

CIRCULAR DATED 14 JUNE 2020

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

This Circular 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 Circular is circulated to the shareholders of the Company (the “**Shareholders**”) together with the Notice of the 2020 AGM dated 14 June 2020. The purpose of this Circular is to provide the Shareholders with information in relation to, and to seek Shareholders’ approval for (i) the proposed renewal of the general mandate for interested person transactions, and (ii) the proposed appointment of Nexia TS Public Accounting Corporation as auditors (the “**Proposed Resolutions**”) to be tabled at the annual general meeting of the Company to be held on Monday, 29 June 2020 at 9:30 am by way of electronic means (the “**2020 AGM**”).

If you have sold or transferred all your ordinary shares in the capital of the Company (the “**Shares**”), you should immediately forward this Circular, the Notice of the 2020 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 Circular, including the correctness of any of the statements or opinions made or reports contained in this Circular.



Sinostar PEC Holdings Limited

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

CIRCULAR IN RELATION TO

- (A) THE PROPOSED RENEWAL OF THE GENERAL MANDATE FOR INTERESTED PERSON TRANSACTIONS; AND**
- (B) THE PROPOSED APPOINTMENT OF NEXIA TS PUBLIC ACCOUNTING CORPORATION AS AUDITORS**

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DEFINITIONS

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

- “2006 Exclusive Supply Agreement” : The exclusive supply agreement entered into between Dongming Hengchang and Dongming Zhongyou on 26 April 2006 for the supply of raw LPG by Dongming Zhongyou to Dongming Hengchang as further described in Section 4.4
- “2016 Exclusive Supply Agreement” : The exclusive supply agreement entered into between Dongming Hengchang and Dongming Zhongyou on 31 May 2016 for the supply of raw LPG by Dongming Zhongyou to Dongming Hengchang as further described in Section 4.4
- “2017 Circular” : The circular to Shareholders dated 7 December 2017
- “2019 AGM” : The AGM held on 29 April 2019
- “2019 Appendix” : The appendix to the Annual Report dated 12 April 2019
- “2020 AGM” : The AGM of the Company to be held on Monday, 29 June 2020 at 9:30 am by way of electronic means
- “ACRA” : The Accounting and Corporate Regulatory Authority of Singapore
- “AGM” or “Annual General Meeting” : Annual general meeting of the Company
- “associate” : (a) in relation to any Director, CEO, Substantial Shareholder or Controlling Shareholder (being an individual) means:
- (i) his immediate family;
 - (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
 - (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;
- (b) 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
- “Audit Committee” : The audit committee of the Company as at the date of this Circular, comprising Mr Teo Moh Gin, Mr Li Xiang Ping and Mr Zhao Jinqing
- “Board” or “Directors” : The directors of the Company as at the date of this Circular 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: <ul style="list-style-type: none"> (a) holds directly or indirectly fifteen per cent. (15.0%) or more of the total voting rights 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 Ganyu”	:	Dongming County Changshun Transport Co., Ltd. Ganyu Branch Co. (东明县昌顺运有限公司输赣榆分公司) which is a branch office of Dongming Changshun located in Jiangsu province
“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), a subsidiary of Dongming Petrochem and an Interested Person of the Group
“Dongming Oil Distribution”	:	Dongming Oil Distribution Co. Limited (东明石油经销有限公司), a subsidiary of Dongming Petrochem and an Interested Person of the Group
“Dongming Petrochem Group”	:	Dongming Petrochem, existing and future subsidiaries of Dongming Petrochem, the holding company of Dongming Petrochem and its existing and future subsidiaries, and any existing and future corporations 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
“Dongming Petrochem”	:	Shandong Dongming Petrochem Group Co., Ltd (山东东明石化集团有限公司), an Interested Person of the Group. Mr Li Xiang Ping is currently the chairman and legal representative of Dongming Petrochem and he has a deemed interest in 87.25% of Dongming Petrochem.

“Dongming Huize”	:	Shandong Dongming Petrochem Group Huize Co Ltd (山东东明石化集团汇泽有限公司), a subsidiary of Dongming Petrochem and an Interested Person of the Group
“Dongming Qianhai”	:	Dongming Qianhai Petrochemical Co Limited (东明前海化工有限公司), an indirect subsidiary of the Company, an associate of Dongming Petrochem and an Interested Person of the Group
“Dongming Runze”	:	Dongming Runze Petrochemical Co., Ltd. (东明润泽化工有限公司), majority controlled by Dongming Petrochem Group and an Interested Person of the Group
“Dongming Zhongyou”	:	Dongming Zhongyou Fuel and Petrochemical Company Limited (东明中油燃料石化有限公司), a subsidiary of Dongming Petrochem and an Interested Person of the Group
“Executive Director”	:	A Director of the Company, holding office in an executive capacity
“FY” or “Financial Year”	:	Financial year ended, or ending, as the case may be, on 31 December
“Group”	:	The Company and its subsidiaries as at the date of this Circular
“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)
“Intelligent People”	:	Intelligent People Holdings Limited
“Interested Person Transaction(s)” or “IPT(s)”	:	Interested person transactions (within the meaning of Chapter 9 of the Listing Manual) entered or to be entered between an entity at risk and an Interested Person
“Interested Persons”	:	Dongming Petrochem, existing and future subsidiaries of Dongming Petrochem, the holding company of Dongming Petrochem and its existing and future subsidiaries, and any existing and future corporations 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
“IPT Independent Shareholders”	:	Shareholders who are deemed independent for the Proposed Renewal of the IPT Mandate
“IPT Mandate”	:	The general mandate for interested person transactions of the Company
“Latest Practicable Date”	:	12 June 2020, being the latest practicable date prior to the issue of this Circular
“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
“New Public Work Cooperation Agreements”	:	The public work cooperation agreements entered into by our Group with each of Dongming Runze and Dongming Petrochem for the purchase of utilities, parts and components, dated 1 May 2015 and 31 May 2016, respectively, as further described in Section 4.4.3 of this Circular
“Nexia”	:	Nexia TS Public Accounting Corporation
“Non-Executive Directors”	:	A director of the Group other than one who performs an executive function
“NTA”	:	Net tangible assets
“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
“Proposed Appointment of Auditors”	:	The proposed appointment of Nexia as auditors
“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
“Shareholders”	:	The registered holders of the Shares in the register of members of the Company, except where the registered depositor is CDP, the term “Shareholders” shall, in relation to such Shares and where the context so admits, mean the persons to whose securities accounts maintained with CDP are credited with the Shares
“Shares”	:	Ordinary share(s) in the issued and paid-up capital of the Company
“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 or interests in one (1) or more voting shares (excluding treasury shares) in 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 (excluding treasury 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 in 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:

- (i) 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;
- (ii) 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;
- (iii) the headings in this Circular are inserted for convenience only and shall be ignored in construing this Circular;
- (iv) any reference in this Circular 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 Circular 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;
- (v) any discrepancies between the figures listed and the totals thereof are due to rounding. Accordingly, figures shown as totals in this Circular may not be an arithmetic aggregation of the figures that precede them;
- (vi) any translation of terms, words or phrases from any language other than English to English in this Circular, may not be an official translation of such terms, words or phrases;
- (vii) 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;
- (viii) any reference to a time of day and to dates in this Circular shall be a reference to Singapore time and dates, unless otherwise stated; and
- (ix) unless otherwise stated, the exchange rate of S\$1:RMB5 has been used in this Circular.

SINOSTAR PEC HOLDINGS LIMITED

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

Directors:

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

Registered Office:

30 Cecil Street
#19-08
Prudential Tower
Singapore 049712

14 June 2020

To: The Shareholders of Sinostar PEC Holdings Limited

Dear Sir/Madam

1. INTRODUCTION

- 1.1 The Directors propose to table, for Shareholders' consideration and approval (i) the proposed renewal of the IPT Mandate and (ii) the proposed appointment of Nexia as auditors (collectively, the "**Proposed Resolutions**").
- 1.2 The purpose of this Circular is to explain the rationale for and provide information to Shareholders in relation to the Proposed Resolutions.
- 1.3 The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this Circular.
- 1.4 This Circular has been prepared solely for the purposes set out herein and may not be relied upon by any person (other than the Shareholders to whom this Circular is dispatched by the Company) or for any other purpose.

2. CHAPTER 9 OF THE LISTING MANUAL

- 2.1 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**") with interested persons that may adversely affect the interests of the listed company.
- 2.2 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. In such situations, 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:

- i. 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.
- ii. 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;
- (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.
- iii. 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.
- iv. 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.
- v. A “**controlling shareholder**” means a person who:
 - (i) holds directly or indirectly fifteen per cent. (15.0%) or more of the total voting rights 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.
- vi. 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.
- vii. 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.
- viii. 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 goods or 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.
- ix. A “**primary 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.

2.3 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 an Interested Person Transaction is equal to or exceeds three per cent. (3.0%) of the listed group's latest audited consolidated NTA ("**Threshold 1**"); or
- (b) the aggregate value of all 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 immediate announcement will have to be made of the latest transaction and all future transactions entered into with that same interested person during the financial year.

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

- (a) the value of an Interested Person Transaction is equal to or exceeds five per cent. (5.0%) of the listed group's latest audited consolidated NTA ("**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. While transactions below \$100,000 are not normally aggregated, the SGX-ST may aggregate any such transaction entered into during the same financial year and treat them as if they were one transaction.

If the group's latest audited NTA is negative, the listed company should consult the SGX-ST on the appropriate benchmark to calculate the relevant thresholds above, which may be based on the market capitalisation of the listed company.

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;
- (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; and
- (d) in the case that the market value or book value of the asset to be disposed of is higher than the consideration from an interested person, the value of the transaction is the higher of the market value or book value of the asset.

2.4 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 Transactions 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 the shareholders is subject to annual renewal.

2.5 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 2.3 of this Circular, the following applies:

- (a) Transactions between (a) an entity at risk and a primary interested person; and (b) an entity at risk and an associate of that primary interested person, are deemed to be transactions between an entity at risk with the same interested person. Transactions between (i) an entity at risk and a primary interested person; and (ii) an entity at risk and another primary interested person, are deemed to be transactions between an entity at risk with the same interested person if the primary interested person is also an associate of the other primary interested person.
- (b) 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. 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 has an audit committee whose members are completely different.

3. **INTERESTED PERSONS**

3.1 **INTERESTED PERSONS UNDER THE IPT MANDATE**

Under the IPT Mandate, the classes of Interested Persons are as follows:

- (a) Dongming Petrochem;
- (b) 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 corporations 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 was incorporated in Dongming County, PRC on 8 February 1997 and has a paid-up capital of RMB 1.239 billion. 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. Oil refinery constitutes the core business of Dongming Petrochem and accounted for RMB 112.6 billion of its annual turnover in FY2019.

As at the Latest Practicable Date, the Company's Non-Executive Chairman and Controlling Shareholder, Mr Li Xiang Ping, holds 44.59% 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 Xiang Ping's indirect shareholding interests in Dongming Petrochem is contained in **Schedule A** to this Circular.

As Mr Li Xiang Ping holds more than 20% interest in Hong Li Yuan, Mr Li Xiang Ping is deemed interested in the entire equity interest of Dongming Petrochem held by Hong Li Yuan. Therefore, the Dongming Petrochem Group are “interested persons” of the Company, and the relevant transactions with Dongming Petrochem Group are “interested person transactions” under Chapter 9 of the Listing Manual.

3.2 THE DONGMING PETROCHEM GROUP

The Dongming Petrochem Group is one of the largest privately owned crude oil refiners in the PRC and has been recognised as being among the top 500 enterprises in the PRC by the China Enterprise Confederation (中国企业联合会) since 2007. Its oil refineries, over three (3) locations – two (2) in Dongming County and one (1) in Zhenjiang – have an annual production capacity of 15 million tonnes. The Dongming Petrochem Group has been the strategic supplier of raw materials to the Group since 2000. As disclosed in the Company’s 2019 Appendix, 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 interested persons with whom the Group will be transacting under the IPT Mandate are:

3.2.1 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.

3.2.2 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 Xiang Ping is currently the chairman and legal representative 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 Xiang Ping.

3.2.3 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.

3.2.4 Dongming Runze

Dongming Runze is a company incorporated in the PRC on 24 August 2010 and is primarily engaged in the businesses of crude oil refinery and sale of raw LPG, diesel, gasoline and liquid paraffin. It is approximately 95.3% controlled by Dongming Petrochem Group.

3.2.5 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.

3.2.6 Dongming Qianhai

Dongming Qianhai is a company incorporated in the PRC and is principally engaged in the business of processing and the production of propylene related oil products.

Following the completion of the proposed acquisition of 70.0% interest in Dongming Qianhai by Dongming Hengchang, which the Company had announced on 6 January 2019, Dongming Qianhai has become an indirect subsidiary of the Company. Nevertheless, as disclosed in the 2017 Circular, as Dongming Petrochem continues to hold the remaining 30.0% of Dongming Qianhai, Dongming Qianhai remains an associate of Dongming Petrochem.

3.2.7 Shandong Dongming Petrochem Group Huize Co Ltd

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

4. THE PROPOSED RENEWAL OF THE IPT MANDATE

4.1 BACKGROUND

At the 2019 AGM, Shareholders approved the renewal of the IPT Mandate to enable the Company, its subsidiaries and associated companies which are considered to be “entities at risk” (as defined in Chapter 9 of the Listing Manual) to enter into certain interested person transactions with the classes of interested persons as set out in the IPT Mandate.

Moving forward, the Group anticipates that there will continue to be recurrent transactions of a revenue and trading nature to be entered into with the Interested Persons. Accordingly, the Directors propose that the IPT Mandate be renewed at the 2020 AGM. The IPT Mandate, if approved, will continue in force until the next AGM of the Company (unless revoked or varied by the Company in general meeting).

This resolution relating to the proposed renewal of the IPT Mandate is set out in Resolution 7.

4.2 RATIONALE FOR AND BENEFITS OF THE IPT 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 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 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.

4.3 CATEGORIES OF INTERESTED PERSON TRANSACTIONS

The Group envisages that in the ordinary course of its business, transactions between the Group and Interested Persons will likely 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 above) for each category of the Interested Person Transactions set out above.

4.4 GUIDELNES AND REVIEW PROCEDURES UNDER THE IPT MANDATE

In general, Interested Person Transactions are to 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 an arm's length basis and on normal commercial terms:

4.4.1 Purchase of raw LPG from Dongming Petrochem Group

The Company's subsidiary, Dongming Hengchang, had on 31 May 2016 entered into an 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 ("**2016 Exclusive Supply Agreement**"). 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 2016 Exclusive Supply Agreement supersedes an earlier exclusive supply agreement entered by Dongming Hengchang and Dongming Zhongyou on 26 April 2006 ("**2006 Exclusive Supply Agreement**"). Save for the changes in the method of computing the transaction prices, the Company confirmed that there are no other material differences between the 2016 Exclusive Supply Agreement and the 2006 Exclusive Supply Agreement.

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.

(a) 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 General manager of Dongming Hengchang, the CFO or a Director, 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.

(b) 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:

- (i) 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.

- (ii) 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 transaction price of raw LPG in the market is generally higher than the transaction price 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.

(c) 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 Directors, CFO, or the general manager 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.

4.4.2 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 the 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.

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, and which was subsequently renewed from 1 January 2018 to 31 March 2020. The sale and purchase agreement was further renewed on 26 February 2020 for twelve (12) months commencing on 1 April 2020 and expiring on 31 March 2021 (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.

(a) 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 that 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 general manager of Dongming Hengchang, the CFO or a Director, 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.

(b) 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 amounts with the Interested Person are reviewed and approved by the Audit Committee.

(c) 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.

4.4.3 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 Agreements 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.

(a) 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 general manager of Dongming Hengchang, the CFO or a Director, 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.

(b) Transaction Price

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.

Parts and components

Dongming Petrochem Group makes bulk purchases of parts and components for its 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.

(c) 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 Directors, CFO of the Company or the general manager of Dongming Hengchang (who do not have an interest, direct or indirect, or hold any executive position in Dongming Petrochem Group).

4.4.4 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 an 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.

4.5 **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 4.4 of the Circular, 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 (a "**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 (a "**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.

4.6 **GENERAL ADMINISTRATIVE PROCEDURES FOR ALL INTERESTED PERSON TRANSACTIONS**

The Company has also implemented 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 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 Mandate, including the factors that have been taken into account in arriving at the purchase/sales terms and supporting documents). The CFO 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, Director 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; and
- (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.

4.7 **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 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 Mandate. The internal audit report will be forwarded to the Audit Committee for its review.

4.8 REVIEW BY THE AUDIT COMMITTEE

The Audit Committee's review of all Interested Person Transactions, 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.

4.9 VALIDITY PERIOD OF THE IPT MANDATE

If approved at the forthcoming 2020 AGM, the renewed IPT Mandate will take effect from the date of the passing of Resolution 7 to be proposed at the 2020 AGM and will continue to be in force until the next AGM of the Company is held or is required by law to be held (unless revoked or varied by the Company in a general meeting), whichever is the earlier. The Company will seek the approval of Shareholders for the renewal of the IPT Mandate at each subsequent AGM. The renewal of the IPT Mandate shall be subject to the satisfactory review by the Audit Committee of the continued need for the IPT Mandate and the adequacy of the review procedures for the transactions.

4.10 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 Mandate during the financial year under review and in the annual reports for the subsequent financial years during which the IPT Mandate is in force;
- (b) announcements will be made with regard to the aggregate value of transactions conducted pursuant to the IPT 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)	Nature of Relationship	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 IPT Mandate)	Aggregate value of all interested person transactions conducted under the IPT Mandate (excluding transactions less than S\$100,000)
[●]	[●]	[●]	[●]

5. THE PROPOSED APPOINTMENT OF NEXIA AS AUDITORS

5.1 BACKGROUND

At the last Annual General Meeting of the Company held on 29 April 2019, Shareholders approved the re-appointment of RT LLP as the auditors of the Company until the conclusion of the next Annual General Meeting of the Company. RT LLP (then known as LTC LLP) has been the auditors of the Company since FY2012.

In light of the Company's intention to appoint Nexia as auditors of the Group, RT LLP are not standing for re-election as auditors of the Company at the AGM. The Company confirms that there had not been any disagreements with RT LLP on accounting treatments within the last 12 months and it is not aware of any circumstances connected with the change of auditors that should be brought to the attention of the Shareholders.

5.2 RATIONALE

The decision to appoint new auditors was initiated by the Company. In line with the Company's approach to good corporate governance, the Directors are of the view that the appointment of new auditors would enable the Company to benefit from the fresh perspectives of another professional audit firm. Further, in connection with the Company's efforts to manage its overall business costs and expenses in view of the current global economic climate, the Board had reviewed proposals from various audit firms, and in consultation with the Audit Committee, has determined fee proposal from Nexia to be competitive. The Proposed Appointment of Auditors is expected to result in savings to the Company of approximately S\$10,000 in audit fees as compared to the audit fees incurred for FY2019. The Company does not expect the reduction in fees to affect the quality of the audit to be undertaken and there will be no change in the scope of the audit to be undertaken.

5.3 INFORMATION ON NEXIA

The information on Nexia TS Public Accounting Corporation provided below was provided by Nexia TS Public Accounting Corporation and their representatives to the Company. The Directors have not conducted an independent review or verification of the accuracy of the statements and information below.

Nexia has been associated with Smith & Williamson since 2008, and both Nexia and Smith & Williamson are independent member firms of the Nexia International network, a leading global network of independent accounting and consulting firms operated by Nexia International Limited with a worldwide turnover in excess of USD3 billion, with substantial representation in the major financial centres of the world, which are supported by over 24,000 professional staff and over 570 offices in more than 110 countries globally. Smith & Williamson is a leading financial services firm and one of the top ten largest firms of accountants in the United Kingdom, with more than ten offices in the United Kingdom, Ireland and Jersey, and has 1,500 staff. Its services include investment management, accountancy, tax, corporate and financial advisory.

Nexia (formerly practising as Nexia Tan & Sitoh) was founded in 1993 by two (2) experienced chartered accountants, namely Henry Tan and Sitoh Yih Pin. Nexia is registered with ACRA and has 19 directors and more than 200 professional staff offering auditing, accounting, advisory and taxation services. Nexia has offices in Singapore, Malaysia, Myanmar and Shanghai, PRC, and is amongst the top ten largest accounting firms in Singapore. Certain directors of Nexia are audit committee members of a number of listed companies in Singapore and have many years of experience in corporate governance and auditing issues. Nexia is currently the independent auditors to more than 35 Singapore listed companies. In this regard, Nexia has approximately 200 professional staff in its Singapore office.

For more information about Nexia, please visit www.nexiats.com.sg.

5.4 INFORMATION ON THE AUDIT ENGAGEMENT DIRECTOR

The information on the Audit Engagement Director provided below was provided by Nexia TS Public Accounting Corporation and their representatives to the Company. The Directors have not conducted an independent review or verification of the accuracy of the statements and information below.

Mr Low See Lien (“**Mr Low**”), a director of Nexia, will be the audit engagement director assigned to the audit of the Group. Mr. Low is a member of the Institute of Singapore Chartered Accountants and a public accountant registered with ACRA. He has more than 20 years of experience in providing audit services to a variety of clients, including various companies listed on the SGX-ST such as mm2 Asia Limited, Ying Li International Real Estate Limited and China International Holdings Limited which operate in the entertainment, property development and management, and water supply and construction industries, respectively, with revenues of S\$236 million, RMB 359 million and RMB 63 million, respectively. In particular, both Nexia and Mr Low have experience in auditing companies with similar business activities as the Company (i.e. which are in the business of the production and sale of petrochemical products). Mr Low had previously been subjected to the Practice Monitoring Programme review by ACRA and the Company noted that there is no adverse feedback from ACRA on Mr Low from previous exercises. Mr Low will be supported by an audit team of approximately 5 professionals, comprising a manager, senior associates and associates. In addition, the engagement will also be reviewed by a concurring director.

5.5 REQUIREMENTS UNDER RULE 712 OF THE LISTING MANUAL

Nexia is a professional audit firm registered with ACRA. The Audit Committee and the Board, having considered the various factors set out in Rule 712(1), including but not limited to:

- (a) the adequacy of the resources and experience of Nexia;
- (b) the experience of the audit engagement director assigned to the audit of the Group;
- (c) Nexia’s other audit engagements;
- (d) the size and complexity of the Group’s operations; and
- (e) the number and experience of the supervisory and professional staff assigned to the audit of the Company and the Group,

are of the opinion that Nexia is able to fulfil the audit requirements of the Group. Accordingly, Rules 712(1) and 712(2) of the Listing Manual have been complied with.

5.6 REQUIREMENTS UNDER RULE 715 OF THE LISTING MANUAL

The Directors confirm that pursuant to the Shareholders’ approval of the Proposed Appointment of Auditors, Nexia will become the auditors of the Company and its subsidiaries, including its foreign-incorporated subsidiaries. Accordingly, the Audit Committee and the Board are of the opinion that Rule 715 of the Listing Manual will be complied with.

5.7 AQI FRAMEWORK

In the selection of Nexia as the new Auditors, in addition to the requirements under Rule 712 of the Listing Manual, the Board has also considered the Audit Quality Indicators Disclosure Framework (“**AQI Framework**”). While the adoption of the AQI Framework is voluntary, the management has obtained confirmations from Nexia and has considered the following:

- (a) In terms of audit hours, Nexia intends to assign a director and manager spending not less than 20% of the engagement hours. In addition, the engagement director’s hours will be at least 8% of the total hours spread throughout the engagement;
- (b) In terms of quality control, the quality control team of Nexia currently comprises eight (8) personnel and the engagement quality control reviewer will spend at least 23 hours on the audit engagement;
- (c) In terms of training, Nexia is an approved training organisation and is currently an ISCA Accredited Training Organisation and an ACCA Accredited Employer. The firm regularly conducts inhouse training and provides external training for staff to ensure that training hour requirements are complied with. Further, all its staff are university graduates, or have acquired either ACCA or CA qualifications;
- (d) In terms of inspections, further disclosures are made below;
- (e) In terms of staff oversight, Nexia currently has 19 directors, with a professional staff strength of approximately 200; and
- (f) The experience of Nexia and the audit engagement director, Mr Low See Lien, is set out in Sections 5.3 and 5.4 above.

The Board notes that the proposed engagement director, Mr Low had previously been subjected to the Practice Monitoring Programme review by ACRA and the Company noted that there is no adverse feedback from ACRA on Mr Low from previous exercises.

Having considered, *inter alia*, the above factors in the AQI Framework including the relevant experience of Nexia, the engagement director, seniority of the audit team members and the involvement of the incoming auditors, together with the considerations outlined in Sections 5.2 and 5.5 above, the Audit Committee is of the opinion that Nexia is well positioned to meet the existing needs and audit requirements of the Group and is likely to enhance the value of the audit. In particular, the Audit Committee, having taken into account his experience of acting as audit engagement director for Singapore listed-companies with operations in the PRC, Hong Kong and Singapore, is of the view that he is deemed suitable to be the engagement director of our Group, which operations are mainly in the PRC.

In view of the foregoing, the Board would like to propose that Nexia be appointed to act as the auditors of the Company. Nexia has given its written consent to act as the auditors of the Company, subject to approval of the Shareholders at the 2020 AGM. The appointment of Nexia as auditors of the Company will take effect upon the approval of Shareholders at the AGM. Nexia, if appointed, will hold office until the conclusion of the next Annual General Meeting of the Company.

6. 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	%
Directors				
Li Xiang Ping	–	–	369,898,500 ⁽²⁾	57.79
Zhang Liu Cheng	200,000	0.03	–	–
Teo Moh Gin	100,000	0.02	–	–
Zhao Jinqing	–	–	–	–
Li Zhi	–	–	–	–
Substantial Shareholders				
Intelligent People Holdings Limited	329,996,000	51.56	39,902,500 ⁽¹⁾	6.23
UBS Group AG	–	–	56,320,400 ⁽³⁾	8.8

Notes:

- (1) Intelligent People Holdings Limited is deemed to be interested in 39,502,500 Shares held on its behalf under the name of its nominee - RHB Securities Singapore Pte. Ltd.
- (2) Mr Li Xiang Ping, by virtue of the provisions of Section 7 of the Companies Act, is deemed to have an interest in the aggregate number of 369,898,500 Shares that Intelligent People is interested or deemed to be interested in, due to his 100.0% shareholding interest in Intelligent People.
- (3) UBS Group AG, by virtue of the provisions of Section 7 of the Companies Act, is deemed to have an interest in the aggregate number of 56,320,400 Shares that UBS AG is interested in.

7. AUDIT COMMITTEE'S STATEMENTS

In relation to the proposed renewal of the IPT 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 Xiang Ping and Mr Zhao Jinqing, confirms that:

- (a) the methods or procedures for determining the transaction prices as described in Section 4.4 hereof have not changed since last Shareholders' approval of the IPT Mandate obtained at the 2019 AGM; and
- (b) the methods or procedures for determining the transaction prices as described in Section 4.4 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 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.

Accordingly, the Audit Committee recommends that the Independent Shareholders vote in favour of the Proposed Renewal of the IPT Mandate to be proposed at the AGM.

8. ABSTENTION FROM VOTING

Rules 919 and 920(1)(b)(viii) of the Listing Manual require 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 Xiang Ping who is an Interested Person by virtue of his position as Chairman of Dongming Petrochem Group, will abstain from voting at the 2020 AGM in relation to the Proposed Renewal of the IPT Mandate and will not accept nominations as proxy or otherwise for voting at the 2020 AGM in respect of the said Resolution as set out in the notice of AGM 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 Resolution.

Mr Li Zhi who is an Interested Person by virtue of his position as the chief executive officer and a director of Dongming Petrochem Group, will abstain from voting at the 2020 AGM in relation to the Proposed Renewal of the IPT Mandate and will not accept nominations as proxy or otherwise for voting at the 2020 AGM in respect of the said Resolution as out in the notice of AGM unless the IPT Independent Shareholders appointing him as proxy give specific instructions in the relevant proxy form in the manner in which they wish their votes to be cast for that Resolution.

9. DIRECTORS' RECOMMENDATIONS

The Directors who are considered independent for the purposes of the Proposed Renewal of the IPT Mandate are Mr Zhang Liu Cheng, Mr Teo Moh Gin and Mr Zhao Jinqing (the "**Independent Directors**"). The Independent Directors are of the opinion that the interested person transactions (as described in Section 4 above) between the Group with the Interested Persons (as described in Section 3 above) will enhance the efficiency of the Group and are in the best interests of the Company.

For the reasons set out in Section 4.2, the Independent Directors recommend that Shareholders vote in favour of Resolution 6 at the 2020 AGM.

The Directors have considered, amongst others, the rationale for the Proposed Appointment of Auditors, and believe that the Proposed Appointment of Auditors is in the interests of all Shareholders. Accordingly, they recommend that Shareholders vote in favour of Resolution 6 at the 2020 AGM.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the registered office of the Company at 30 Cecil Street #19-08 Prudential Tower Singapore 049712, during normal business hours from the date hereof up to and including the date of the 2020 AGM:

- (a) the Constitution of the Company;
- (b) the annual report of the Company for FY2019;
- (c) the letter of consent to act as Auditors from Nexia TS Public Accounting Corporation.

11. DIRECTORS' RESPONSIBILITY STATEMENT

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

Where information in this Circular 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 Circular in its proper form and context.

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

SCHEDULE A – SHAREHOLDING INTERESTS OF MR LI XIANG PING AND STRUCTURE OF THE DONGMING PETROCHEM GROUP

