the RMB 10 million owing to 江苏新海石化有限公司 related to advance payment received which will be offset against the next month sales.</p> <p>Management also assured that 江苏新海石化有限公司 is not a Related Party under FRS 24 and is also not an Interested Party ("IP") under Chapter 9 of the SGX Listing Manual ("Listing Manual").</p>	The Group	2017 RMB'000	2016 RMB'000	Liquefied petroleum gas	1,018,756	843,860	Propylene	292,330	264,725	Polypropylene	317,378	264,399	Transport and logistic services	176,160	186,897		1,804,624	1,559,881	<p>We have identified the Significant Customer as a key audit matter because sales to this customer alone constitutes 64.8% of the transport and logistic revenue. Accordingly, the Group's transport and logistic services reportable segment may be exposed to or is over-reliance on this single customer. This may posed some operational and credit concentration risks to the Group in the future.</p> <p>Our procedures to address this key audit matter include:</p> <ol style="list-style-type: none"> <li>1) Obtained verbal confirmation from the Board during the Audit Committee Meeting held on 27 February 2018 that this Significant Customer is not a Related Party under FRS 24 and not an IP under the Listing Manual;</li> <li>2) Read the Company's Circular to shareholders dated 7 December 2017 issued by the Company and prepared by RHTLaw Taylor Wessing LLP in their assesement of Interested Party Transaction to ensure that this Significant Customer is not being included as one of the IP;</li> <li>3) Obtained from management details of shareholdings for this Significant Customers and performed necessary procedures to ensure that this Significant Customer is not a Related Party under FRS 24 and not an IP under the Listing Manual;</li> <li>4) Checked that the RMB 10 million advance payment was used to offset against the January 2018 sales;</li> <li>5) Discussed with and made awareness to management on the over-reliance on this Significant Customer for their transport and logistic service.</li> </ol>
The Group	2017 RMB'000	2016 RMB'000																	
Liquefied petroleum gas	1,018,756	843,860																	
Propylene	292,330	264,725																	
Polypropylene	317,378	264,399																	
Transport and logistic services	176,160	186,897																	
	1,804,624	1,559,881																	

# INDEPENDENT AUDITOR'S REPORT (Cont'd)

For the financial year ended 31 December 2017

## 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.

- (a) Sinostar PEC at a Glance;
- (b) Our Businesses and Key Products;
- (c) Chairman's Message;
- (d) Operation's Review;
- (e) Board of Directors;
- (f) Key Management;
- (g) Financial Highlights;
- (h) Corporate Information;
- (i) Sustainability Report;
- (j) Corporate Governance Report;
- (k) Directors' Statement;
- (l) Statistics of Shareholdings;
- (m) Notice of Annual General Meeting; and
- (n) 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, including our reliance on BDO LLP preparation of their Sustainability Report, 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 11 April 2018) 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 FRSs, 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 (Cont'd)

For the financial year ended 31 December 2017

## 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 (Cont'd)

For the financial year ended 31 December 2017

## 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, 3 April 2018

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

# STATEMENTS OF FINANCIAL POSITION

as at 31 December 2017

	Note	The Group		The Company	
		2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
<b>ASSETS</b>					
<b>Non-current</b>					
Property, plant and equipment	5	85,312	98,627	–	–
Goodwill on consolidation		2,501	2,501	–	–
Investment in subsidiaries	6	–	–	250,041	250,041
		<b>87,813</b>	<b>101,128</b>	<b>250,041</b>	<b>250,041</b>
<b>Current</b>					
Inventories	7	25,443	34,272	–	–
Trade and other receivables	8	17,380	27,902	–	–
Amount owing by a subsidiary	6	–	–	37,977	22,058
Amounts owing by affiliated companies	9	166,268	10,422	–	–
Cash and bank balances	10	438,349	494,570	111	274
		<b>647,440</b>	<b>567,166</b>	<b>38,088</b>	<b>22,332</b>
<b>Total assets</b>		<b>735,253</b>	<b>668,294</b>	<b>288,129</b>	<b>272,373</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and Reserves</b>					
Share capital	11	316,125	316,125	316,125	316,125
Retained earnings/(accumulated losses)	12	300,571	256,190	(29,647)	(45,091)
Other reserves	13	51,985	43,857	–	–
<b>Total equity</b>		<b>668,681</b>	<b>616,172</b>	<b>286,478</b>	<b>271,034</b>
<b>Liabilities</b>					
<b>Current</b>					
Trade and other payables	14	52,719	48,406	1,651	1,339
Amounts owing to affiliated companies	15	10,113	290	–	–
Current tax payable		3,740	3,426	–	–
		<b>66,572</b>	<b>52,122</b>	<b>1,651</b>	<b>1,339</b>
<b>Total equity and liabilities</b>		<b>735,253</b>	<b>668,294</b>	<b>288,129</b>	<b>272,373</b>

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 2017

	Note	2017 RMB'000	2016 RMB'000
Revenue	4	1,804,624	1,559,881
Cost of sales		(1,700,906)	(1,442,913)
Gross profit		103,718	116,968
Other income	16(a)	13,810	10,780
Distribution costs	16(b)	(893)	(4,422)
Administrative expenses	16(c)	(21,273)	(19,074)
Other operating expenses	16(d)	(17)	(44)
Profit before taxation	17	95,345	104,208
Taxation	18	(27,126)	(14,405)
<b>Profit, representing total comprehensive income for the financial year</b>		<b>68,219</b>	<b>89,803</b>
		<b>RMB cents</b>	<b>RMB cents</b>
Earnings per share	19		
- Basic		10.66	14.03
- Diluted		10.66	14.03

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 2017

	Share capital RMB'000	Retained earnings RMB'000	Other reserves			Total RMB'000
			Statutory common reserve RMB'000	Voluntary common reserve RMB'000	Sub-total RMB'000	
Balance as at 1 January 2016	316,125	182,335	42,466	797	43,263	541,723
Net profit, representing total comprehensive income for the year	–	89,803	–	–	–	89,803
<b>Transactions with owners in their capacity as owners</b>						
Dividends paid (Note 21)	–	(15,354)	–	–	–	(15,354)
Transfer to statutory common reserve	–	(594)	594	–	594	–
Balance as at 31 December 2016	316,125	256,190	43,060	797	43,857	616,172
Net profit, representing total comprehensive income for the year	–	68,219	–	–	–	68,219
<b>Transactions with owners in their capacity as owners</b>						
Dividends paid (Note 21)	–	(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

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
<b>Operating Activities</b>			
Profit before taxation		95,345	104,208
Adjustments for:			
Depreciation of property, plant and equipment	5	25,874	22,515
Loss on disposal of property, plant and equipment	16(c)	106	61
Interest income	16(a)	(8,980)	(10,410)
Operating profit before working capital changes		112,345	116,374
Decrease/(Increase) in inventories		8,829	(14,936)
Increase in amount owing by/(to) affiliated company		12,877	(44,615)
Decrease in operating receivables		5,360	33,392
Increase/(Decrease) in operating payables		4,313	(4,031)
Cash generated from operations		143,724	86,184
Tax paid		(26,812)	(15,106)
Net cash generated from operating activities		116,912	71,078
<b>Investing Activities</b>			
Acquisition of property, plant and equipment (Note A)		(12,665)	(32,809)
Increase in amount owing by affiliated company - Non trade	9, 29	(158,900)	-
Interest received		14,142	10,096
Net cash used in investing activities		(157,423)	(22,713)
<b>Financing Activities</b>			
Dividends paid	21	(15,710)	(15,354)
Net cash used in financing activities		(15,710)	(15,354)
Net (decrease)/increase in cash and cash equivalents		(56,221)	33,011
Cash and cash equivalents at beginning of financial year		494,570	461,559
Cash and cash equivalents at end of financial year	10	438,349	494,570

## Note A:

### Property, plant and equipment

During the financial year, the Group acquired property, plant and equipment with an aggregate cost of RMB12,665,000 (2016: RMB32,809,000). Cash payments of RMB12,665,000 (2016: RMB32,809,000) 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 2017

## 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 6 to the financial statements.

The financial statements of the Company and of the Group for the financial year ended 31 December 2017 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 ("FRS").

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.

### Significant accounting estimates and judgements

The preparation of the financial statements in conformity with FRS 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) Allowance for impairment of trade receivables

Allowances for bad and doubtful debts are based on an assessment of the recoverability of trade receivables. Allowances are applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the expected outcome is different from the original estimate, such difference will impact the carrying value of trade receivables and the doubtful debt expenses in the period in which such estimate has been changed. Management believes no allowance for impairment of trade receivables is necessary. The carrying amount of trade receivables is disclosed in Note 8.

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the financial year ended 31 December 2017

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

### Critical judgements made in applying accounting policies (Cont'd)

#### ii) Environmental remediation

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.

### 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 2017 is RMB85,312,000 (2016: 98,627,000).

#### 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 appropriate and except for the outstanding payments so determined, there are no further tax and related liabilities.

As at 31 December 2017, 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 18.

#### 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 7 to the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the financial year ended 31 December 2017

## 2(b) Full convergence with International Financial Reporting Standards (IFRS) and adoption of new standards

In December 2017, the Accounting Standards Council (ASC) issued the Singapore Financial Reporting Standards (International) (SFRS(I)). Singapore-incorporated companies that have issued, or are in the process of issuing, equity or debt instruments for trading in a public market in Singapore, will apply SFRS(I) with effect from annual periods beginning on or after 1 January 2018.

The Group's financial statements for the financial year ending 31 December 2018 will be prepared in accordance with SFRS (I), and International Financial Reporting Standards issued by the International Accounting Standards Board. As a result, this will be the last set of financial statements prepared under the current FRSs.

In adopting the new framework, the Group will be required to apply the specific transition requirements in SFRS(I) 1 First-time Adoption of International Financial Reporting Standards.

In addition to the adoption of the new framework, the following new SFRS(I)s which are relevant to the Group are effective from the following dates:

### Effective for annual periods beginning on or after 1 January 2018

- SFRS(I) 9 Financial Instruments
- SFRS(I) 15 Revenue from Contracts with Customers

### Effective for annual periods beginning on or after 1 January 2019

- SFRS(I) 16 Leases
- SFRS(I) INT 23 Uncertainty over Income Tax Treatments
- Annual Improvements to SFRS(I)s 2015 – 2017 Cycle

Management anticipates that the adoption of the above SFRS(I)s in the future periods will not have a material impact on the financial statements of the Group and of the Company in the period of their initial adoption except for SFRS(I) 9, SFRS(I) 15, and SFRS(I) 16. Currently, management is still assessing the impact of SFRS(I) 9, SFRS(I) 15, and SFRS(I) 16 but does not expect these to have any significant impact on the financial statements.

## 2(c) Interpretations and amendments to published standards effective in 2017

On 1 January 2017, the Company and the Group adopted the new or amended FRS and INT FRS that are mandatory for application from that date. Changes to the Company's and the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS and INT FRS.

The adoption of these new or amended FRS and INT FRS did not result in substantial changes to the Company's and the Group's accounting policies and had no material effect on the amounts reported for the current or prior financial years.

## 2(d) FRS and INT FRS issued but not yet effective

Below are the standards, amendments and interpretations that are relevant to the Group that have been issued but only effective in future period at the date of the financial statements:

- FRS 109 *Financial Instruments* (equivalent to SFRS(I) 9)
- FRS 115 *Revenue from Contracts with Customers* (equivalent to SFRS(I) 15)
- FRS 116 *Leases* (equivalent to SFRS(I) 16)

The directors do not anticipate that the adoption of the above FRSs in future periods will have a material impact on the financial statements of the Company and the Group in the period of their initial adoption except for FRS 109, FRS 115 and FRS 116.

### FRS 109 *Financial Instruments*

FRS 109 was issued in December 2014 to replace FRS 39 *Financial Instruments: Recognition and Measurement* and introduced new requirements for (i) the classification and measurement of financial assets and financial liabilities (ii) general hedge accounting and (iii) impairment requirements for financial assets.



# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the financial year ended 31 December 2017

## 2(d) FRS and INT FRS issued but not yet effective (Cont'd)

### FRS 109 Financial Instruments (Cont'd)

Key requirements of FRS 109:

- All recognised financial assets that are within the scope of FRS 39 are now required to be subsequently measured at amortised cost or fair value. Specifically, debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income (FVTOCI). All other debt instruments and equity investments are measured at FVTPL at the end of subsequent accounting periods. In addition, under FRS 109, entities may make an irrevocable election, at initial recognition, to measure an equity investment (that is not held for trading) at FVTOCI, with only dividend income generally recognised in profit or loss.
- In relation to the impairment of financial assets, FRS 109 requires an expected credit loss model, as opposed to an incurred credit loss model under FRS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in FRS 39. Under FRS 109, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Management is currently evaluating the potential impact of the application of FRS 109 on the financial statements of the Group and of the Company in the period of their initial application.

### FRS 115 Revenue from Contracts with Customers

In November 2014, FRS 115 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. FRS 115 will supersede the current revenue recognition guidance including FRS 18 Revenue, FRS 11 Construction Contracts and the related Interpretations when it becomes effective. Further clarifications to FRS 115 were also issued in June 2016.

The core principle of FRS 115 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under FRS 115, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in FRS 115 to deal with specific scenarios. Furthermore, extensive disclosures are required by FRS 115.

Management is currently evaluating the potential impact of the application of FRS 115 on the financial statements of the Group and of the Company in the period of their initial application.

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the financial year ended 31 December 2017

## 2(d) FRS and INT FRS issued but not yet effective (Cont'd)

### FRS 116 Leases

FRS 116 was issued in July 2016 and will supersede FRS 17 Leases and its associated interpretative guidance.

The Standard provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both leases and lessors. The identification of leases, distinguishing between leases and service contracts, are determined on the basis of whether there is an identified asset controlled by the customer.

Significant changes to lessee accounting are introduced, with the distinction between operating and finance leases removed and assets and liabilities recognised in respect of all leases (subject to limited exceptions for short-term leases and leases of low value assets). The Standard maintains substantially the lessor accounting approach under the predecessor FRS 17.

Management is currently evaluating the potential impact of the application of FRS 116 on the financial statements of the Group and of the Company in the period of their initial application.

## 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 6 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

Consolidation of the subsidiaries in PRC is based on the subsidiaries financial statements prepared in accordance with FRS. Profits reflected in the financial statements prepared in accordance with FRS 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.

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the financial year ended 31 December 2017

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

### Group accounting (Cont'd)

#### 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.

#### 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. 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.



# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the financial year ended 31 December 2017

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

### Property, plant and equipment and depreciation (Cont'd)

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.

### 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

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.

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the financial year ended 31 December 2017

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

### Financial assets (Cont'd)

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 liability simultaneously.

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.

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 affiliated 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.

### **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. 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.

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the financial year ended 31 December 2017

## 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 payables and other payables, and amounts owing to affiliated 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.

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.



# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the financial year ended 31 December 2017

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

### Income taxes (Cont'd)

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.

### **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.

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the financial year ended 31 December 2017

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

### Impairment of non-financial assets (Cont'd)

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 recognised when the significant risks and rewards of ownership have been transferred to the buyer. 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.

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.

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.

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the financial year ended 31 December 2017

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

### 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.

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.

### Financial instruments

Financial instruments carried on the statements of financial position include cash and bank balances, financial assets and financial liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. These instruments are recognised when contracted for.

Disclosures on financial risk management objectives and policies are provided in Note 25.

### 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.



# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the financial year ended 31 December 2017

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

### 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.
- 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 domestic 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 and LPG products and transport services, excluding applicable VAT, and is detailed as follows:

	2017	2016
The Group	RMB'000	RMB'000
Liquefied petroleum gas	1,018,756	843,860
Propylene	292,330	264,725
Polypropylene	317,378	264,399
Transport and logistic services	176,160	186,897
	<b>1,804,624</b>	<b>1,559,881</b>

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the financial year ended 31 December 2017

## 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 2016	10,090	120,976	19,441	21,814	290	–	172,611
Additions	363	162	271	32,013	–	–	32,809
Disposals	–	(405)	(146)	–	–	–	(551)
Balance as at 31 December 2016	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
Accumulated depreciation							
Balance as at 1 January 2016	6,384	60,516	12,277	4,750	290	–	84,217
Depreciation for the year	970	14,243	288	7,014	–	–	22,515
Disposals	–	(358)	(132)	–	–	–	(490)
Balance as at 31 December 2016	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
Carrying amount							
Balance as at 31 December 2017	2,677	33,849	7,556	30,756	1	10,473	85,312
Balance as at 31 December 2016	3,099	46,332	7,133	42,063	–	–	98,627

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

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the financial year ended 31 December 2017

## 5 Property, plant and equipment (Cont'd)

The Company	Electronic system and equipment RMB'000
<b>Cost</b>	
Balance as at 31 December 2016 and 2017	27
<b>Accumulated depreciation</b>	
Balance as at 31 December 2016 and 2017	27
<b>Carrying amount</b>	
Balance as at 31 December 2016 and 2017	–

The Group	Note	2017 RMB'000	2016 RMB'000
Depreciation expense charged to:			
Cost of sales /inventories		25,816	22,450
Distribution costs	16(b)	20	29
Administrative expenses	16(c)	38	36
		<b>25,874</b>	<b>22,515</b>

## 6 Investment in subsidiaries/Amount owing by a subsidiary

The Company	2017 RMB'000	2016 RMB'000
Investment in subsidiaries	250,041	250,041
<u>Amount owing by a subsidiary</u>		
- Loan to subsidiary	15,377	22,058
- Dividend receivable	22,600	–
	<b>37,977</b>	<b>22,058</b>

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the financial year ended 31 December 2017

## 6 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
		2017 RMB'000	2016 RMB'000	2017	2016	
<u>Subsidiary held by the Company</u>						
Dongming Hengchang Petrochemical Co., Ltd. <sup>(1)</sup> (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
<u>Subsidiary held by Dongming Hengchang</u>						
Dongming Changshun Transport Company Limited <sup>(1) (2)</sup> (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
		<b>250,041</b>	<b>250,041</b>			

<sup>(1)</sup> Audited by RT LLP, Singapore for consolidation purposes

<sup>(2)</sup> Acquired on 12 August 2015

Loan to subsidiary relates to unsecured advances and accrued interest on the advances, both of which are repayable by 28 November 2018 (2016: 28 November 2017). Interest is charged at 3% (2016: 3%) per annum. The carrying value approximates the fair value of the advances.

The amount owing by a subsidiary is denominated in RMB.



# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the financial year ended 31 December 2017

## 7 Inventories

The Group	2017 RMB'000	2016 RMB'000
Raw materials	4,300	6,739
Finished goods	21,143	27,453
Consumables	–	80
	<b>25,443</b>	34,272
Less:		
Allowance for inventories		
Balance at beginning of the year	–	(2,299)
Credit to profit or loss	–	2,299
Balance at end of the year	–	–
<b>Totals</b>	<b>25,443</b>	34,272
Inventories charged to cost of sales	<b>1,700,906</b>	1,442,913

In 2017, the cost of inventories recognised as an expense includes NIL (2016: RMB 2,299,000) in respect of reversal of allowances for inventories. Previous write-downs have been reversed as a result of increased sales price in certain markets.

## 8 Trade and other receivables

	The Group		The Company	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Trade receivables	12,296	16,930	–	–
VAT receivable	–	818	–	–
Advance payments	96	70	–	–
Advances made to suppliers of raw materials	–	50	–	–
Advances made to staff	914	774	–	–
Prepayments	3,013	3,080	–	–
Interest receivables	553	5,715	–	–
Other receivables	508	465	–	–
	<b>17,380</b>	27,902	–	–

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

The Group	2017 RMB'000	2016 RMB'000
Current (within 30 days)	<b>12,296</b>	16,930

The 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.

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the financial year ended 31 December 2017

## 8 Trade and other receivables (Cont'd)

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

The advances made to suppliers of raw materials are unsecured, interest-free and represent down-payment for the supply of raw materials.

The advances made to staff were for business purposes. The carrying values approximate their fair values.

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

Trade and other receivables are denominated in RMB.

## 9 Amounts owing by affiliated companies

The Group	2017 RMB'000	2016 RMB'000
<u>Trade</u>		
- 山东东明石化集团有限公司	807	10,422
- 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	–
	<b>7,368</b>	10,422
<u>Non-Trade</u>		
- 东明中油燃料石化有限公司 <sup>(1)</sup>	158,900	–
	<b>166,268</b>	10,422

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:

- (1) The amount due to Dongming Zhongyou Fuel and Petrochemical Company Limited (东明中油燃料石化有限公司) relates to the 50% of prepayment for the proposed acquisition of Dongming Qianghai Petrochemical Co., Limited (Note 29).

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the financial year ended 31 December 2017

## 10 Cash and bank balances

	The Group		The Company	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Cash on hand	124	60	88	16
Bank balances	311,225	134,510	23	258
Fixed deposit	127,000	360,000	–	–
	<b>438,349</b>	494,570	<b>111</b>	274

The fixed deposit earned interest at 2.30%-3.40% (2016:1.62%-3.50%) per annum with maturity period of 1 year (2016 : 1 year).

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

Cash and bank balances are denominated in the following currencies:

	The Group		The Company	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Singapore dollar	98	261	98	261
United States dollar	12	13	13	13
Renminbi	438,239	494,296	–	–
	<b>438,349</b>	494,570	<b>111</b>	274

Cash and cash equivalents of RMB438,239,000 (2016: RMB494,296,000) 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.

## 11 Share capital

	No. of shares		Amount	
	2017	2016	2017 RMB'000	2016 RMB'000
<b>The Group and The Company</b>				
Issued and fully paid, with no par value:				
Balance at beginning and end of year	<b>640,000,000</b>	640,000,000	<b>316,125</b>	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.

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the financial year ended 31 December 2017

## 12 Retained earnings/(accumulated losses)

	The Group	
	2017	2016
	RMB'000	RMB'000
<i>Retained earnings/(Accumulated losses)</i>		
- Balance at beginning of the year	256,190	182,335
- Total comprehensive income/(loss) for the financial year	68,219	89,803
- Transfer to statutory common reserve (Note 13)	(8,128)	(594)
- Dividends paid (Note 21)	(15,710)	(15,354)
- Balance at end of the year	300,571	256,190

## 13 Other reserves

The Group	2017	2016
	RMB'000	RMB'000
<b>Other reserves comprised the following:</b>		
<b>Statutory common reserve</b>		
- Balance at beginning of financial year	43,060	42,466
- Transfer from retained earnings (Note 12)	8,128	594
- Balance at end of the year	51,188	43,060
<b>Voluntary common reserve</b>		
- Balance as at beginning and end of the year	797	797
<b>Total reserves</b>	<b>51,985</b>	<b>43,857</b>

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.



# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the financial year ended 31 December 2017

## 14 Trade and other payables

	The Group		The Company	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Trade payables	7,116	9,202	–	–
Accrual for salaries and related costs	4,778	12,182	275	–
VAT payables	8,996	2,478	–	–
Provision for directors' fees	740	830	740	830
Other governmental taxes payable	–	283	–	–
Advances received from customers	17,466	12,331	–	–
Amount owing to directors	70	70	–	–
Amount owing to staff	50	50	–	–
Amount owing to outsourced transportation companies	4,723	6,408	–	–
Refundable deposits received from third parties	7,914	3,229	–	–
Amount owing to sundry creditors	866	1,343	636	509
	<b>52,719</b>	<b>48,406</b>	<b>1,651</b>	<b>1,339</b>

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

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

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.

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

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

Trade and other payables are denominated in the following currencies:

	The Group		The Company	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Singapore dollar	1,651	1,339	1,651	1,339
Renminbi	51,068	47,067	–	–
	<b>52,719</b>	<b>48,406</b>	<b>1,651</b>	<b>1,339</b>

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the financial year ended 31 December 2017

## 15 Amounts owing to affiliated companies

The Group	2017 RMB'000	2016 RMB'000
<u>Trade</u>		
- 东明中油燃料石化有限公司	10,113	-
- 山东润泽化工有限公司	-	290
	<b>10,113</b>	<b>290</b>

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.

## 16(a) Other income

The Group	2017 RMB'000	2016 RMB'000
Interest income - bank	8,980	10,410
Subsidies from PRC Government	4,004	-
Others	826	370
	<b>13,810</b>	<b>10,780</b>

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

## 16(b) Distribution costs

The Group	Note	2017 RMB'000	2016 RMB'000
Employee benefits expense	16(e)	646	3,747
Depreciation of property, plant and equipment	5	20	29
Travelling expenses		1	4
-Freight charges		-	443
Operating lease rentals - equipments		108	103
Others		118	96
		<b>893</b>	<b>4,422</b>

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the financial year ended 31 December 2017

## 16(c) Administrative expenses

The Group	Note	2017 RMB'000	2016 RMB'000
Depreciation of property, plant and equipment	5	38	36
Directors' fees		1,686	1,655
Employee benefits expense	16(e)	5,521	6,004
Exchange (gain)/loss		–	(170)
Operating lease rentals		215	204
Entertainment expenses		446	491
Travelling and accommodation		623	740
Stamp duty & property tax		150	536
Repair and maintenance		157	85
Environment fee		143	138
Professional fee		1,085	656
Audit fee	17	870	721
Cleaning expense		216	216
Non-claimable value added tax		6,039	4,031
36Loss on disposal of property, plant and equipment		36	61
Others		3,978	3,670
		<b>21,273</b>	<b>19,074</b>

## 16(d) Other operating expenses

The Group	2017 RMB'000	2016 RMB'000
Bank charges	1	4
Fines	3	36
Others	13	4
	<b>17</b>	<b>44</b>

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the financial year ended 31 December 2017

## 16(e) Employee benefits expense

The Group	Note	2017 RMB'000	2016 RMB'000
Directors' remuneration			
- salaries and related costs		1,236	1,091
- defined contributions		14	13
Key management personnel (other than directors)			
- salaries and related costs		1,316	1,236
- defined contributions		98	105
Other than directors and key management personnel			
- salaries and related costs		41,638	41,019
- defined contributions		1,368	2,480
		<b>45,670</b>	<b>45,944</b>
As disclosed in:			
Cost of sales/inventories		39,503	36,193
Distribution costs	16(b)	646	3,747
Administrative expenses	16(c)	5,521	6,004
		<b>45,670</b>	<b>45,944</b>

## 17 Profit before taxation

The Group	Note	2017 RMB'000	2016 RMB'000
Profit before taxation has been arrived at after charging and (crediting):			
Depreciation of property, plant and equipment	5	25,874	22,515
Operating lease rentals		323	307
Audit fee	16(c)	870	721



# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the financial year ended 31 December 2017

## 18 Taxation

The Group	2017 RMB'000	2016 RMB'000
Current taxation	27,126	14,405

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	95,345	104,208
Tax at statutory rate of 25% (2016 : 25%)	25,848	27,899
Tax at statutory rate of 17% (2016 : 17%)	(1,368)	(1,256)
Adjustments:		
Tax effect on non-taxable income	(200)	(250)
Tax effect on non-deductible expenses	1,790	1,692
Utilisation of previously unrecognised tax losses	–	(13,680)
Defererd tax assets not recognised	1,056	–
	27,126	14,405

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 2017 are 25% (2016 : 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 RMB83,568,979 (2016: RMB99,279,000) 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 2017, the aggregate amount of temporary differences relating to undistributed profits of a subsidiary for which deferred tax liabilities have not been recognised is RMB95,175,691 (2016: RMB89,209,291). 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.

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the financial year ended 31 December 2017

## 18 Taxation (Cont'd)

### Unabsorbed losses and unrecognised deferred tax assets

In the last financial year ended 31 December 2016, the Group has utilised all its unabsorbed tax losses amounting to RMB54,720,000 which arose solely from Dongming Hengchang.

As at 31 December 2017, the Group has utilised tax losses amounting to RMB 4,223,905, which arose solely from Dongming ChangShun. No deferred tax assets have been recognised in respect of the utilised 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 utilise the benefits.

## 19 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 RMB68,219,000 (2016: RMB89,803,000) based on the weighted average number of ordinary shares in issue of 640,000,000 (2016: 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 RMB68,219,000 (2016: RMB89,803,000) based on the weighted average number of ordinary shares in issue of 640,000,000 (2016: 640,000,000) shares during the financial year.

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

## 20 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	2017 RMB'000	2016 RMB'000
Defined contribution national pension plan	1,292	1,337

## 21 Dividends

The Group and The Company	2017 RMB'000	2016 RMB'000
Ordinary dividends paid		
– final tax-exempt (one-tier) dividend paid in respect of previous financial year of S\$0.005 (2016: S\$0.005) per share	15,710	15,354

Proposed but not recognised as a liability as at 31 December:	2017 SGD'000	2016 SGD'000
Dividends on ordinary shares, subject to shareholders' approval at an Annual General Meeting to be convened		
– final tax-exempt (one-tier) dividend for 2017: S\$0.005 (2016: S\$ 0.005) per share	3,200	3,200

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the financial year ended 31 December 2017

## 22 Commitments

### 22.1 Operating lease commitments (non-cancellable)

At the end of 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	6,492	6,851

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.

### 22.2 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.

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the financial year ended 31 December 2017

## 23 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:

<b>The Group</b>	<b>2017</b>	<b>2016</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Sales to affiliated companies</b>		
- 东明中油燃料石化有限公司	5,601	2,224
- 山东东明石化集团恒基化工有限公司	–	5,299
- 山东东明梨树化学有限公司	238,041	286,788
- 山东东明石化集团有限公司	76,114	73,336
- 东明石油经销有限公司	13,942	17,973
- 东明润明油品销售有限公司	489	35
- 东明前海化工有限公司	267,574	–
	<b>601,761</b>	<b>385,655</b>
<b>Purchases from affiliated companies</b>		
- 东明中油燃料石化有限公司	1,444,142	1,195,132
<b>Rental and utilities charged by affiliated companies</b>		
- 东明中油燃料石化有限公司	5,022	4,852
- 山东东明石化集团有限公司	22,030	19,426
- 东明润泽化工有限公司	15,996	19,613
	<b>43,048</b>	<b>43,891</b>

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

## 24 Disclosure of directors' remuneration

	<b>2017</b>	<b>2016</b>
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	–	–



# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the financial year ended 31 December 2017

## 25 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.

### 25.1 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.

### 25.2 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.

### 25.3 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.

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the financial year ended 31 December 2017

## 25 Financial risk management objectives and policies (Cont'd)

### 25.3 Credit risk (Cont'd)

The trade receivables of transport and logistic business comprise 5 debtors (2016: 4) that contributed 46% (2016: 81%) of the Group's trade receivables. These 5 (2016: 4) individually represented 6% - 17% (2016: 7% - 57%) of the Group's trade receivables.

Further details of credit risks on trade and other receivables are disclosed in Note 8.

### 25.4 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. 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 manage its liquidity risk by ensuring the availability of adequate funds to meet all its obligations in a timely and cost-effective manner.

All financial assets and financial liabilities are expected to be settled within one financial year.

### 25.5 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.

### 25.6 Categories of financial instruments

The following table sets out the financial instruments as at the end of the reporting period:

	The Group		The Company	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
<b>Financial assets</b>				
<u>Loans and receivables</u>				
Cash and bank balances	438,349	494,570	111	274
Trade and other receivables	14,271	23,884	–	–
Amount owing by subsidiaries	–	–	37,977	22,058
Amounts owing by affiliated companies	166,268	10,422	–	–
	<b>618,888</b>	<b>528,876</b>	<b>38,088</b>	<b>22,332</b>
<b>Financial liabilities</b>				
<u>Amortised cost</u>				
Trade and other other payables	26,257	33,315	1,615	1,339
Amount owing to affiliated companies	10,113	290	–	–
	<b>36,370</b>	<b>33,605</b>	<b>1,615</b>	<b>1,339</b>

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the financial year ended 31 December 2017

## 25 Financial risk management objectives and policies (Cont'd)

### 25.7 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.

## 26 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.

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the financial year ended 31 December 2017

## 26 Segment information (Cont'd)

### (a) Reportable segments

	Gas Separation		Transport & Logistic Service		Total	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
<b>REVENUE:</b>						
External customers	1,628,464	1,372,984	176,160	186,897	1,804,624	1,559,881
Inter-segment sales	–	–	–	–	–	–
<b>Total revenue</b>	<b>1,628,464</b>	<b>1,372,984</b>	<b>176,160</b>	<b>186,897</b>	<b>1,804,624</b>	<b>1,559,881</b>
Segment assets	484,734	586,178	83,924	68,369	568,658	654,547
Segment liabilities	10,113	439	7,116	9,053	17,229	9,492
<b>Results</b>						
Unallocated expenses:						
Unallocated corporate expenses					(17,353)	(23,170)
Profit from operations					86,365	93,798
Finance income					8,980	10,410
Profit before taxation					95,345	104,208
Taxation					(27,126)	(14,405)
Profit after taxation					68,219	89,803
<b>Segments' assets for reportable segments</b>					<b>568,658</b>	<b>654,547</b>
Other assets						
Unallocated						
Amount owing by affiliated companies					158,900	–
Cash and bank balances					110	274
Other receivables					5,084	10,972
Goodwill on consolidation					2,501	2,501
					<b>735,523</b>	<b>668,294</b>
<b>Segments' liabilities for reportable segments</b>					<b>17,229</b>	<b>9,492</b>
Other liabilities						
Unallocated						
Other payables					45,603	39,204
Current tax payable					3,740	3,426
					<b>66,572</b>	<b>52,122</b>
					<b>2017 RMB'000</b>	<b>2016 RMB'000</b>
Customer 1					238,041	286,788
Customer 2					266,732	– <sup>(1)</sup>

Both the above 2 customers individually contributed 10% or more of the Group revenue and this are attributable to the Gas Separation segment.

<sup>(1)</sup> The sales to this customer do not exceed 10% in year 2016.

### (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.



# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the financial year ended 31 December 2017

## 27 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 13, 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 2017 and 2016.

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 2017 and 2016.

## 28 Financial instruments

### Fair values

The carrying amount of financial assets and financial liabilities with a maturity of less than one year is assumed to approximate their fair values.

However, the Company and the Group do not anticipate that the carrying amounts recorded at end of reporting period would be significantly different from the values that would eventually be received or settled.

## 29 Events occurring after the reporting period

On 29 June 2017, the Company announced that Dongming Hengchang Petrochemical Co., Ltd ("Purchaser") has executed a conditional equity interest transfer agreement ("SPA") relating to the proposed acquisition of 70% equity interest in the total registered and paid-up capital of Dongming Qianhai Petrochemical Co Limited ("DMQH") "Target Equity Interest" from an interested party, Dongming Zhongyou Fuel and Petrochemical Company Limited ("DMZY") ("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, DMQH will become a 70% owned subsidiary of the Company whilst the remaining 30% equity interest will be held by DMZY.

A Circular containing the proposed acquisition of DMQH was approved by Shareholders during the Extraordinary General Meeting ("EGM") held on 22 December 2017. Subsequent to the approval, the Purchaser and Vendor has mutually agreed to further extend the Long Stop Date from the initial 30 December 2017 to 31 January 2018.

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the financial year ended 31 December 2017

## 29 Events occurring after the reporting period (Cont'd)

After the EGM and pursuant to the SPA dated 29 June 2017, the Group paid out 50% of the purchase consideration of RMB317,800,000 which amounted to RMB158,900,000 (Note 9) after fulfilling the required conditions stipulated in the SPA. The remaining 50% amounting to RMB158,900,000 has yet to be paid out as at the end of the reporting period.

On 31 January 2018, the Company announced that DMQH is still at trial run stage and in order to achieve the estimated production capacity and to satisfy the relevant designing requirements, DMQH needs more time to complete such trial run. Accordingly, the Purchaser and Vendor have 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.

Parties further agreed that, in the event that ten (10) Business Days before the Long Stop Date, the trial run of DMQH is still not completed:

- (i) the Purchaser has the right to terminate the SPA immediately, and the Vendor is obligated to return the 50% of Consideration paid by the Purchaser and to make payment of an interest with the interest rate of 5% per annum commencing on the date of this New Supplemental Agreement.
- (ii) the Purchaser is also entitled to continue the Proposed Acquisition, and it has the right to commence the change of registration of the Target Equity Interest with the relevant authorities immediately, and the Vendor is obligated to fully support the change of registration, including but not limited to amend the Articles of Association of DMQH and to re-appoint the legal representative (if required by the Purchaser).
- (iii) if the Purchaser chooses to continue the Proposed Acquisition in accordance with the New Supplemental Agreement, the Purchaser has the right to commence the Completion Audit in accordance with Clause 2(4)(iv) of the SPA, once the Completion Date is fixed, and the Consideration might be adjusted based on the result of the Completion Audit.

The Board has not made an estimate on the financial effect arising from the impending acquisition of DMQH as the Board is of the view that such an estimate cannot be made due to the uncertainties mentioned above as well as the lack of DMQH financial information as at 31 December 2017.

Notwithstanding the above, the financial effects of the proposed acquisition of DMQH based on 31 March 2017 are disclosed in the Circular dated 7 December 2017 that was approved in the Extraordinary General Meeting (EGM) on 22 December 2017.

# SHAREHOLDINGS STATISTICS

As at 26 March 2018

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

## DISTRIBUTION OF SHAREHOLDINGS

Size of Shareholdings	No. of Shareholders	%	No. of Shares	%
1 - 99	0	0.00	0	0.00
100 - 1,000	117	4.56	108,600	0.02
1,001 - 10,000	1,199	46.69	8,298,600	1.29
10,001 - 1,000,000	1,234	48.05	65,195,000	10.19
1,000,001 AND ABOVE	18	0.70	566,397,800	88.50
<b>TOTAL</b>	<b>2,568</b>	<b>100.00</b>	<b>640,000,000</b>	<b>100.00</b>

## SHAREHOLDINGS HELD IN HANDS OF PUBLIC

Based on information available to the Company as at 26 March 2018, approximately 41.95% 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 of Shareholder	No. of Shares	%
1	Intelligent People Holdings Ltd	329,996,000	51.56
2	UOB Kay Hian Pte Ltd	107,730,300	16.83
3	Phillip Securities Pte Ltd	65,446,900	10.23
4	Raffles Nominees (Pte) Ltd	19,109,500	2.99
5	DBS Vickers Securities (S) Pte Ltd	9,625,900	1.50
6	DBS Nominees Pte Ltd	6,757,600	1.06
7	RHB Securities Singapore Pte Ltd	6,582,600	1.03
8	Citibank Nominees Singapore Pte Ltd	3,143,200	0.49
9	See Gim Tee or Sei Kim Hoe	3,062,500	0.48
10	OCBC Securities Private Limited	2,568,300	0.40
11	Mok Tian Soon	2,241,700	0.35
12	Wei Ran	2,017,000	0.32
13	United Overseas Bank Nominees (Private) Limited	1,840,700	0.29
14	Maybank Kim Eng Securities Pte Ltd	1,413,000	0.22
15	OCBC Nominees Singapore Pte Ltd	1,386,100	0.22
16	Tian Tian	1,265,500	0.20
17	Chuah Poh Tin	1,200,000	0.19
18	See Gim Tee	1,011,000	0.16
19	Aw Yong Sai Chin	1,000,000	0.16
20	Chia Soon Loi	950,000	0.15
<b>TOTAL</b>		<b>568,347,800</b>	<b>88.83</b>

# SHAREHOLDINGS STATISTICS (cont'd)

As at 28 March 2018

## SUBSTANTIAL SHAREHOLDERS

	Direct Interests		Deemed Interests		Total	
	Number of Shares	%	Number of Shares	%	Number of Shares	%
<b>SUBSTANTIAL SHAREHOLDERS</b>						
Intelligent People Holdings Limited	329,996,000	51.56	6,501,600 <sup>(1)</sup>	1.016	336,497,600	52.576
Yoof Investments Limited	35,030,000		–	–	35,030,000	5.47
Li Xiang Ping	–	–	336,497,600 <sup>(2)</sup>	52.576	336,497,600	52.576

### Note:

<sup>(1)</sup> Intelligent People Holdings limited is deemed to be interested in 6,501,600 ordinary shares held under the name of RHB Securities Singapore Pte Ltd.

<sup>(2)</sup> Li Xiang Ping is deemed to be interested in 336,497,600 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 East West Ballroom Level 2, Conrad Centennial Singapore, 2 Temasek Boulevard Singapore 038982 on Thursday, 26 April 2018 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 2017 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 2017. **(Resolution 2)**
3. To re-elect the following Directors retiring pursuant to the Company’s Articles of Association:  
  
Mr Li Xiangping (Article 104) **(See Explanatory Note 1)** **(Resolution 3)**  
Mr Wu Guozhi  
  
Mr Wu Guozhi is retiring at the meeting pursuant to Article 104 of the Company Articles of Association, and has notified the Company that he will not be seeking for re-election as a Director at the meeting.
4. To approve the payment of Directors’ Fees of S\$344,000 (2017 S\$344,000) for the financial year ending 31 December 2018, to be paid quarterly in arrears. **(Resolution 4)**
5. To re-appoint RT LLP as the Auditors of the Company and to authorise the Directors to fix their remuneration. **(Resolution 5)**
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 6)**  
“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 FY2017 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.”

# NOTICE OF ANNUAL GENERAL MEETING (cont'd)

## 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
- (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 7)**

# NOTICE OF ANNUAL GENERAL MEETING (cont'd)

By Order of the Board

**Tan Chee How**  
Company Secretary

Singapore, 11 April 2018

## Explanatory Notes:

1. Mr Li Xiangping is a Non Independent, Non-Executive Director of the Company. He also serves as a Member of the Audit Committee, Nominating and Remuneration Committee. Upon his re-election, Mr Li will continue to serve as Member of the Audit Committee, Nominating and Remuneration Committee. The detailed information of Mr Li Xiangping can be found under the section entitled 'Board of Directors' in the Annual Report.
2. The Ordinary Resolution 7 proposed in item 7 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 the Company at the time the Ordinary Resolution 7 is passed.

## Notes:

- (i) A Member of the Company entitled to attend and vote at the Annual General Meeting may appoint not more than two proxies to attend and vote instead of him.
- (ii) Where a member appoints two proxies, he shall specify the proportion of his shareholding to be represented by each proxy in the instrument appointing the proxies. A proxy need not be a member of the Company.
- (iii) If the member is a corporation, the instrument appointing the proxy must be under its common seal or the hand of its attorney or a duly authorised officer.
- (iv) 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 48 hours before the time appointed for holding the Annual General Meeting.

## 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.

APPENDIX DATED 11 April 2018

**THIS APPENDIX IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

**This Appendix is issued by Sinostar PEC Holdings Limited (the “Company”, together with its subsidiaries, the “Group”). If you are in any doubt as to the course of action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or any other professional adviser immediately.**

This Appendix is circulated to the shareholders of the Company (the “Shareholders”) together with the Company’s Annual Report (as defined herein). Its purpose is to provide the Shareholders with information relating to and explaining to Shareholders the rationale for the proposed renewal of the general mandate for interested person transactions to be tabled at the annual general meeting of the Company to be held on 26 April 2018 at East West Ballroom Level 2, Conrad Centennial Singapore, 2 Temasek Boulevard Singapore 038982 (the “2018 AGM”). The Notice of the 2018 AGM and the accompanying Proxy Form are enclosed with the Annual Report.

If you have sold or transferred all your ordinary shares in the capital of the Company (the “Shares”), you should immediately forward this Appendix, the Annual Report with the Notice of 2018 AGM and the accompanying Proxy Form immediately to the purchaser, transferee or the stockbroker or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee.

The Singapore Exchange Securities Trading Limited (the “SGX-ST”) assumes no responsibility for the contents of this Appendix, including the correctness of any of the statements or opinions made or reports contained in this Appendix.



**Sinostar PEC Holdings Limited**

(Company Registration Number: 200609833N)  
(Incorporated in the Republic of Singapore)

**APPENDIX TO THE NOTICE OF ANNUAL GENERAL MEETING DATED 11 APRIL 2018 IN RELATION TO  
THE PROPOSED RENEWAL OF THE GENERAL MANDATE FOR  
INTERESTED PERSON TRANSACTIONS**



## CONTENTS

DEFINITIONS .....	A1
LETTER TO SHAREHOLDERS .....	A5
1. BACKGROUND .....	A5
2. REQUIREMENTS UNDER CHAPTER 9 OF THE LISTING MANUAL AS TO INTERESTED PERSONS TRANSACTIONS .....	A5
3. IPT GENERAL MANDATE.....	A7
4. INTERESTS OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS .....	A17
5. AUDIT COMMITTEE'S STATEMENTS .....	A17
6. ABSTENTION FROM VOTING .....	A17
7. DIRECTORS' RECOMMENDATIONS .....	A18
8. DIRECTORS' RESPONSIBILITY STATEMENT .....	A18
9. DOCUMENTS AVAILABLE FOR INSPECTION .....	A18
ANNEX A .....	A19

## DEFINITIONS

In this Appendix, the following definitions shall apply throughout unless the context otherwise requires or otherwise stated:

“2014 Circular”	:	The circular to the Shareholders dated 1 July 2014
“28 April 2017 EGM”	:	The EGM held on 28 April 2017
“2017 Circular”	:	The circular to the Shareholders dated 13 April 2017
“2018 AGM”	:	The AGM of the Company to be held on 26 April 2018 at East West Ballroom Level 2, Conrad Centennial Singapore, 2 Temasek Boulevard Singapore 038982
“AGM” or “Annual General Meeting”	:	The annual general meeting of the Company
“Appendix”	:	This appendix to the Notice of the 2018 AGM
“associate”	:	(a) in relation to any Director, CEO, Substantial Shareholder or Controlling Shareholder (being an individual) means: <ul style="list-style-type: none"><li>(i) his immediate family;</li><li>(ii) the trustees of any trust of which he or his immediate family is a beneficiary or, in the case of a discretionary trust, is a discretionary object; and</li><li>(iii) any company in which he and his immediate family together (directly or indirectly) have an interest of thirty per cent. (30.0%) or more</li></ul> (b) in relation to a Substantial Shareholder or a Controlling Shareholder (being a company) means any company which is its subsidiary or holding company or is a subsidiary of any such holding company or one in the equity of which it and/or such other company or companies taken together (directly or indirectly) have an interest of thirty per cent. (30.0%) or more
“Audit Committee”	:	The audit committee of the Company as at the date of this Appendix, comprising Mr Teo Moh Gin, Mr Li and Mr Zhao Jinqing
“Board” or “Directors”	:	The directors of the Company as at the date of this Appendix and “Director” shall be construed accordingly
“CDP”	:	The Central Depository (Pte) Limited
“CEO”	:	Chief executive officer of the Company
“CFO”	:	Chief financial officer of the Company
“Companies Act”	:	The Companies Act (Chapter 50) of Singapore, as amended, modified or supplemented from time to time
“Company”	:	Sinostar PEC Holdings Limited
“Constitution”	:	The constitution or other regulations of the Company for the time being in force as originally framed, or as amended from time to time
“Control”	:	The capacity to dominate decision-making, directly or indirectly, in relation to the financial and operating policies of the Company

“Controlling Shareholder”	:	A person who: (a) holds directly or indirectly fifteen per cent. (15.0%) or more of the total number of issued shares excluding treasury shares and subsidiary holdings in the Company. The SGX-ST may determine that a person who satisfies this paragraph is not a controlling shareholder; or (b) in fact exercises Control over the Company
“Dongming Changshun”	:	Dongming Changshun Transport Company Limited (东明县昌顺运输有限公司) which is an indirect subsidiary of the Company
“Dongming County”	:	Dongming County, Shandong Province, the PRC
“Dongming Oil Distribution”	:	Dongming Oil Distribution Co. Limited (东明石油经销有限公司)
“Dongming Ganyu”	:	Dongming County Changshun Transport Co., Ltd. Ganyu Subsidiary Co. (东明县昌顺运输有限公司输赣榆分公司) which is a branch office of Dongming Changshun located in Jiangsu Province, the PRC
“Dongming Hengchang”	:	Dongming Hengchang Petrochemical Co., Ltd (东明恒昌化工有限公司) which is a wholly-owned subsidiary of the Company
“Dongming Lishu”	:	Shandong Dongming Lishu Petroleum Co., Ltd (山东东明梨树化学有限公司)
“Dongming Petrochem”	:	Shandong Dongming Petrochem Group Co., Ltd (山东东明石化集团有限公司)
“Dongming Petrochem Group”	:	Has the meaning ascribed to it in Section 3.3 of this Appendix
“Dongming Qianhai”	:	Dongming Qianhai Petrochemical Co Limited (东明前海化工有限公司)
“Dongming Runze”	:	Dongming Runze Petrochemical Co., Ltd. (东明润泽化工有限公司)
“Dongming Zhongyou”	:	Dongming Zhongyou Fuel and Petrochemical Company Limited (东明中油燃料石化有限公司)
“EGM” or “Extraordinary General Meeting”	:	The extraordinary general meeting of the Company
“Executive Director”	:	A Director of the Company, holding office in an executive capacity
“FY”	:	Financial year ended, or ending, as the case may be, on 31 December
“FY2015”	:	Financial year ended 31 December 2015
“FY2016”	:	Financial year ended 31 December 2016
“FY2017”	:	Financial year ended 31 December 2017
“Group”	:	The Company and its subsidiaries as at the date of this Appendix
“Hong Li Yuan”	:	Shandong Hong Li Yuan Stock Limited Company (山东宏利源股份有限公司), formerly known as Shandong Dongming Petrochemical Group Holdings Co., Ltd. (山东东明石化集团控股有限公司)
“Interested Persons”	:	Has the meaning ascribed to it in Section 3.3 of this Appendix
“Interested Person Transaction” or “IPT”	:	A transaction proposed to be entered into between the Group and an Interested Person
“Intelligent People”	:	Intelligent People Holdings Limited

“IPT General Mandate”	:	The general mandate for interested person transactions of the Company
“IPT Independent Shareholders”	:	Shareholders who are deemed independent for the proposed renewal of the IPT General Mandate
“Latest Practicable Date”	:	3 April 2018, being the latest practicable date prior to the printing of this Appendix
“Listing Manual”	:	The mainboard listing manual of the SGX-ST, as amended, modified or supplemented from time to time
“LPG”	:	Liquefied petroleum gas
“MEK”	:	Methyl ethyl ketone
“Minority Shareholders”	:	The minority Shareholders of the Company
“Mr Li”	:	Mr Li Xiang Ping, the Non-Executive Chairman of the Company
“MTBE”	:	Methyl tert-butyl ether
“New Public Work Cooperation Agreements”	:	Has the meaning ascribed to it in Section 3.5.3 of this Appendix
“n.m.”	:	Not meaningful
“NTA”	:	Net tangible assets
“Non-Executive Directors”	:	The non-executive Directors of the Company
“PRC”	:	The People’s Republic of China
“processed LPG”	:	A type of liquefied petroleum gas supplied to end customers as a source of fuel after propylene is extracted from raw LPG
“raw LPG”	:	A type of petroleum gas derived from the refining of crude and heavy oil, with propylene and other contents such as propane and alkene, which is usually stored in liquid form under moderate pressure
“SFA”	:	The Securities and Futures Act (Chapter 289) of Singapore, as amended, modified or supplemented from time to time
“SGX-ST”	:	Singapore Exchange Securities Trading Limited
“Shandong Longxin”	:	Shandong Longxin Environmental Technology Co. Limited (山东龙鑫环保科技有限公司)
“Shares”	:	Ordinary Shares in the issued and paid-up capital of the Company
“Shareholders”	:	The registered holders of the Shares, except where the registered depositor is CDP, the term “Shareholders” shall, in relation to such shareholders, means the persons to whose securities accounts maintained with CDP are credited with the Shares
“Si Yuan”	:	Shandong Si Yuan Trading Co., Ltd
“subsidiary holdings”	:	Shares referred to in Sections 21(4), 21(4B), 21(6A) and 21(6C) of the Companies Act



- “Substantial Shareholder” : A person (including a corporation) who has an interest in one (1) or more voting shares of the Company and the total votes attached to that share, or those shares, is not less than five per cent. (5.0%) of the total votes attached to all the voting shares in the Company
- “Treasury Shares” : Issued Shares of the Company which were (or are treated as having been) purchased by the Company in circumstances which Section 76H of the Companies Act applies and have since purchase been continuously held by the Company

#### Currencies, Units and Others

- “RMB” : Renminbi, the lawful currency of the PRC
- “S\$” and “cents” : Singapore dollars and cents, the lawful currency of the Republic of Singapore
- “%” or “per cent” : Per centum or percentage

Unless the context otherwise requires:

- (a) the terms “**Depositor**”, “**Depository Agent**” and “**Depository Register**” shall have the same meanings ascribed to them, respectively, in section 81SF of the SFA. The terms “**subsidiary**”, “**related company**” and “**substantial shareholder**” shall have the meanings ascribed to them, respectively, in the Companies Act;
- (b) words importing the singular shall, where applicable, include the plural and *vice versa*, and words importing the masculine gender shall, where applicable, include the feminine and neuter genders and *vice versa*. References to persons shall include corporations;
- (c) the headings in this Appendix are inserted for convenience only and shall be ignored in construing this Appendix;
- (d) any reference in this Appendix to any statute or enactment is a reference to that statute or enactment as for the time being amended or re-enacted. Any word or term defined under the Companies Act, the SFA, the Listing Manual or any statutory modification thereof and not otherwise defined in this Appendix shall have the same meaning ascribed to it under the Companies Act, the SFA, the Listing Manual or any statutory modification thereof, as the case may be;
- (e) any discrepancies between the figures listed and the totals thereof are due to rounding. Accordingly, figures shown as totals in this Appendix may not be an arithmetic aggregation of the figures that precede them;
- (f) any reference to any agreement or document shall include such agreement or document as amended, modified, varied, novated, supplemented or replaced from time to time;
- (g) any reference to a time of day and to dates in this Appendix shall be a reference to Singapore time and dates, unless otherwise stated; and
- (h) unless otherwise stated, the exchange rate of S\$1: RMB 4.81 has been used in this Appendix.

## SINOSTAR PEC HOLDINGS LIMITED

Company Registration Number 200609833N  
(Incorporated in the Republic of Singapore)

### LETTER TO SHAREHOLDERS

#### Directors:

Mr Li Xiang Ping (Non-Executive Chairman)  
Mr Zhang Liu Cheng (CEO and Executive Director)  
Mr Wu Guo Zhi (Non-Executive Director)  
Mr Teo Moh Gin (Independent Non-Executive Director)  
Mr Zhao Jinqing (Independent Non-Executive Director)

#### Registered Office:

Six Battery Road #10-01  
Singapore, 049909

11 April 2018

**To: The Shareholders of Sinostar PEC Holdings Limited**

Dear Sir/Madam

#### 1. BACKGROUND

At the 28 April 2017 EGM, Shareholders had approved the renewal of the IPT General Mandate, and such IPT General Mandate was expressed to take effect until the conclusion of the next AGM of the Company, which is scheduled to be held on 26 April 2018.

Moving forward, as the Group anticipates that there will be recurrent transactions entered into with the Interested Persons, which are of a revenue and trading nature, the Directors propose that the IPT General Mandate be renewed at the 2018 AGM and (unless revoked or varied by the Company in general meeting) to continue in force until the next AGM of the Company.

This resolution relating to the proposed renewal of the IPT General Mandate is set out in Resolution 6. The purpose of this Appendix is to provide Shareholders with the relevant information and rationale in relation to the proposed renewal of the IPT General Mandate and to seek the approval of the Shareholders at 2018 AGM for the proposed renewal of the IPT General Mandate.

#### 2. Requirements Under Chapter 9 of the Listing Manual as to Interested Persons Transactions

##### 2.1 Materiality Thresholds, Disclosure Requirements and Shareholders' Approval

An immediate announcement and/or Shareholders' approval would be required in respect of transactions with interested persons if the value of the transaction is equal to or exceeds certain financial thresholds.

In particular, an immediate announcement is required where:

- (a) the value of a proposed Interested Person Transaction is equal to or exceeds three per cent. (3.0%) of the listed group's latest audited consolidated NTA (the "**Threshold 1**"); or
- (b) the aggregate value of all Interested Person Transactions entered into with the same interested person during the same financial year, is equal to or more than Threshold 1. In this instance, an announcement will have to be made immediately after the latest Interested Person Transaction and all future Interested Person Transactions entered into with the same interested person during the financial year.

In addition, the approval of Shareholders (in addition to an immediate announcement) is required where:

- (a) the value of a proposed Interested Person Transaction is equal to or exceeds five per cent. (5.0%) of the listed group's latest audited consolidated NTA (the "**Threshold 2**"); or
- (b) the aggregate value of all Interested Person Transactions entered into with the same interested person during the same financial year, is equal to or more than Threshold 2. The aggregation will exclude any Interested Person Transaction that has been approved by Shareholders previously, or is the subject of aggregation with another Interested Person Transaction that has been previously approved by Shareholders.

The above requirements for immediate announcement and/or for Shareholders' approval do not apply to any transaction below S\$100,000, and certain transactions which, by reason of the nature of such transactions, are not considered to put the listed company at risk to its interested person and hence excluded from the ambit of Chapter 9 of the Listing Manual.

The value of a transaction is the amount at risk to the listed company. This is illustrated by the following examples:

- (a) in the case of a partly-owned subsidiary or associated company, the value of the transaction is the listed company's effective interest in that transaction;
- (b) in the case of a joint venture, the value of the transaction includes the equity participation, shareholders' loans and guarantees given by the entity at risk; and
- (c) in the case of borrowing of funds from an interested person, the value of the transaction is the interest payable on the borrowing. In the case of lending of funds to an interested person, the value of the transaction is the interest payable on the loan and the value of the loan.

## 2.2 Introduction

Chapter 9 of the Listing Manual regulates transactions by a listed company, its subsidiaries and associated companies that are considered to be at risk (each referred to as an "entity at risk", which is more particularly defined below), with the interested persons that may adversely affect the interests of the listed company.

When Chapter 9 of the Listing Manual applies to a transaction when the value of that transaction alone or in aggregation with other transactions conducted with the same interested person during the financial year is equivalent to or exceeds certain financial thresholds, the listed company is required to make an immediate announcement and may additionally be required to seek shareholders' approval for that transaction.

For the purpose of Chapter 9 of the Listing Manual:

- (a) An "**approved exchange**" means a stock exchange that has rules which safeguard the interests of shareholders against interested person transactions according to similar principles to Chapter 9 of the Listing Manual.
- (b) An "**associate**" means:
  - (i) in relation to any director, chief executive officer, substantial shareholder or controlling shareholder (being an individual) means:
    - (1) his immediate family;
    - (2) the trustees of any trust of which he or his immediate family is a beneficiary or, in the case of a discretionary trust, is a discretionary object; and
    - (3) any company in which he and his immediate family together (directly or indirectly) have any interest of thirty per cent. (30.0%) or more; and
  - (ii) in relation to a substantial shareholder or a controlling shareholder (being a company) means any other company which is its subsidiary or holding company or is a subsidiary of such holding company or one in the equity of which it and/or such other company or companies taken together (directly or indirectly) have an interest of thirty per cent. (30.0%) or more.
- (c) An "**associated company**" means, in relation to a listed company, any company in which at least twenty per cent. (20.0%) but not more than fifty per cent. (50.0%) of its shares are held by the listed company or group.
- (d) A "**chief executive officer**" means the most senior executive officer who is responsible under the immediate authority of the board of directors for the conduct of the business of the listed company.

- (e) A “**controlling shareholder**” means a person who:
  - (i) holds directly or indirectly fifteen per cent. (15.0%) or more of the total number of issued shares excluding treasury shares and subsidiary holdings in the listed company. The SGX-ST may determine that a person who satisfies this paragraph is not a controlling shareholder; or
  - (ii) in fact exercises control over the listed company.
- (f) An “**entity at risk**” means:
  - (i) the listed company;
  - (ii) a subsidiary of the listed company that is not listed on the SGX-ST or an approved exchange; or
  - (iii) an associated company of the listed company that is not listed on the SGX-ST or an approved exchange, provided that the listed group, or the listed group and its interested person(s), has control over the associated company.
- (g) An “**interested person**” means:
  - (i) a director, chief executive officer, or controlling shareholder of the listed company; or
  - (ii) an associate of any such director, chief executive officer, or controlling shareholder.
- (h) An “**interested person transaction**” means a transaction between an entity at risk and an interested person and a “transaction” includes the provision or receipt of financial assistance, the acquisition, disposal or leasing of assets, the provision or receipt of services, the issuance or subscription of securities, the granting of or being granted options, and the establishment of joint ventures or joint investments, whether or not in the ordinary course of business, and whether or not entered into directly or indirectly.

### 2.3 General Mandate

Part VIII of Chapter 9 of the Listing Manual allows a listed company to seek a general mandate from its shareholders for recurrent interested person transaction of a revenue or trading nature or those necessary for its day-to-day operations such as the purchase and sale of supplies and materials, but not in respect of the purchase or sale of assets, undertakings or businesses. A general mandate granted by shareholders is subject to annual renewal.

### 2.4 Same Interested Person

Under Rule 908 of the Listing Manual, in interpreting the term “**same interested person**” for the purpose of aggregation as described in Section 2.1 of this Appendix, the following applies:

- (a) transactions between an entity at risk and interested persons who are members of the same group are deemed to be transactions between the entity at risk with the same interested person; and
- (b) if an interested person (which is a member of a group) is listed, its transactions with the entity at risk need not be aggregated with transactions between the entity at risk and other interested persons of the same group, provided that the listed interested person has a board the majority of whose directors are different and are not accustomed to act on the instructions of the other interested persons and their associates and has an audit committee whose members are completely different.

## 3. IPT GENERAL MANDATE

### 3.1 Rationale for, and Benefits of the IPT General Mandate

It is anticipated that in the ordinary course of business, transactions of a revenue or trading nature between the Group and Interested Persons are likely to occur from time to time.

The renewal of the IPT General Mandate will enable the Group to enter into certain types of transactions that are of a revenue or trading nature with Interested Persons in the ordinary course of business without the need to convene a general meeting to seek Shareholders' approval each time when such potential transactions arise provided that they are transacted on normal commercial terms and will not be prejudicial to the interests of the Company and its Minority Shareholders. This will substantially reduce the time and expenses associated with the convening of general meetings, improve administrative efficacy, and allow resources and time to be focused towards other corporate and business opportunities.

### 3.2 Categories of Interested Person Transactions

The Group envisages that in the ordinary course of their business, transactions between the Group and Interested Persons will be likely to occur from time to time. Such transactions would include:

- (a) the purchase of raw LPG from the Interested Persons;
- (b) the sale of processed LPG to the Interested Persons;
- (c) the purchase of utilities, parts and components (including packaging materials) from Interested Persons; and
- (d) the provision of logistics and transport related services and/or products to Interested Persons.

The Group may transact with one (1) or more entities which are Interested Persons (as further defined in Section 3.3 below) for each category of the Interested Person Transactions set out above.

### 3.3 Classes of Interested Persons

Under the IPT General Mandate, the classes of interested persons are as follows:

- (a) Dongming Petrochem;
- (b) the existing and future subsidiaries of Dongming Petrochem;
- (c) the holding company of Dongming Petrochem and its existing and future subsidiaries; and
- (d) any existing and future corporation in which Dongming Petrochem and such other related company or companies, taken together, have an interest (directly or indirectly) of thirty per cent. (30.0%) or more of that corporation's equity capital,

(collectively, the "**Dongming Petrochem Group**" or the "**Interested Persons**").

Dongming Petrochem is incorporated in the PRC. Its principal business activities are refining crude oil, distributing gasoline, diesel, paraffin wax, tar and related products, producing raw LPG derived from the refining of crude oil and downstream processing of raw LPG into propylene, polypropylene and LPG.

As at the Latest Practicable Date, the Company's Non-Executive Chairman and Controlling Shareholder, Mr Li, holds 42.87% of the equity interest in Si Yuan, which in turn holds 19.06% of the equity interest in Hong Li Yuan. Hong Li Yuan is the majority shareholder of Dongming Petrochem with 87.25% equity interest. A diagram setting out, *inter alia*, Mr Li's indirect shareholding interests in Dongming Petrochem is contained in **Annex A** to this Appendix.

While Mr Li does not have a deemed interest in the entire equity interest of Dongming Petrochem held by Hong Li Yuan, as Si Yuan holds less than 20% interest in Hong Li Yuan, he is the chairman and legal representative of Dongming Petrochem. Therefore, in the interest of good corporate governance, the Company will be treating Dongming Petrochem Group as "interested persons" of the Company, and the relevant transactions with Dongming Petrochem Group as "interested person transaction" under Chapter 9 of the Listing Manual.



### 3.4 Introduction of Interested Persons

The Dongming Petrochem Group is one of the largest privately owned crude oil refiners in the PRC and has been the strategic supplier of raw materials to the Group since 2000. As disclosed in the Company's prospectus dated 11 September 2007, the 2014 Circular and the 2017 Circular, the Group had entered into supply agreements with entities within the Dongming Petrochem Group for the supply of raw LPG and utilities such as instrument air, nitrogen, electricity and industrial water to the Group which are required for the Group's production processes.

The Dongming Petrochem Group includes, *inter alia*:

#### 3.4.1 Dongming Lishu

Dongming Lishu is a company incorporated in the PRC and is primarily engaged in projects for the production of MEK, tert-butanol, sec-butyl ether, butane, isobutane, hydrogen and other by-products. Dongming Petrochem owns 60.0% of Dongming Lishu while the remaining 40.0% is owned by an unrelated third party.

#### 3.4.2 Dongming Petrochem

Dongming Petrochem is incorporated in the PRC and is primarily engaged in the business of crude oil refining and sale of raw LPG, diesel, gasoline and liquid paraffin. Mr Li is currently the legal representative and board chairman of Dongming Petrochem.

As at the Latest Practicable Date, Hong Li Yuan owns 87.25% of Dongming Petrochem while the remaining shareholdings are owned by third party shareholders unrelated to Mr Li.

#### 3.4.3 Dongming Zhongyou

Dongming Zhongyou is a company incorporated in the PRC and is primarily engaged in the production and sale of raw LPG, petroleum asphalt, diesel, gasoline, naphtha, propylene and solvent oil. It is a wholly-owned subsidiary of Dongming Petrochem.

#### 3.4.4 Dongming Runze

Dongming Runze is a company incorporated in the PRC on 24 August 2010. As a result of a restructuring exercise that had completed in August 2015, Dongming Runze merged and absorbed all the assets and operations of Dongming Runchang Petrochemical Co., Ltd ("**Dongming Runchang**") and Dongming Runbang Petrochemical Co., Ltd ("**Dongming Runbang**"). As at the Latest Practicable Date, the registered capital of Dongming Runze is RMB 2,130 million, which has been fully paid-up.

Dongming Runze is primarily engaged in the businesses of crude oil refinery and sale of raw LPG, diesel, gasoline and liquid paraffin. It is approximately 69.3% controlled by Dongming Petrochem Group.

Dongming Runze has a larger production capacity of six (6) million ton per annum than the combined production capacities of Dongming Runchang and Dongming Runbang. Following the completion of the restructuring exercise, Dongming Runchang and Dongming Runbang have ceased to exist.

#### 3.4.5 Dongming Oil Distribution

Dongming Oil Distribution is a company incorporated in the PRC and is mainly engaged in the selling and distribution of all oil and petrochemical oil products. It is a wholly-owned subsidiary of Dongming Petrochem.

#### 3.4.6 Dongming Qianhai

Dongming Qianhai is a company incorporated in the PRC and is principally engaged in the business of processing and production of propylene related oil products. Dongming Petrochem owns 30.0% of Dongming Qianhai while the remaining 70.0% is to be acquired by Dongming Hengchang, a wholly-owner subsidiary of the Company, from Dongming Zhongyou under the terms and conditions of an equity interest transfer agreement entered into on 29 June 2017 to be completed by 30 April 2018.

### 3.4.7 Shandong Longxin

Shandong Longxin is a company incorporated in the PRC and is in the principal business of waste water treatment and air purification treatment. It is a wholly-owned subsidiary of Dongming Zhongyou.

### 3.5 Guidelines and Review Procedures under the IPT General Mandate

In general, Interested Person Transactions shall be carried out on normal commercial terms which are consistent with the Group's usual business practices and on terms that are not prejudicial to the interests of the Company and its Minority Shareholders.

In particular, the Group has implemented the following procedures to ensure the transactions with Dongming Petrochem Group are undertaken on arm's length basis and on normal commercial terms:

#### 3.5.1 Purchase of raw LPG from Dongming Petrochem Group

The Company's subsidiary, Dongming Hengchang, had on 31 May 2016 entered into the 2016 Exclusive Supply Agreement with Dongming Zhongyou for a term of 20 years commencing from the date of the agreement, pursuant to which Dongming Zhongyou must supply all its raw LPG to Dongming Hengchang and Dongming Hengchang must purchase all the raw LPG produced by Dongming Zhongyou at the prevailing market rates, taking into account factors such as the prices quoted by unrelated suppliers during the month and the content level of propylene. Such arrangement ensures that the Group has a stable and secured supply of its major raw material. It also results in cost savings for the Group in terms of transportation costs of the Group's major raw materials. This is because no transportation costs will be incurred by the parties as the refining facilities of Dongming Zhongyou and the Group's fractionation facilities are directly linked with gas pipes. The parties mutually agreed that such transactions would be made on an arm's length basis.

The Group uses the raw LPG purchased from Dongming Petrochem Group to extract propylene. The extracted propylene is partly used for the production of polypropylene while the remaining is sold to customers who use the Company's propylene as an industrial chemical for the production of various chemical intermediates. The polypropylene produced by the Group is largely sold to customers primarily engaged in the production of plastic products, such as polypropylene packaging bags, synthetic fibres, surface coating and household products. The profit margins from the sale of propylene or polypropylene are higher than that for the sale of raw LPG.

#### Transaction Volume

The transaction volume for each month will be determined based on the transaction records compiled and reconciled by both parties at the end of each month. The volume records will be reviewed and approved by the deputy general manager of the sales and procurement department of Dongming Hengchang, the CFO of the Company or a Director of the Company, who does not have an interest, direct or indirect, or hold any executive position in Dongming Petrochem Group, before they are forwarded to the finance department for processing of settlement.

#### Transaction Price

As propylene is used for the production of polypropylene, the content level of propylene is used as the criteria in determining the quality of the raw LPG purchased. Hence, it was mutually agreed that:

For supplies that contain less than 30.0% propylene per tonne of raw LPG, their pricing will be determined based on the average quoted selling price of processed LPG sold by Dongming Hengchang (excluding transportation costs) to unrelated third parties for the month.

For supplies that contain 30.0% or more of propylene per tonne of raw LPG, their pricing will be determined based on the average quoted selling price of five (5) unrelated suppliers of raw LPG (excluding transportation costs) for the month.

The five (5) unrelated suppliers will be selected randomly by the sales director of Dongming Hengchang from those who have had past transactions with Dongming Hengchang and their quoted prices are to be obtained weekly from the website of an independent industry data and information provider.

The bulk of the raw LPG supplies that the Group purchased from Dongming Petrochem Group in the last three (3) financial years being, FY2015, FY2016 and FY2017, contained 30.0% or more of propylene per tonne. The aggregate amount of raw LPG supplies containing less than 30.0% of propylene per tonne purchased by the Group from Dongming Petrochem Group in each of FY2015, FY2016 and FY2017 constituted approximately 19%, 14% and 16%, respectively, of the total amount of raw LPG supplies that the Group purchased from Dongming Petrochem Group for that year.

The transaction price of raw LPG in the market is generally higher than that of processed LPG. As such, for supplies of raw LPG that contain less than 30.0% propylene per tonne, it is more beneficial to the Company to determine the transaction prices using the average quoted selling price of processed LPG sold by Dongming Hengchang (excluding transportation costs) to unrelated third parties for the month, as compared to using the average quoted selling price of five (5) unrelated suppliers of raw LPG (excluding transportation costs) for the month.

#### Settlement

Although settlement generally takes place at the end of each month after the transaction volume and price are duly agreed upon by both parties, Dongming Petrochem Group may request the Group to make partial payment for raw LPG delivered prior to the month-end settlement. The amount of the partial payment is usually based on an estimated transaction volume and price for the month, taking into account the average volume for the past three (3) months and the transaction price for the previous month. The partial payment, if any, will be set off against the month-end settlement. The approving authority for the partial payment (if any) and month-end settlement shall comprise any two (2) of the Director(s) of the Company, CFO of the Company or the deputy general manager of the sales and procurement department of Dongming Hengchang, who do not have any interest, direct or indirect, or hold any executive position in Dongming Petrochem Group.

Should the aggregate value of any partial payment and/or settlement exceed RMB 80.0 million in a particular month, the Company shall seek approval for the partial payment and/or settlement from the Audit Committee. The aforesaid approval limit has been arrived at by the Group after taking into consideration the nature and size of the Interested Person Transactions, so as to provide for business efficiency and at the same time provide additional safeguards to ensure that transactions of exceptional amounts with the Interested Person are reviewed and approved by the Audit Committee.

#### 3.5.2 Sale of processed LPG to Dongming Petrochem Group

Going forward, the Group will continue to sell processed LPG to one (1) or more entities within Dongming Petrochem Group, including Dongming Petrochem and Dongming Lishu, pursuant to the sale and purchase agreements entered into by Dongming Hengchang with Dongming Petrochem and Dongming Lishu on 1 February 2016 and 1 April 2016, respectively (collectively, the “**Processed LPG Agreements**”).

The purpose of the processed LPG sold by the Group to Dongming Petrochem is for the extraction of isobutene. On the other hand, the processed LPG sold by the Group to Dongming Lishu is utilised by Dongming Lishu as a feedstock for the production of MEK.

The sale and purchase agreement entered into between Dongming Hengchang and Dongming Petrochem on 1 February 2016 (the “**Dongming Petrochem Processed LPG Agreement**”) is for a term of 20 years commencing from the date of the agreement. Under the terms of the agreement, unless otherwise approved by Dongming Hengchang, Dongming Petrochem is obligated to purchase from Dongming Hengchang all the processed LPG it requires for the extraction of isobutene. The remaining processed LPG after the extraction of isobutene by Dongming Petrochem will be returned to Dongming Hengchang for nil consideration and, Dongming Hengchang is entitled to sell these left-over processed LPG to other parties. Dongming Petrochem is allowed to sell the processed LPG to other third parties after it has fulfilled Dongming Petrochem’s requests for processed LPG required for the extraction of isobutene.

The total amount of sales or other income recognised in the financial statements of the Company for each of FY2015, FY2016 and FY2017 from the supply of processed LPG to the Dongming Petrochem Group for the extraction of isobutene is as follows:

Financial Years	The total amount of sales or other income from the supply of processed LPG to the Dongming Petrochem Group for the extraction of isobutene
FY2015	RMB 82,904,049
FY2016	RMB 73,358,888
FY2017	RMB 75,750,803

Dongming Hengchang and Dongming Lishu had originally entered into a sale and purchase agreement which was valid from 1 January 2017 to 31 December 2017. After the expiry of the aforesaid agreement, Dongming Hengchang and Dongming Lishu entered into its existing sale and purchase agreement which is valid for 12 months commencing from 1 January 2018 (the “**Dongming Lishu Processed LPG Agreement**”). Under the terms of the Dongming Lishu Processed LPG Agreement, Dongming Lishu has agreed that Dongming Hengchang shall be its preferred supplier for processed LPG. In addition, Dongming Lishu is only entitled to use the processed LPG sold by Dongming Hengchang as feedstock for the production of MEK, which is commonly used as an industrial solvent, and is not allowed to re-sell the processed LPG.

#### Transaction Volume

The transaction volume of the processed LPG sold by the Company to Dongming Petrochem Group (regardless whether it is to Dongming Lishu or Dongming Petrochem) for the month is measured through a meter.

The transaction volume is determined by measuring the difference between the volume of the processed LPG flowing into the production plant of Dongming Petrochem Group recorded at the beginning of the month and that recorded at the start of the subsequent month (or at the end of the month). The parties do not record the volume of the processed LPG flowing out from Dongming Petrochem Group to the Company after the extraction of isobutene.

As such, in relation to the sale of processed LPG from the Company to Dongming Petrochem for the extraction of isobutene, the entire volume of the processed LPG flowing in from the Company to Dongming Petrochem will be used to compute the transaction prices, notwithstanding Dongming Petrochem is merely extracting the isobutene before returning the remaining processed LPG to the Company.

Under the terms of the Processed LPG Agreements, the transaction volume for each month will be determined based on the transaction records compiled and reconciled by both parties at the end of each month. The volume records will be reviewed and approved by the deputy general manager of the sales and procurement department of Dongming Hengchang, the CFO of the Company or a Director of the Company, who does not have any interest, direct or indirect, or hold any executive position in Dongming Petrochem Group before they are forwarded to the finance department for processing of billing.

#### Transaction Price

Under the terms of the Dongming Petrochem Processed LPG Agreement, the parties mutually agreed that the transaction prices of the processed LPG per tonne sold to Dongming Petrochem will be determined based on the simple average quoted selling prices of the processed LPG sold by the Group to unrelated customers during the month, and the formula is as follows:

(Sum of the daily transaction prices for the sale of processed LPG to unrelated customers for the month)/  
(Number of daily transaction prices for the sale of processed LPG to unrelated customers for the month)

Under the terms of the Dongming Lishu Processed LPG Agreement, the parties mutually agreed that the transaction prices of the processed LPG sold to Dongming Lishu will be determined based on the simple average quoted selling prices of the processed LPG sold by the Group to unrelated customers during the period in which the goods are being delivered to Dongming Lishu, and the formula is as follows:

(Sum of the daily transaction prices for the sale of processed LPG to unrelated customers for the month)/  
(Number of daily transaction prices for the sale of processed LPG to unrelated customers for the month)

Should the aggregate value of the processed LPG supplied to Dongming Petrochem Group exceed RMB 50.0 million in a particular month, the Company shall seek approval from the Audit Committee for such transactions exceeding RMB 50.0 million. The aforesaid approval limit has been arrived at by the Group after taking into consideration the nature and size of the Interested Person Transactions, so as to provide for business efficiency and at the same time, provide additional safeguards to ensure that transactions of exceptional amount with the Interested Person are reviewed and approved by the Audit Committee.

#### Settlement

Settlement generally takes place at the end of each month after the transaction volume and price are duly agreed upon by both parties and the transactions are billed accordingly.

### 3.5.3 Purchase of utilities, parts and components (including packaging materials) from Dongming Petrochem Group

Going forward, the Group will continue to purchase utilities, parts and components from Dongming Petrochem Group pursuant to the Public Work Cooperation Agreement entered into with Dongming Runze and Dongming Petrochem, dated 1 May 2015 and 31 May 2016, respectively (collectively the “**New Public Work Cooperation Agreements**”), as and when the need arises. Each of the New Public Work Cooperation Agreements is valid for a term of 20 years commencing from the date of the respective agreements.

#### Transaction Volume

The transaction volume of utilities and quantities of parts and components for each month will be determined based on the transaction records compiled and reconciled by both parties at the end of each month. The volume records will be reviewed and approved by the deputy general manager of the sales and procurement department of Dongming Hengchang, the CFO of the Company or a Director of the Company, who does not have an interest, direct or indirect, or hold any executive position in Dongming Petrochem Group, before they are forwarded to the finance department for processing of settlement. The volume of the utilities supplied will be based on the readings of the meter, which will be taken and recorded jointly by representatives from the Group and Dongming Petrochem Group.

#### Transaction Price

##### (a) Utilities

The Group will continue its current practice of engaging a local certified public accounting firm every year to compare the rates paid by the Group with those quoted by third party suppliers and certify that the rates paid by the Group to Dongming Petrochem Group were not higher than the prevailing market rates, represented by the quotes obtained by such local certified public accounting firm from select third party suppliers. The rates payable for the utilities will be determined at arm's length and having regard to the prevailing market rates, as set out in the report prepared by the local certified public accounting firm. As at the Latest Practicable Date, the utilities rates have been fairly stable in the last few years, from the commercial standpoint, the Company is of the view that it is feasible for the parties to rely on the report for the purpose of determining the utilities rates payable.



(b) Parts and components

Dongming Petrochem Group makes bulk purchases of parts and components for its group's operations from third party suppliers from time to time with a view to obtaining the parts and components that are essential to its day-to-day operations at competitive rates through bulk purchases. Being in the same line of business as Dongming Petrochem Group, the Group also requires the same sorts of parts and components as procured and utilised by Dongming Petrochem Group. Owing to the long-term business relationship, Dongming Petrochem Group has been supplying these parts and components to the Group at purchase cost. Whilst the Group does not obtain any third party quotation, Dongming Petrochem Group purchases these parts and components through an open bidding process where it typically invites three (3) to five (5) suppliers to submit their competitive quotations.

Going forward, the Group will continue to purchase parts and components (including packaging materials) from Dongming Petrochem Group to meet the needs of its day-to-day operations provided that the prices charged by Dongming Petrochem Group are not less favourable than those offered by third party suppliers.

Settlement

Generally, the settlement for the utilities, parts and components charges takes place at the end of each month. The approving authority for the month-end settlements shall comprise any two (2) of the Director(s) of the Company, CFO of the Company or deputy general manager of the sales and procurement department of Dongming Hengchang (who do not have an interest, direct or indirect, or hold any executive position in Dongming Petrochem Group).

3.5.4 Provision of logistics and transport related services and/or products to Dongming Petrochem Group

The Company's subsidiary, Dongming Changshun and its branch office, Dongming Ganyu, provide logistics and transport related services and/or products to Dongming Petrochem Group as well as unrelated third parties. Such transport related services and/or products include provision of truck maintenance and repair services and transport services for petroleum goods. The prices charged by Dongming Changshun and Dongming Ganyu to Dongming Petrochem Group for the logistics and transport related services and/or products will be determined on arm's length basis by the respective sale departments of Dongming Changshun and Dongming Ganyu and approved by the general manager of Dongming Changshun, who has no interest, direct or indirect, in the transaction and does not hold any executive position in Dongming Petrochem Group. The terms offered to Dongming Petrochem Group shall not be more favourable than those extended to unrelated third parties, taking into account factors, including but not limited to fuel costs, overheads, total distance travelled, delivery volume, business relationships and payment terms.

Settlement for the provision of logistics and transport related services and/or products also takes place at the end of each month.

3.6 General IPT Guidelines

To ensure that the Interested Person Transactions are conducted on normal commercial terms consistent with the Group's usual business practices and on terms which are generally no more favourable than those extended to unrelated third parties, in addition to the review procedures listed in Section 3.5 of this Appendix, the Group will also monitor all Interested Person Transactions by categorising the transactions as follows:

- (a) an Interested Person Transaction of a value equal to or more than three per cent. (3.0%) of the Group's latest audited NTA (the "**Category 1 Interested Person Transaction**") shall be approved by the Audit Committee prior to the entry into such transactions; and
- (b) an Interested Person Transaction of a value below three per cent. (3.0%) of the Group's latest audited NTA (the "**Category 2 Interested Person Transaction**") need not have the prior approval of the Audit Committee but shall be reviewed on a quarterly basis by the Audit Committee to ensure that they are carried out on normal commercial terms, in accordance with the procedures outlined above. All relevant non-quantitative factors such as the nature of services provided and prevailing market conditions will also be taken into account and recorded accordingly.

### 3.7 General Administrative Procedures for all Interested Person Transactions

The Company will also implement the following procedures for the identification of Interested Persons and the recording of all Interested Person Transactions (including the Interested Person Transactions with Dongming Petrochem Group):-

- (a) The Finance Department will maintain a list of the Group's Directors and Controlling Shareholders (which is to be updated immediately if there are any changes) and disclose the list to relevant personnel (such as the Board, the Procurement Manager and the Marketing Manager of each subsidiary) to enable the identification of Interested Persons. The master list of Interested Persons shall be reviewed by the Audit Committee on a quarterly basis.
- (b) Subsidiaries and associated companies of the Group are required to inform the Finance Department of any significant upcoming transactions with Interested Persons so as to obtain the prior approval of the Audit Committee or Shareholders, where necessary.
- (c) The Finance Department will maintain a register of all Interested Person Transactions pursuant to the IPT General Mandate, including the factors that have been taken into account in arriving at the purchase/sales terms and supporting documents. The CFO of the Company will review the aforesaid register of Interested Person Transactions on a quarterly basis and report to the Audit Committee if there are transactions which are not carried out in accordance with the aforesaid review procedures. Transactions below S\$100,000 shall be recorded and maintained in a separate register and submitted to the Audit Committee for review upon request.
- (d) The register of Interested Person Transactions will also be submitted to the Audit Committee for review on a quarterly basis as part of its standard procedures while examining the adequacy of the Group's internal controls including those relating to Interested Person Transactions.
- (e) In the event that the CFO of the Company, Director of the Company or a member of the Audit Committee (where applicable) has an interest in any Interested Person Transaction, he or she will abstain from reviewing and/or approving that particular transaction.
- (f) The Board will ensure that all disclosure requirements on Interested Person Transactions, including those required by prevailing legislation, the Listing Manual and accounting standards, are complied with.
- (g) The Audit Committee shall have overall responsibility for the determination of the review procedures and shall have the authority to delegate such responsibility to individuals or committees within the Company as they deem appropriate.

### 3.8 Internal Audit

The Company's annual internal audit plan will incorporate a review of all Interested Person Transactions (including but not limited to those carried out under the IPT General Mandate) and if applicable, the adequacy of the internal control procedures established in respect of Interested Person Transactions. The internal auditors, being an external audit firm appointed or to be appointed by the Company, shall carry out such tests as they deem necessary on the Interested Person Transactions entered into pursuant to the IPT General Mandate. The internal audit report will be forwarded to the Audit Committee for review.

### 3.9 Review by the Audit Committee

The Audit Committee's review of all Interested Person Transactions, if any, will be done at least quarterly to ensure that they are carried out at arm's length and in accordance with the procedures outlined above. Such review includes the examination of the transactions and their supporting documents or such other data deemed necessary by the Audit Committee. In its review, the Audit Committee will take into account all relevant non-quantitative factors. The Audit Committee may request for additional information pertaining to the transaction under review from independent sources, advisers or valuers as they deem fit.

The Audit Committee shall also review the annual internal audit report on Interested Person Transactions to ascertain that the established review procedures to monitor Interested Person Transactions have been complied with.

In the event that a member of the Audit Committee is interested in any Interested Person Transaction, he will abstain from participating in the review and approval process in relation to that particular transaction. Approval of that transaction will accordingly be undertaken by the remaining members of the Audit Committee.

If during these periodic reviews by the Audit Committee, the Audit Committee is of the view that the existing guidelines and review procedures as stated above have become inappropriate or insufficient to ensure that the Interested Person Transactions will be on normal commercial terms and will not be prejudicial to the interests of the Company and its Minority Shareholders, the Company will seek approval from Shareholders for a fresh mandate based on new guidelines and review procedures for transactions to be entered into with the Interested Person. During the period prior to obtaining a fresh mandate from Shareholders, all transactions with Interested Persons will be subject to prior review and approval by the Audit Committee.

### 3.10 Validity Period of the IPT General Mandate

If approved at the forthcoming 2018 AGM, the renewed IPT General Mandate will take effect from the date of the passing of the Resolution 6 to be proposed at the 2018 AGM and will (unless revoked or varied by the Company in a general meeting) continue to be in force until the next AGM of the Company is held or is required by law to be held, whichever is the earlier. The Company will seek the approval of Shareholders for the renewal of the IPT General Mandate at each subsequent AGM. The renewal of the IPT General Mandate shall be subject to the satisfactory review by the Audit Committee of the continued need for the IPT General Mandate and the adequacy of the review procedures for the transactions.

### 3.11 Disclosure of IPT to Shareholders in the Annual Report and Financial Statements

In accordance with the requirements of Chapter 9 of the Listing Manual:

- (a) disclosure will be made in the annual report of the Company, giving details of the aggregate value of all Interested Person Transactions conducted with Interested Persons pursuant to the IPT General Mandate during the financial year under review and in the annual reports for the subsequent financial years during which the IPT General Mandate is in force;
- (b) announcements will be made with regard to the aggregate value of transactions conducted pursuant to the IPT General Mandate for the financial periods which the Company is required to report on pursuant to Rule 705 of the Listing Manual within the time required for the announcement of such report; and
- (c) disclosures of the Interested Person Transactions will be presented in the form set out in Rule 907 of the Listing Manual as follows:

Name of Interested Person(s)	Aggregate value of all interested person transactions during the financial period/year under review (excluding transactions less than S\$100,000 and transactions conducted under the IPT General Mandate)	Aggregate value of all interested person transactions conducted under the IPT General Mandate (excluding transactions less than S\$100,000)

#### 4. INTERESTS OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

The interests of the Directors and Substantial Shareholders in the capital of the Company as at the Latest Practicable Date are as follows:

	Direct Interests		Deemed Interest	
	Number of Shares	%	Number of Shares	%
<b>Directors</b>				
Li Xiang Ping	-	-	336,497,600 <sup>(2)</sup>	52.576
Zhang Liu Cheng	200,000	0.03		
Wu Guo Zhi	-	-	-	-
Teo Moh Gin	100,000	0.02	-	-
Zhao Jinqing	-	-	-	-
<b>Substantial Shareholders</b>				
Intelligent People Holdings Limited	329,996,000	51.56	6,501,600 <sup>(1)</sup>	1.016
Yoof Investments Limited	35,030,000	5.47	-	-

#### Notes:

- (1) Intelligent People Holdings Limited is deemed to be interested in 6,501,600 Shares held on its behalf under the name of its nominee - RHB Securities Singapore Pte. Ltd.
- (2) Mr Li, by virtue of the provisions of Section 7 of the Companies Act, is deemed to have an interest in the aggregate number 336,497,600 Shares that Intelligent People is interested or deemed to be interested in, due to his 100.0% shareholding interest in Intelligent People.

#### 5. AUDIT COMMITTEE'S STATEMENTS

In relation to the proposed renewal of the IPT General Mandate and pursuant to Rule 920(1)(c) of the Listing Manual, the Audit Committee of our Company, comprising Mr Teo Moh Gin, Mr Li who shall abstain from making recommendation in respect of the IPT General Mandate) and Mr Zhao Jinqing, confirms that:

- (a) the methods or procedures for determining the transaction prices as described in Section 3 hereof have not changed since last Shareholders' approval of the General IPT Mandate obtained at the 28 April 2017 EGM; and
- (b) the methods or procedures for determining the transaction prices as described in Section 3 hereof are sufficient to ensure that the transactions will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders.

If during the periodic reviews by the Audit Committee, it is of the view that the established guidelines and procedures for the IPT General Mandate are no longer appropriate or adequate to ensure that the Interested Person Transactions will be transacted on an arm's length basis and on normal commercial terms and would be prejudicial to the interests of the Company and its Minority Shareholders, or in the event of any amendment to Chapter 9 of the Listing Manual, the Audit Committee will, in consultation with the Board, take such action as it deems proper in respect of such procedures and/or modify or implement such procedures as may be necessary and direct the Company to revert to Shareholders for a fresh mandate based on the new guidelines and procedures for transactions with the Interested Persons.

#### 6. ABSTENTION FROM VOTING

Rules 919 and 920(1)(b)(viii) of the Listing Manual requires that Interested Persons and their associates must not vote on any Shareholders' resolutions approving a mandate in respect of any Interested Persons Transactions.

Mr Li who is deemed to have an interest in the aggregate number of 334,497,600 Shares, which Intelligent People is interested in or deemed to be interested in due to his 100.0% shareholding interest in Intelligent People, will abstain, and procure that Intelligent People and all its other associates will abstain, from voting at the 2018 AGM in relation to the IPT General Mandate and will not accept nominations as proxy or otherwise for voting at the 2018 AGM in respect of the said Ordinary Resolution as out in the notice of AGM on pages 100 of the Annual Report unless the IPT Independent Shareholders appointing them as proxies give specific instructions in the relevant proxy form in the manner in which they wish their votes to be cast for that Ordinary Resolution.

## 7. DIRECTORS' RECOMMENDATIONS

### 7.1 The proposed renewal of the IPT General Mandate

Mr Li, whom the Interested Persons are associates of, shall abstain from the Board's review and determination, and making recommendations to Shareholders in relation to the proposed renewal of IPT General Mandate.

Having considered, among others, the terms of the IPT General Mandate, the rationale for the IPT General Mandate and the benefits of the IPT General Mandate to the Group, the IPT recommending Directors are of the view that the proposed renewal of the IPT General Mandate is in the interests of the Company, and accordingly recommend that the IPT Independent Shareholders vote in favour of the ordinary resolution relating to the proposed renewal of the IPT General Mandate as set out in the Notice of AGM.

### 7.2 Different Investment Objectives

As different Shareholders would have different investment objectives, the Board recommends that any individual Shareholder who may require specific advice in relation to the proposed renewal of the IPT General Mandate should consult his stockbroker, bank manager, solicitor, accountant or other professional advisers.

## 8. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this Appendix and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, this Appendix constitutes full and true disclosure of all material facts about the proposed renewal of the IPT General Mandate, the Company and its subsidiaries, and the Directors are not aware of any facts the omission of which would make any statement in this Appendix misleading.

Where information in this Appendix has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in the Appendix in its proper form and context.

## 9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the registered office of the Company at Six Battery Road #10-01, Singapore 049909, during normal business hours from the date hereof up to and including the date of the 2018 AGM.

- (a) the Constitution of the Company; and
- (b) the annual report of the Company for FY2017.

Yours faithfully  
For and on behalf of the Board of Directors of  
**SINOSTAR PEC HOLDINGS LIMITED**

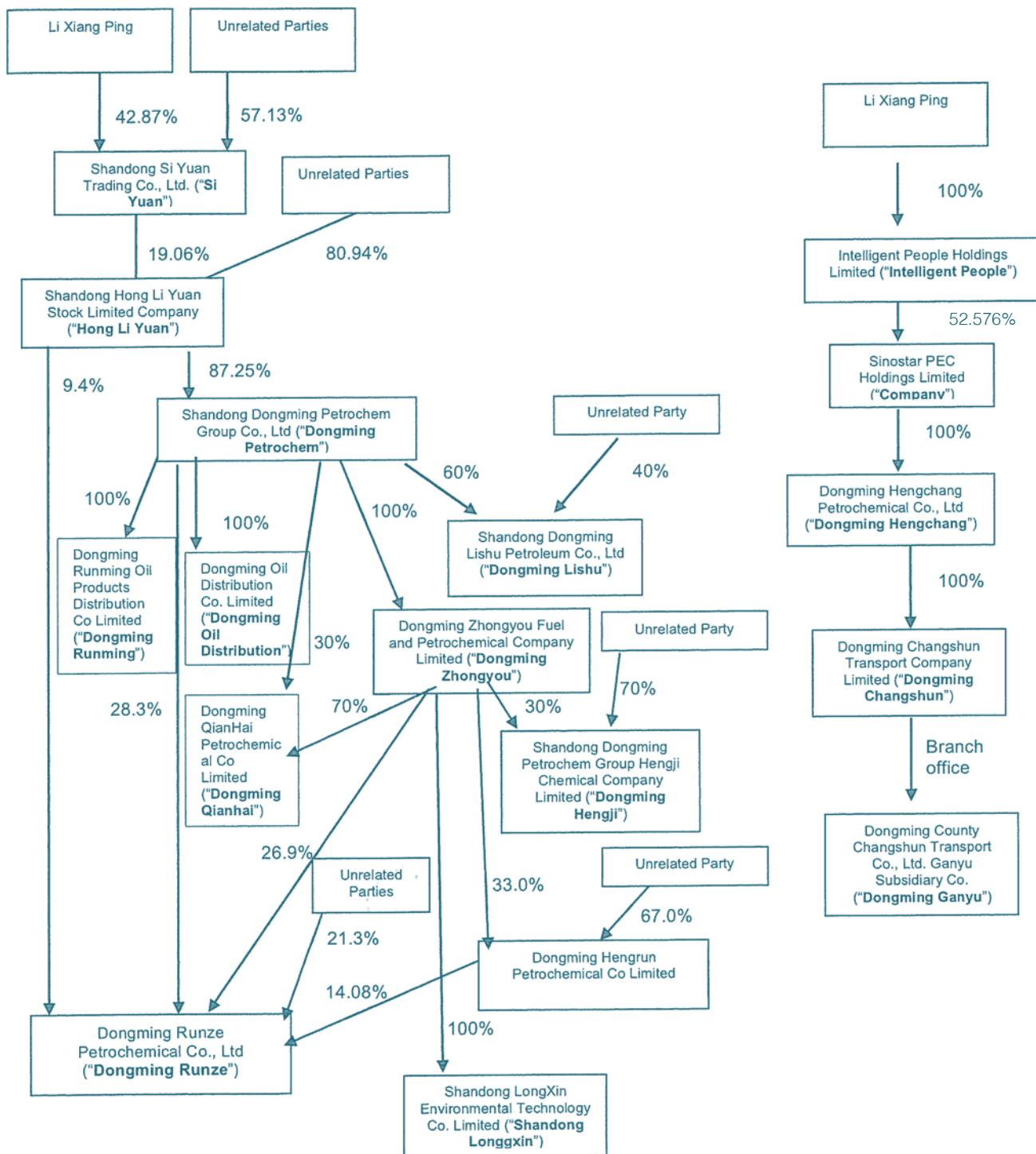
Zhang Liu Cheng  
Chief Executive Officer and Executive Director

Date: 11 April 2017



ANNEX A

SHAREHOLDING INTERESTS OF MR LI AND THE SHAREHOLDING STRUCTURE OF THE DONGMING PETROCHEM GROUP



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# 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 Thursday, 26 April 2018, at 9.30 a.m. at East West 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 2017.		
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 2017.		
3	Re-election of Mr Li Xiang Ping as a Director.		
4	Approval of the payment of Directors' Fees of S\$344,000 for the financial year ending 31 December 2018.		
5	Re-appointment of RT LLP as Auditors.		
6	Renewal of shareholders' mandate for Interest person transaction.		
7	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 \_\_\_\_\_ 2018

\_\_\_\_\_  
Signature(s) of Shareholder(s) or  
Common Seal of Corporate Shareholder

### TOTAL NUMBER OF SHARES IN:

- |                         |  |
|-------------------------|--|
| (a) CDP Register        |  |
| (b) Register of Members |  |

**IMPORTANT: PLEASE READ NOTES OVERLEAF**

**Notes:**

1. A member of the Company entitled to attend and vote at the Meeting is entitled to appoint one or two proxies to attend and vote in his stead.
2. Where a member appoints more than one proxy, the proportion of the shareholding to be represented by each proxy shall be specified in this proxy form. If no proportion is specified, the Company shall be entitled to treat the first named proxy as representing the entire shareholding and any second named proxy as an alternate to the first named or at the Company's option to treat this proxy form as invalid.
3. A proxy need not be a member of the Company.
4. 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 130A of the Companies Act, Cap. 50 of Singapore), you should insert that number of shares. If you have shares registered in your name in the Register of Members of the Company, you should insert that number of shares. If you have shares entered against your name in Depository Register and registered in your name in the Register of Members, you should insert the aggregate number of shares. If no number is inserted, this proxy form will be deemed to relate to all the shares held by you.
5. This proxy form must be deposited at the Company's registered office at Six Battery Road, #10-01, Singapore 049909 not less than 48 hours before the time set for the Meeting.
6. This proxy form must be under the hand of the appointor or of his attorney duly authorised in writing. Where this proxy form is executed by a corporation, it must be executed either under its common seal or under the hand of its attorney or a duly authorised officer.
7. Where this proxy form is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with this proxy form, failing which this proxy form shall be treated as invalid.

**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 48 hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.



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

SGX Stockcode: C9Q  
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