

**PROPOSED INVESTMENT IN RELATION TO CONSTRUCTION OF A POLYPROPYLENE PLANT
IN DONGMING COUNTY, SHANDONG PROVINCE, CHINA**

1. INTRODUCTION

The Board of Directors (“**Board**” or “**Directors**”) of Sinostar PEC Holdings Limited (“**Company**” and with its subsidiaries, collectively “**Group**”) refers to the Company’s announcement dated 13 August 2018 (“**Announcement**”) in respect of the financial statement of the second quarter ended 30 June 2018 and the half-yearly results.

The Board wishes to announce that the Board has approved the proposed investment (“**Proposed Investment**”) by its subsidiary Dongming Hengchang Petrochemical Co., Ltd. (“**Dongming Hengchang**”) for the construction of a polypropylene production plant (“**Plant**”) which will have an estimated production capacity of processing 200,000 tonnes of polypropylene per annum.

2. DESCRIPTION OF THE PROPOSED INVESTMENT

The Proposed Investment is part of the Group’s long-term growth plan. It is currently expected that it will take approximately two (2) years for the Plant to be fully constructed and ready for trial runs.

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

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

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

The Group will finance the cost of the Proposed Investment through a combination of its internal resources and the use of bank borrowings.

3. RATIONALE FOR THE PROPOSED INVESTMENT

The rationale for approving the Proposed Investment are as follows:

- (a) the Proposed Investment is part of the Group’s long-term growth plan by increasing the Group’s production capability of polypropylene from 50,000 tonnes per annum to 250,000 tonnes per annum;
- (b) the Proposed Investment will increase the Group’s processing capability of the unprocessed propylene (“**Unprocessed Propylene**”) generated from the Group’s ordinary course of business, specifically:
 - i. the Group presently generates approximately 90,000 tonnes of Unprocessed Propylene per annum. However, the Group only has the capacity to process 50,000 tonnes of Unprocessed Propylene per annum. The Group then sells the remaining Unprocessed Propylene to the market. The profits arising from the sale of Unprocessed Propylene is relatively lower as compared to the sale of polypropylene; and

- ii. it is currently expected that following the completion of the Group's acquisition of Dongming Qianhai Petrochemical Co., Ltd., the Group will produce an additional 90,000 tonnes of Unprocessed Propylene per annum. It is anticipated that through the Proposed Investment, the increased production capabilities would allow the Group to fully utilise the additional 90,000 tonnes of Unprocessed Propylene for the further production of polypropylene.
- (c) the Group intends to boost the Group's production capabilities to produce higher quality polypropylene, which has a wider market demand, by building industry-leading production facilities as part of the Proposed Investment; and
- (d) the Group believes that, through the Proposed Investment, the Group will be able to leverage on the Unprocessed Propylene generated from the Group's business. This will in turn benefit the Group, the Company and the shareholders of the Company.

4. INITIAL STAGE OF THE PROPOSED INVESTMENT

Dongming Hengchang has obtained approvals from the Administration of Work Safety of Heze City and the Office of the Leading Group for the Improvement and Upgrading of Work Safety in the Chemical Engineering Industries of Shandong Province in relation to the Proposed Investment.

As part of the Proposed Investment, the Group has identified a plot of state-owned land ("**Land**") located in Dongming County, Heze City, Shandong Province, China. The Land is approximately 130,000 square metres wide and is strategically located within the Dongming Petrochem Industrial Zone.

Dongming Hengchang has obtained the written approval of Dongming County Planning Bureau and Dongming County Government in relation to the acquisition of the Land. Dongming Hengchang is currently seeking the written approvals of Heze City Planning Bureau, Heze City Government, Department of Land Resources of Shandong Province and Shandong Province Government.

5. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS

None of the Directors or controlling shareholders of the Company has any direct or indirect interest in the Proposed Investment (other than their shareholdings in the Company).

6. FURTHER ANNOUNCEMENT(S)

Further announcement(s) will be issued by the Company in the event that there are any material developments in connection with the Proposed Investment.

By Order of the Board

Zhang Liucheng
CEO and Executive Director
14 September 2018