中星石化
SINOSTAR

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

STRENGTH TO STRENGTH

ANNUAL REPORT 2019

WE ARE SINOSTAR PEC HOLDINGS LIMITED

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

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SINOSTAR PEC
AT A GLANCE

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

ABOUT SINOSTAR PEC HOLDINGS LIMITED

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

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

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

PEOPLE'S REPUBLIC OF CHINA

OUR CORPORATE STRUCTURE

Our Group comprises Sinostar PEC Holdings Limited and our PRC 100% controlled subsidiary, Dongming Hengchang Petrochemical Co., Ltd. which runs gas-fractionation production plants with an annual production capacity of 550,000 tonnes and a polypropylene processing plant with an annual production capacity of 50,000 tonnes within the Dongming county.

We completed our acquisition of a 70% stake in Dongming Qianhai Petrochemical Co., Ltd. in late 2018, doubling our Propylene annual production capacity to 180,000 tonnes and extending our production lines to include Methyl tert-butyl ether ("MTBE"), Hydrogen and Isobutylene.

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

ENHANCED CAPABILITIES, GREATER PERFORMANCE

The completion of maintenance work at two production plants in our subsidiaries, Dongming Hengchang and Dongming Qianhai, will boost productivity level with greater efficiency, allowing the Group to optimise its performance sustainably.

CHAIRMAN'S MESSAGE

In FY2019, our revenue and net profit grew 62% and 67% y-o-y to RMB3.7 billion and RMB138 million respectively.

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to report another year of good performance with earnings growth, this set of results reflects a resilient performance in spite of the challenging global issues and market conditions.

RESILIENT PERFORMANCE

For the year ended 31 December 2019, our revenue and net profit grew 62% and 67% y-o-y to RMB3.7 billion and RMB138 million respectively. Net profit attributable to equity holders jumped 37% y-o-y to RMB113.7 million, mainly due to the contributions from Dongming Qianhai Petrochemical Co., Ltd. ("Dongming Qianhai") as the Group turned in a commendable performance for the fiscal year ended 31 December 2019 ("FY2019").

We consolidated the operations of Dongming QianHai following our acquisition in late 2018. Sinostar PEC Holdings Ltd. ("Sinostar" or the "Group") currently has an annual capacity to process 550,000 tonnes of raw LPG, and a production capacity of 180,000 tonnes/year and 50,000 tonnes/year for propylene and polypropylene respectively. The acquisition of Dongming Qianhai has also extended the Group's production capabilities to mainly include Methyl tert-butyl ether ("MTBE"), Hydrogen and Isobutylene, allowing us to provide a more comprehensive suite of solutions for new and existing customers.

In terms of the Group's business segments, the petrochemical business is RMB3.518 billion forming 96% of the Group's 2019 total revenue. The sales from the Group's Logistics & Transport related business held steady in FY2019 at RMB142 million. With the additional production capacity from Dongming Qianhai, the Group was able to better utilize its processed LPG to produce higher margin products such as Propylene II and MTBE which helped to boost revenue and gross profit margin growth. Gross profit margins expanded

from 5.7% in FY2018 to 7.4% in FY2019.

We are in the midst of building a new polypropylene plant which will improve our current production capacity by 5X from 50,000 tonnes to 250,000 tonnes/year. The new plant will adopt the latest generation technology Spheripol, to produce these high-quality polypropylene which can be used in products such as medical equipments, automotive accessories, home appliances, electrical films, food packaging and other consumer products. Construction has started since 1QFY2019 and is targeted to be completed by the fourth quarter of fiscal year 2020. The plant will allow the Group to better utilize the additional 90,000 tonnes of unprocessed propylene from Dongming Qianhai to produce high quality polypropylene, which carries higher profits as compared to the sales of propylene.

GROUP'S OUTLOOK AND PROSPECTS

The Group's propylene production plant has been in stable production since its acquisition of Dongming Qianhai in late 2018, contributing steadily to the group's profitability. The construction of the new polypropylene production plant remains on track, barring unforeseen circumstance, it is estimated to be completed by the fourth quarter of fiscal year 2020. In the meantime, the Group will continue to be prudent in cash flow management and focus on cost efficiency.

The Group's current operations though not directly affected by the COVID-19 situation, management remains upbeat on the polypropylene market as it witnesses an increase in demand for polypropylene-based masks, protective wear, and other downstream products. In addition, the Chinese authorities have suspended the promotion of ethanol

Revenue Growth

62.0%

Net Profit After Tax

RMB

138.0mil

CHAIRMAN'S
MESSAGE

gasoline to replace gasoline, which is anticipated to benefit our produced MTBE products (mixture with gasoline) hence potentially higher sales volume and better margin.

Still, the management is cautious about the impact of the COVID-19 outbreak on the global economy as well as in China. In March 2020, the International Monetary Fund (IMF) cited concerns that the COVID-19 outbreak has wiped out any hopes of a stronger global economic growth in 2020, as it believes the world growth will now be below the 2.9% growth experienced in 2019. In China, the COVID-19 outbreak has taken its toll on the Chinese economy as China's official manufacturing PMI slumped in February 2020 to 35.7, the fastest pace on record. During the G-20 meeting held in February 2020, the IMF had downgraded China's growth forecast for 2020 to less than 6%, the lowest level of growth since 1990. While the spread of the virus has slowed, in China in recent months, the outbreak has spread to the rest of the world, resulting in increased uncertainty and a weakening in demand worldwide. Oil prices have also become very volatile, plunging more than 20% in March after OPEC's failure to strike a deal spark fear of a price war. Hence, we will monitor the situation closely and have activated our business continuity plan to ensure the safety of our employees and offset any headwinds ahead.

In the meantime, the Group will continue to be prudent in cash flow management and focus on cost efficiency therefore there is no dividend registered this fiscal year. Nonetheless the Group remains confident in our long-term growth outlook.

APPRECIATION

On behalf of the Board of Directors and the management team, I would like to thank our business partners, customers, suppliers, shareholders and employees for your support and contributions to the Group over the past year. We remain confident in our long-term growth outlook and will continue to expand our capabilities as we manoeuvre across the challenging year ahead of us.

Li Xiang Ping
Non-Executive Chairman


G12
LPG

致股东们的一封信

尊敬的各位股东，

在此，非常荣幸代表董事会向股东们发布集团「2019财年」的业绩 。在过去的一年里，尽管面临各种复杂的全球性问题和激烈的市场竞争，但集团表现出良好的竞争特性，取得了值得称赞的业绩。

过去一年的良好表现

截至2019年12月31日止财政年度（「2019财年」），集团实现业务收入37亿元人民币，同比增长了62.0%，实现净利润1.38亿元人民币，同比增长了67.0%，股东应享有净利润为1.14亿元人民币，同比增长了37.0%。以上成绩的取得，主要来自于东明前海化工有限公司（「东明前海化工」）的贡献。

集团于2018年末收购东明前海化工，扩大了丙烯、甲基叔丁基醚（「MTBE」）、氢气和异丁烯的生产能力，使我们能够为新老客户提供更加丰富的产品。目前，中星石化控股有限公司（「中星石化」或「集团」）原料液化石油气、丙烯和聚丙烯的年加工能力分别为55万吨、18万吨和5万吨。

业务方面，化工业务仍是集团核心业务，2019年主营业务收入为35.18亿元人民币，占集团总收入的96.0%；物流及运输相关业务保持了平稳发展，业务收入为1．42亿元人民币。合并东明前海化工带来的新增生产能力后，集团利用成品液化气生产出了丙稀II、MTBE等更高利润的产品，使集团业务收入和毛利率实现双增长，其中，毛利率从2018财年的5.7%提高到2019财年的7.4%。

集团正在建设新的聚丙烯项目，该项目利用集团自产的丙烯加工成为具有更高技术含量的高端聚丙烯，采用最新一代Spheripol生产技术，生产可用于医疗设备、汽车配件、家用电器、电子薄膜、食品包装等产品的高端聚丙烯，与出售丙烯相比，将可获得更高的利润。项目建设工程自2019财年第一季度开始，计划在2020财年第四季度竣工。项目建成达产后，集团聚丙烯年生产能力将由目前的5万吨获得成倍提升。

集团展望及前景

集团于2018年末收购东明前海化工后，丙稀生产一直保持稳定，为集团的盈利能力提升做出了重要贡献。目前聚丙稀项目正在建设，预计于2020财年第四季完成。

目前，集团运营还未受到COVID-19疫情形势的直接影响，管理层对市场行情方面持乐观态度。特别是是在聚丙烯市场方面，基于聚丙烯的口罩、防护服和其他下游产品的需求在持续增加，带动聚丙烯更多需求。此外，中国政府已暂停推广乙醇汽油替代汽油，此举有望使我们所生产的MTBE产品 （与汽油混合）实现更高的销售量，获得更高的利润率。

尽管如此，由于管理层对COVID-19疫情爆发对于全球经济及中国的影响深远，管理层持谨慎态度。2020年3月，国际货币基金组织（「IMF」）对未来表示担忧，认为COVID-19疫情爆发将影响人们对2020年全球经济增长的预期，世界经济增长率将会低于2019年的2.9%。COVID-19疫情爆发也给中国经济造成了严重影响，官方制造业PMI指数于2020年2月暴跌至35.7，如此大的跌幅此前从未有过。病毒传播已经在中国得到初步控制，但疫情已在世界其他地区蔓延，导致不确定性增加，全球需求减弱。期石油价格近暴跌，引发了人们对价格战的担忧。我们密切关注局势的发展，启动了经营与生产连续性，确保员工安全，保证产品质量和营销渠道的稳定，尽可能消除未来不利因素的影响。

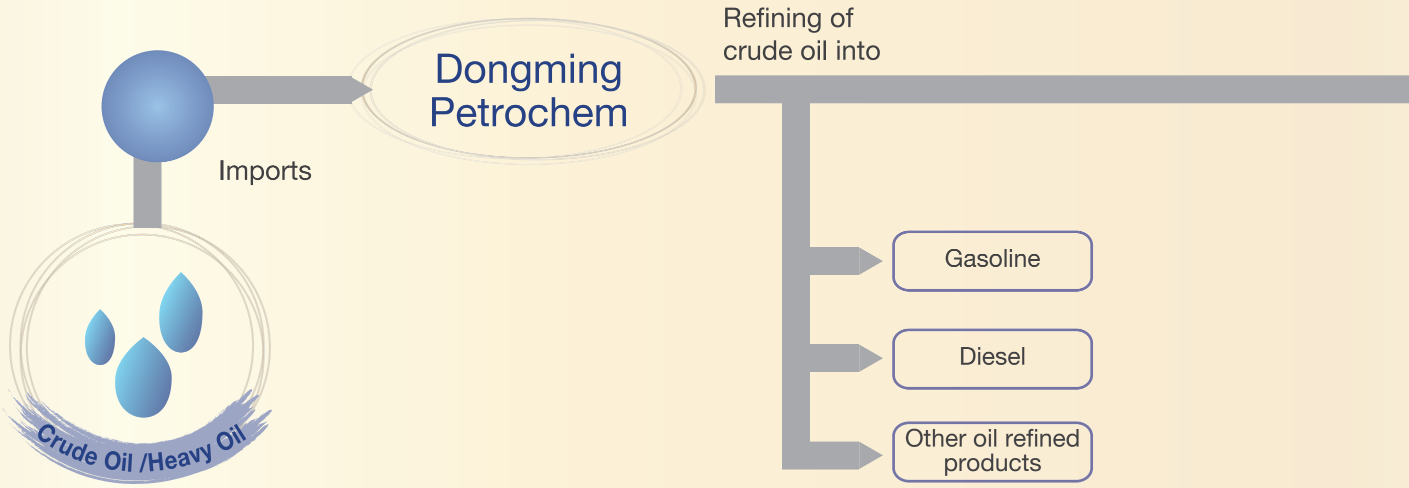
同时，集团将继续坚持审慎管理现金流的原则，专注于提升成本效率。本财年由于项目投资较大，集团仍然需要新增融资，保证项目建设资金，因此决定今年不再派发股息，请广大股东予以理解和支持。

致谢

我谨代表董事会及管理团队，向股东及公司全体员工一年来的辛勤付出表示由衷的感谢，向业务伙伴、客户、供应商这一年来的支持与关爱表达衷心的谢意。在充满挑战性的2020年，我们对集团长期持续发展保持坚定的信心，我们将努力奋斗，全力实现集团的既定目标。

非执行主席
李湘平

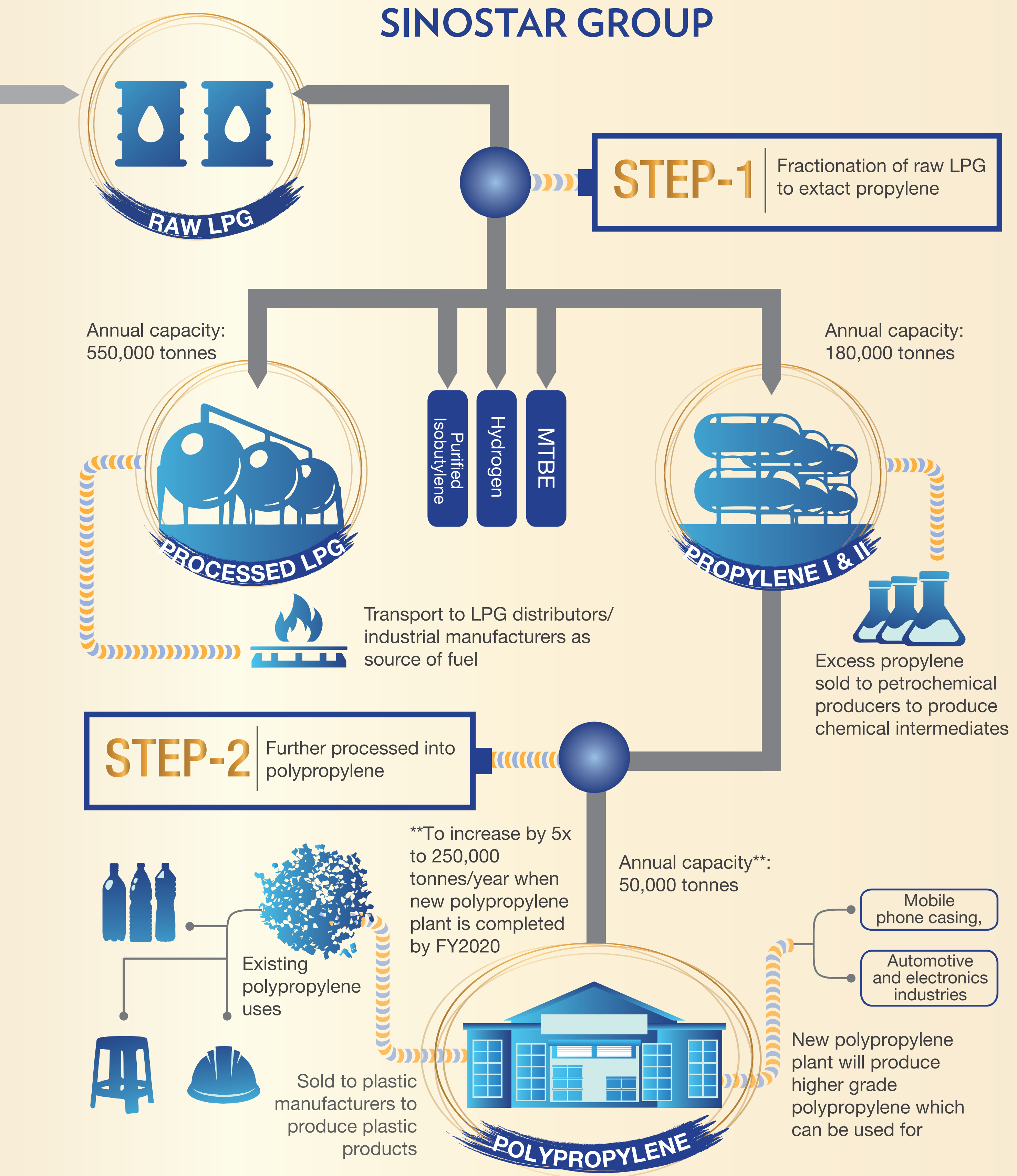
PRODUCTION **PROCESS**



STRATEGIC AFFILIATION WITH DONGMING PETROCHEM

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

PRODUCTION PROCESS
生产过程



OUR
BUSINESS SEGMENTS

PRIORITISING QUALITY

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

HENGCHANG: OUR FLAGSHIP BRAND

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

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

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

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

KEY PRODUCTS AND SERVICES

LPG

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

Propylene

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

Polypropylene

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

Purified Isobutylene

A colourless gas that can form explosive mixtures with air. It is also an important chemical raw material that is used for preparation of butyl rubber, antioxidants, tertiary butyl phenol etc.

Methyl Tert-butyl Ether (MTBE)

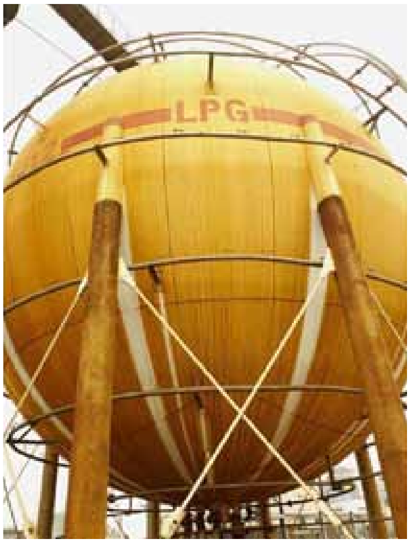
A highly flammable liquid that forms explosive mixtures with air. It is widely used as the oxygenated additive to improve the characteristics of petrol.

Hydrogen

About 55% of hydrogen produced around the world is for ammonia synthesis, 25% in refineries, 10% for methanol productions and 10% for other applications. It can be used in various industrial applications including metal alloying, flat glass production, protective and carrier gas, cleaning in the electronics industry, and applications in the electricity generation.

Transportation and Logistics

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



OPERATIONS
REVIEW

FINANCIAL PERFORMANCE

FY2019 results showed the contributions from Dongming Qianhai which doubled our propylene production capacity and broadened our product offerings. Despite a periodical production plants maintenance carried out in both subsidiaries Dongming Hengchang and Dongming Qianhai between 13 July 2019 to 23 August 2019 causing a temporary halt to the production during the financial year, the Group achieved revenue and profit growth in FY2019. Revenue increased by 62% to RMB3,660.0 million in FY2019 compared to RMB2,259.5 million in FY2018. This was mainly due to the sales contribution from two new products MTBE and Propylene II, which are generated by Dongming Qianhai. Together with an expansion in gross margins, the Group's net profit rose 67% y-o-y to RMB138.0 million. Net Profit attributable to equity holders jumped 37% y-o-y to RMB113.7 million.

PERFORMANCE BY PRODUCTS AND BUSINESS SEGMENTS

Processed LPG

Sale of processed LPG decreased by 13.3% from RMB1.3 billion in FY2018 to RMB1.2 billion in FY2019 mainly due to the maintenance periods causing a 3.6% decrease in production output. Furthermore, average selling price ("ASP") and average cost of sales ("ACS") during the year decreased by 10.1% and 13.7% respectively as compared to FY2018.

Propylene

Sale of propylene decreased by 23.9% from RMB418.0 million in FY2018 to RMB318.0 million in FY2019. Mainly due to total production output, ASP and ACS decreased by 13.6%, 11.9% and 2.6% respectively as compared to FY2018.

Polypropylene

Polypropylene decreased by 12.1% from RMB337.2 million in FY2018 to RMB296.5 million in FY2019. Total production output during the reporting periods decreased by 3.7%. The ASP decreased by 8.7% coupled with ACS increase by 0.4% as compared to FY2018.

MTBE, Propylene II, Hydrogen, Isobutylene

Revenue generated by subsidiary Dongming Qianhai (东明前海化工有限公司) accounted for about 65% of total revenue of FY2019 with majority from product of MTBE and propylene II sales.

Logistics and Transport-related

Total revenue from this business increased by a mere 0.4% from RMB141.8 million in FY2018 to RMB142.4 million in FY2019. The increase is due to the significant pick up of transportation requirement in the 4Q2019 between the Dongming county of Shandong province and Jiangsu province.

PROFITABILITY

Higher revenue together with an expansion in gross margins helped our gross profit jumped by more than 100% in FY2019 to RMB270.3 million. Gross profit margins expanded by 160 bps to 7.4% in FY2019 due to contributions from MTBE, propylene II, Hydrogen and Isobutylene. Other income increased mainly due to a one-time sum of RMB18.7 million grant (重大技术改造贷款补贴) received from the local authority. The higher profit was offset partially by a rise in administration cost and finance expense due to the consolidation of Dongming Qianhai. Due to these factors, our net profit attributable to shareholders rose 37% y-o-y to RMB113.7 million in FY2019 from RMB82.7 million in FY2018.

BALANCE SHEET

For the full year ended 31 December 2019, property, plant and equipment increased mainly due to the capitalisation of costs on the construction-in-progress of newly polypropylene production plant in subsidiary Dongming Hengchang. This new plant is scheduled to be completed in 4QFY2020.

The Group pared down its inventories from RMB102.3 million to RMB92.8 million, consisting of RMB41.7 million on raw materials and RMB51.0 million on finishing petrochemical products, recorded at cost.

As a result of the adoption of SFRS (I)16 on 1 January 2019, the Group recognised its existing operating lease arrangements as right-of-use assets of RMB5.3 million with corresponding lease liabilities.

The amount owing by non-controlling interests of RMB137.7 million relate to the sum owed by affiliated Dongming Petrochem Group. All the cash receivables and payables in Dongming Qianhai are required to transact through Dongming Petrochem Group due to the loan extended by Dongming Petrochem Group to Sinostar group as a form of security. This loans are separated in few tranches and from non-controlling interest Dongming Petrochem Group relates to financing the working capital use in Dongming Qianhai prior to completion of the acquisition. Each tranche of loan is for a term up to a year, unsecured and bear interest at 4.5675% per annum and able to rollover when due if required.

Equity reserve increased due to the requirement to set aside of 10% on profits made by PRC companies.

The Group's bank borrowing relates to a long-term capital loan obtained from the bank by subsidiary Dongming Qianhai. The loan is carrying an interest rate of 4.75% per annum with a fixed repayment term of RMB31.25 million in each quarter till settle fully by FY 2021.

The amount owing to affiliated companies decreased due to the settlement of 50% balance payment to Dongming Zhongyou Fuel and Petrochemical Company Limited (东明中油燃料石化有限公司) amount of RMB158.9 million for the 70% controlling stake acquisition of Dongming Qianhai.

CASHFLOW

The group generated RMB205.9 million from the operating activities but was offset by the net cash used in investing and financing activities of RMB223.4 million and RMB342.5 million respectively.

As a result, the Group's cash and cash equivalent decreased from RMB426.2 million in FY2018 to RMB66.2 million in FY2019.

OUTLOOK

The global operating environment has, without doubt, become more challenging in recent months as the COVID-19 outbreak disrupted business activity and wiped billions of dollars off the global economy. However, the Group remain cautiously optimistic that both opportunities and challenges will co-exist. We continue to believe the outlook for petrochemical industries remain positive in the long run and will continue to explore new opportunities, planting the seeds for future growth.

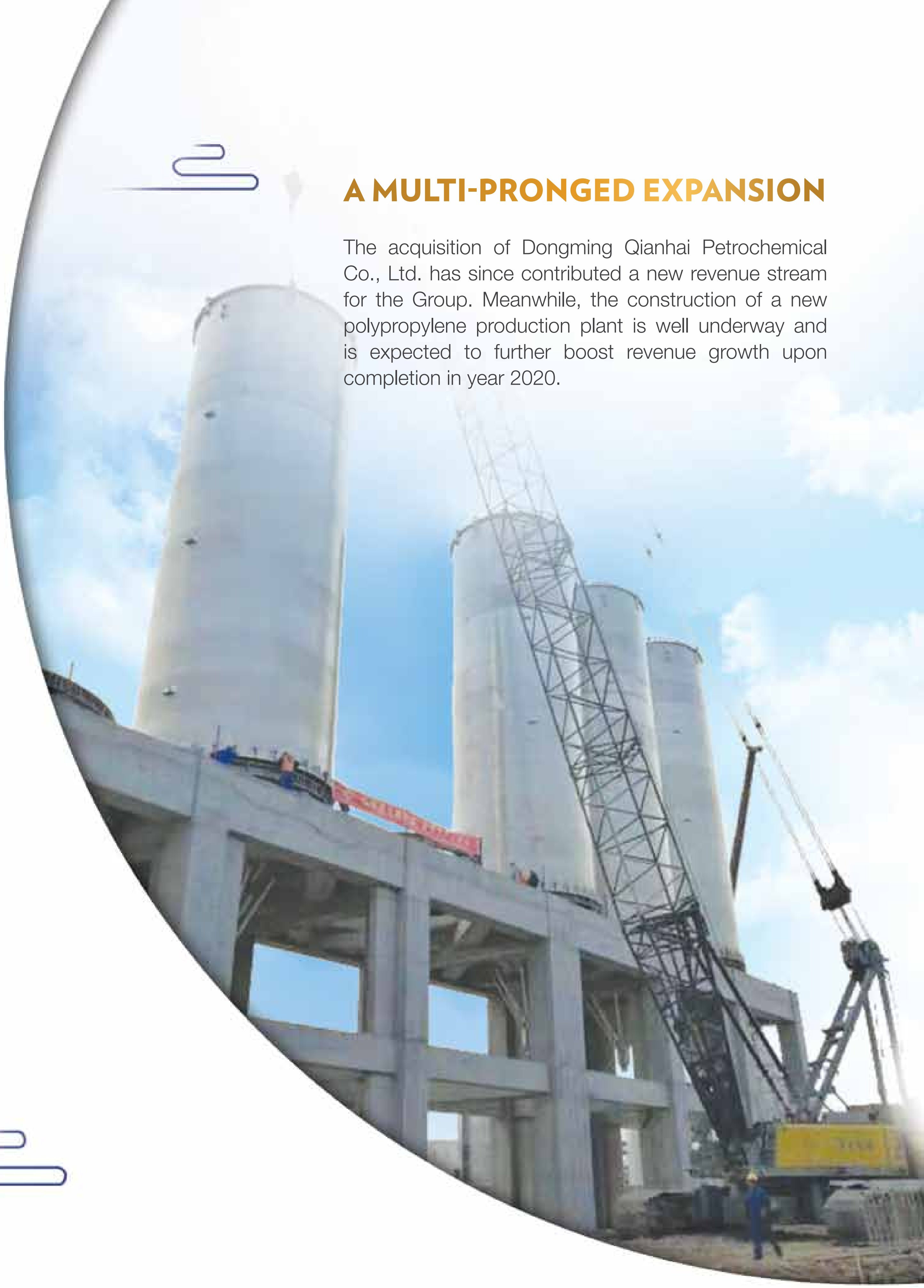
Following the successful consolidation of Dongming Qianhai into the Group's petrochemical business, we look forward to enhancing our production capabilities with our new polypropylene plant which is expected to be ready by the fourth quarter of 2020. The new facility will reinforce our position as one of the largest and leading petrochemical producers in the vicinity of our production facilities, boosting both our production capacity and ability to yield higher quality polypropylene.

We will remain focused on the good management of our daily operations while being prudent in our cash flow and balance sheet management.

Zhang Liu Cheng
Chief Executive Officer and Executive Director

A MULTI-PRONGED EXPANSION

The acquisition of Dongming Qianhai Petrochemical Co., Ltd. has since contributed a new revenue stream for the Group. Meanwhile, the construction of a new polypropylene production plant is well underway and is expected to further boost revenue growth upon completion in year 2020.



LATEST **DEVELOPMENTS**

During the fourth quarter of FY2018, we completed the acquisition of a 70% stake in Dongming Qianhai Petrochemical Co., Ltd. It features production capacities and expertise in processing and selling propylene, purified isobutylene and methyl tert-butyl ether (MTBE). In addition to doubling our capacity to produce propylene to 180,000 tonnes a year, it also extends our product lines, putting the Group in a stronger position to offer our existing customers with a more comprehensive suite of solutions, reach out to even more customers for new and existing products and services, and diversify our customer base. The facility has been in stable production contributing to our positive performance in FY2019.

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

Capacity:
up to 250,000 tonnes of polypropylene per annum

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

LATEST DEVELOPMENTS ON NEW **POLYPROPYLENE PLANT CONSTRUCTION**

New polypropylene plant construction
Status:
Expected completion FY2020

BOARD OF DIRECTORS

MR LI XIANG PING
Non-Executive Chairman

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

In 1998, Mr Li was appointed as the Director and Chief Auditor of Shandong Dongming Petrochem Group Co., Ltd. ("Dongming Petrochem") and was responsible for the daily operations of the business as well as the accounting functions of the company. In 2001, Mr Li was appointed Chairman of Dongming Petrochem group and has since been responsible for the overall development and operations of the business. Mr Li is a People's Representative in the annual National People's Congress of Shandong Province.

Mr Li is also a Deputy Chairman of the Dongming County Chinese People's Political Consultative Conference. Mr Li received a senior auditor qualification from the Shandong Province Audit Profession Advance Accreditation Committee in December 1998 and a senior accounting qualification from the Shandong Province Accounting Profession Advance Accreditation Committee in December 1999.

Mr Li obtained a Bachelor's degree in Financial Accounting from the University of Shandong Officials in 1999 and has completed a Business Administration Graduate programme offered by the Shandong University in December 2004.

Mr Li was appointed as the Chairman of the Association of Oil & Petrochemical Refinery in the Shandong province (山东省炼油化工协会) since 2015 and appointed as the Vice President of China Petroleum and Chemical Industry Federation (中国石油和化学工业联合会) since 2017. During 2018, Mr Li was appointed as the Chairman of Shandong Refining and Energy Group Co., Ltd. (山东炼化能源集团有限公司), an entity in which Shandong Dongming Petrochemical Group has an influential controlling stake. He was also appointed as the Vice Chairman of the 12th All-China Federation of Industry and Commerce (十二届全国工商联).

In 2019, Mr Li was accoladed the award of "100 Outstanding Private Entrepreneurs in 40 Years of Reform" (改革开放40年百名杰出民营企业家). He also won the commemorative medal for celebrating the 70th anniversary of the founding of the People's Republic of China, issued by the CPC Central Committee, the State Council and the Central Military Commission.

MR ZHANG LIU CHENG
Chief Executive Officer and Executive Director

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

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

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

MR LI ZHI
Non-Executive Director

Mr Li Zhi was appointed as the non-executive director of Sinostar PEC Holdings Limited on 29 April 2019.

Mr Li concurrently serves as the Director and Vice President of its strategic affiliation - Shandong Dongming Petrochem Group ("Dongming Petrochem"), the General Manager of overseas operations, and the Director and General Manager of Pacific Commerce Holdings Pte. Ltd. Prior to joining Dongming Petrochem in April 2017, he was responsible for the roles of Business Executive and Business Manager in PetroChina International Co., Ltd. (China National United Oil Corporation) from July 2007 to April 2017. From October 2009 to October 2015, he was appointed as the Finance Minister of PetroChina International (Japan) Co., Ltd. and the Supervisor of the Osaka International Refining Co., Ltd in Japan.

Mr Li attained a Master's degree in Business Administration at Guanghua School of Management, Peking University from September 2015 to July 2017.

From July 2003 to July 2007, Mr Li studied at the School of Economics and Management of Beijing Jiaotong University and obtained a Bachelor's degree in Information Management and Information Systems.

BOARD OF DIRECTORS

MR TEO MOH GIN
Independent Non-Executive Director

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

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

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

MR ZHAO JINQING
Independent Non-Executive Director

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

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

KEY MANAGEMENT

MR TAN YEW CHEE WILLIAM
Chief Financial Officer

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

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

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

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

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

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

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

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

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

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

RIDING THE WAVES OF GROWTH

The superior qualities of polypropylene garner strong demand from the manufacturing sector, with global polypropylene market forecasted to reach a market value of USD122 billion by year 2026. Tapping on its comprehensive logistics network, the Group will continue to catch the waves of growth and maintain its leading position in the market.

FINANCIAL HIGHLIGHTS

	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
REVENUE & PROFITABILITY						
Sales	982,972	1,446,110	1,559,881	1,804,624	2,259,480	3,660,048
Gross Profit (Loss)	33,439	48,966	116,968	103,718	128,011	270,338
Net Profit (Loss)	3,701	40,735	89,803	68,219	82,703	138,014
Net Profit / (Loss) to Equity holders of the Group	(7,304)	40,735	89,803	68,219	82,703	113,692
Interest Coverage ratio	-	-	-	-	-	4.59
FINANCIAL STRENGTH						
Cash & bank balances	326,954	461,559	494,570	438,349	426,215	66,247
Bank borrowings	-	-	-	-	(281,250)	(156,250)
Loan from non-controlling interest *	-	-	-	-	(1,000,000)	(850,000)
Net Debt/Equity	Net cash	Net cash	Net cash	Net cash	98.4%	94.9%
Current assets	425,661	564,046	567,166	647,440	803,941	351,944
Current liabilities	(6,483)	(113,218)	(52,122)	(66,572)	(1,410,696)	(1,098,298)
Net current assets/(Liabilities)	419,178	450,828	515,044	580,868	(606,755)	(746,354)
Shareholders' equity	500,988	541,723	616,172	668,681	736,030	833,603
CASH FLOW						
Net cash generated from/(used in) operating activities	181,391	97,028	71,078	116,912	61,076	205,900
Net cash generated from/(used in) investing activities	40,039	37,577	(22,713)	(157,423)	(57,856)	(223,351)
Net cash generated from/(used in) financing activities	18,732	-	(15,354)	(15,710)	(15,354)	(342,517)
SHAREHOLDERS' WEALTH						
Number of shares on issue ("000")	640,000	640,000	640,000	640,000	640,000	640,000
Basic earnings per share (RMB cents)	3.46	6.36	14.03	10.66	12.92	17.76
Net asset value per share (RMB cents)	78.28	84.64	96.28	104.48	115.00	130.25
Net cash value per share (RMB cents)	51.09	72.12	77.27	68.49	N.A.	N.A.
Dividend yield	13.2%	4.5%	3.3%	2.3%	2.6%	Nil
Total Market Capitalisation (in S$'000)	$48,640	$70,400	$96,000	$140,800	$119,680	$120,320
MARKET PRICE (IN S$)						
High	$0.10	$0.15	$0.16	$0.26	$0.24	$0.22
Low	$0.05	$0.06	$0.06	$0.16	$0.15	$0.15
Closing	$0.08	$0.11	$0.15	$0.22	$0.19	$0.19

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

Li Xiang Ping
Non-Executive Chairman

Zhang Liu Cheng
Chief Executive Officer and Executive Director

Li 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

Teo Moh Gin

RISK AND INVESTMENT COMMITTEE

Li Zhi
Chairman

Teo Moh Gin

Zhang Liu Cheng

SECRETARY

Tan Chee How, ACIS

COMPANY REGISTRATION NUMBER

200609833N

REGISTERED OFFICE

30 Cecil Street,
#19-08 Prudential Tower
Singapore 049712

PRINCIPAL PLACE OF BUSINESS

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

SHARE REGISTRAR

RHT Corporate Advisory Pte. Ltd.
30 Cecil Street,
#19-08 Prudential Tower
Singapore 049712

AUDITOR

RT LLP
1 Raffles Place #17-02
One Raffles Place Tower 1
Singapore 048616
Partner-in-charge:
Ravinthran Arumugam
(Appointed since the financial year ended 31 December 2019)

LEGAL ADVISERS TO THE COMPANY ON PRC LAW

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

PRINCIPAL BANKERS

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

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

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

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

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

INVESTOR RELATIONS

Gem Comm Pte Ltd
1 Temasek Avenue, Level 30
Singapore 039192
Email: connect@gem-comm.com
Telephone: +65 8740 7951

SUSTAINABILITY REPORT

ABOUT THIS **REPORT**

BOARD STATEMENT

We are pleased to present Sinostar PEC Holdings Limited's ("**Sinostar Pec**") annual Sustainability Report, for our financial year ended 31 December 2019 ("**FY2019**").

The key material environmental, social and governance 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's wider strategy to create long-term value for all our stakeholders.

With the availability of economic, environment, social and governance ("**EESG**") data, sustainability reporting has gained greater significance to investors. Far from being just an image building exercise, today it is widely accepted that good ESG practices contribute to the overall long-term success of the company and play an important part in the competition for talent and investment. Business must be quick to adapt to key stakeholders' concerns, closing any potential gaps and capitalising on opportunities amid today's rapidly-changing business environment.

In defining our reporting content, we applied the Global Reporting Initiative ("**GRI**")'s principles by considering the Group's activities, impact and substantive expectations and interests of its stakeholders. We observed a total of four principles, namely materiality, stakeholder inclusiveness, sustainability index and completeness. For reporting quality, we observed the principles of balance, comparability, accuracy, timeliness, clarity and reliability.

We have relied on our internal source of information and verification mechanisms to ensure the accuracy of this Report and no external assurance was obtained.

REPORTING PERIOD AND SCOPE

This report is set out on a "comply or explain" basis in accordance with Listing Rule 711B and Practice Note 7.6 of the Singapore Exchange Securities Trading Ltd ("**SGX-ST**") Listing Manual on Continuing Listing Obligations. Corresponding to GRI's emphasis on materiality, the report highlights the key economic, environmental, social and governance related initiatives carried out throughout the 12-month period, from 1 January to 31 December 2019.

REPORTING FRAMEWORK

Sinostar Pec has chosen the 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 reference to the GRI Standards reporting guidelines, at Core level.

FEEDBACK

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.

31 March 2020

SUSTAINABILITY
APPROACH

OUR SUSTAINABILITY METHODOLOGY

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

STAKEHOLDER ENGAGEMENT

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

The table below sets out our engagement with our stakeholders:

Stakeholders	Engagement and Communication Channels	Key Concerns and Expectations	Our Responses and Actions
Customers and consumers	• Hotline • Email queries • Customer visit • Onsite audit • Customer survey	• Compliance operation • Provide green quality products • Provide quality services • Rights protection	• Spare no efforts to ensure stable and continuous supply • High quality materials and product • Establish a two-way communication mechanism with customers • Customer Satisfaction Survey • Develop new products according to customers' requirements
Employees and trade unions	• Townhall sessions • Open dialogues among teams • Intranet portal • Relevant information disclosure	• Guarantee their basic rights and interests • Offer suggestions for enterprise development • Develop employee capabilities and promote career development • Sense of belongings and recognition • Share the development achievements with the Company	• Protection of employee lawful rights and interests • Create a good working environment • Organize employees' representative conferences • Carry out employee training • Promote the reward system for rational proposals • Increase input in employees' occupational health • Career planning and development path
Communities	• Official website • Sustainability Report • Interviews and meetings • Various social and charity events	• Serve community development • Work for public benefit • Create job opportunities • Help poor and disadvantaged group	• Drive employment and local economic development • Support local suppliers • Support education • Volunteer activities • Contribute to the community environmental constructions

Stakeholders	Engagement and Communication Channels	Key Concerns and Expectations	Our Responses and Actions
Government and regulators	• Face-to-face meetings • Regular reports • Participation in discussions • Regular reporting • Relevant information disclosure	• Abide with laws and regulations • Service national economic development • Increase local employment rate • Ensure production safety • Realise cleaner production • Implement energy conservation and emission reduction • Protect ecological environment	• Pay taxes • Report work regularly • Realize prudent operation • Strengthen safety management • Cooperate with environmental protection departments to conduct inspections • Promote cleaner production • Research and develop green products • Organize environmental protection activities • Waste recycling
Suppliers and service providers	• Face-to-face meetings • Annual review and feedback sessions • Contracts and agreements	• Realize fair and transparent procurement • Promote joint development • Timely fulfil the contracts	• Promote stable purchase policy • Establish fair and transparent procurement principle and process • Help suppliers make progress
Investors/ Shareholders	• Group Annual Report • Annual General Meeting • Quarterly result briefings • Company website email	• Enhance earning capacity • Improve corporate governance structure • Perform the obligation of information disclosure	• Ensure compliance with SGX rules and regulations • Realize healthy growth • Establish shareholder communication mechanism • Issue annual report on a regular basis
Trade Associations	• Engagements through business partnerships • Leading working groups in industry associations Face to face meetings and communications	• Participate the standardisation process of the industry • Contribute to the sustainable development of the industry • Stimulate the technology transformation, upgrade and innovation	• Actively participate • Promoting industry optimisation

MATERIAL ASPECTS ASSESSMENT

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

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

ECONOMIC

- Economic Performance
- Anti-Corruption

ENVIRONMENTAL

- Energy
- Environmental Compliance

SOCIAL

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

GOVERNANCE

- Business Ethics
- Enterprise Risk Management

ECONOMIC

ECONOMIC PERFORMANCE

Here at Sinostar Pec, we are committed to grow our customers and exceed our customers' expectations and providing them with competitive edge products by enhancing operational efficiency by constantly upgrading our production capabilities via new techniques, technologies and automation of processes, extending range of inventory of quality, brand-name products, providing personal service and competitive pricing and dependable and on-time delivery. For detailed financial results, please refer to the following sections in our Annual Report 2019:

- Operations Review, pages 16 -17
- Financial Highlights, page 28
- Financial Statements, pages 78 to 134

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

The Group is one of the largest producers and suppliers of downstream petrochemical products within a 400km radius of its production facilities within the Dongming Petrochem Industrial Zone in Dongming County of Shandong Province, PRC. Situated within the Zhongyuan Oilfield - one of PRC's largest oilfields, and linked by a comprehensive logistics network, Sinostar Pec is able to reach out to the nearby populous and industrialised provinces such as Shandong, Henan, Anhui, Shaanxi, Shanxi, Sichaun, Hebei, Hubei 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 polypropyleneat two gas-fractionation production plants.

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

Dongming Hengchang Petrochemical Co., Ltd. invested RMB317.8 million to hold 70% equity of Dongming Qianhai Petrochemical Co., Ltd. On December 26, 2018, the strategic acquisition of a 70% controlling interest in Dongming Qianhai was completed. Dongming Qianhai's raw material processing capacity can reach 510,000 tonnes per year. Its main products are propylene and MTBE. The acquisition can increase the overall capacity of the group doubled up to 180,000 tonnes of propylene per year. The Group will use Dongming Qianhai's production capacity as an advantage, use propylene deep processing to extend the industrial chain, and use international technology to invest in a 200,000-tonne polypropylene project to produce higher-end polypropylene products.

ANTI-CORRUPTION

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

There have also been zero (FY2018: Nil) reported incidents of corruption during the reporting period.

Our goal for FY2020 is to maintain zero incident of corruption. We will regularly review policies on whistleblowing and anti-corruption.

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

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

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

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

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

ENVIRONMENTAL COMPLIANCE

The Group complies with all regulations and requirements on water pollution, adheres to the environmental protection concept of "Green Operation and Sustainable Development", comprehensively enhances the level of environmental protection management and strengthen measures to improve standards for the establishment and implementation of a resource-saving and environment-friendly society. There were also zero (FY2018: Nil) incidence of non-compliance with laws and regulations resulting in significant fines or sanctions in FY2019.

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 FY2019, the Group spent a total of approximately RMB2.8 million (FY2018: RMB588,000) on sewage treatment. The increase in sewage treatment was mainly due to the newly acquired Dongming Qianhai Petrochemical Co., Ltd.

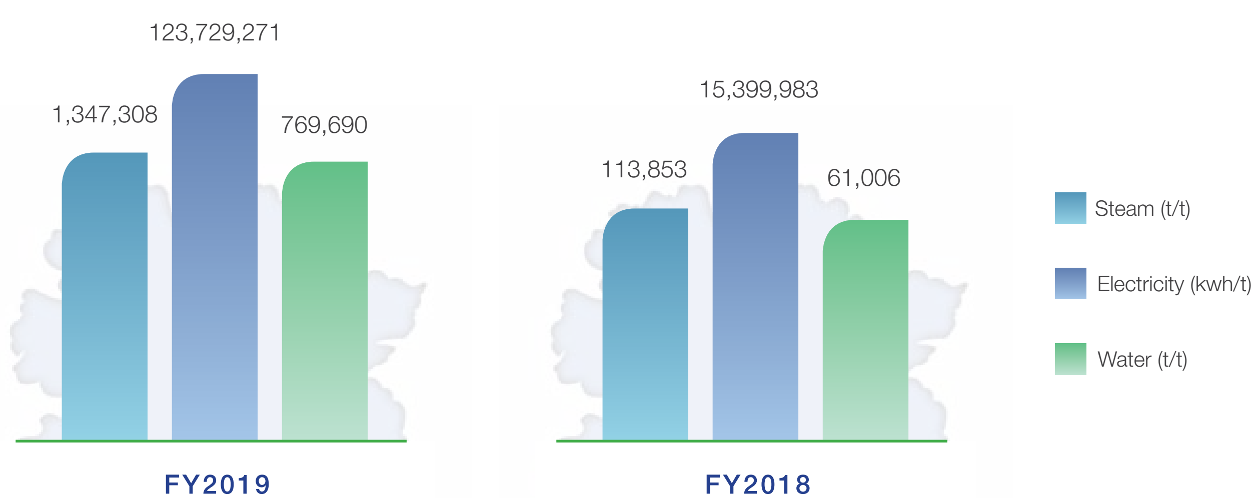
The discharge of sewage complies with the special limits for discharge of pollutants in the "Emission Standards for Petroleum Refining Industry Pollutants" and "Class A Standard for Discharge Standards of Pollutants for Municipal Wastewater Treatment". After treatment, the third-party inspections were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

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

ENERGY

Our total energy consumption increased in FY2019 (i.e., electricity consumption increased by 108,329,288kWh, steam consumption increased by 1,233,455t and fresh water increased by 708,684t). Major increase in our energy consumption was mainly due to the newly acquired Dongming Qianhai Petrochemical Co., Ltd. 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 remains stable year on year.

Total Energy Consumption



ENVIRONMENTAL

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

1. Conscientiously implement the national and local energy management laws and regulations as well as the company's energy management rules and regulations, and raise awareness of energy conservation among management personnel.
2. Establish and monitor targets for energy consumption, establish energy-saving plans and control measures, and enhance indicators to promote reduction in energy consumption and efficiency.
3. Strengthen the management of in the energy field to eliminate the waste of energy.
4. Make efforts to reduce the utilisation of equipment and scientifically formulate reasonable target indicators to reduce energy.
5. Align the energy consumption to the standard and improve the energy saving level of the equipment. Compare the energy utilisation of the equipment for the past two years, identify and analyse the reason of for high-energy consumption and formulate a plan to improve energy consumption.
6. Establish an energy-saving incentive mechanism, pay attention to daily operational management of equipment, and raise the energy-saving level of these 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.
7. Establish an energy management system, adopt effective energy-saving measures, and carry out internal audits of energy plants. Cooperate with the project team in the construction of energy management and control platform. The platform establishes a dynamic database of full-operating energy benchmarks for real-time monitoring, benchmarks short-cycle energy predictions, and monitors deviations in energy consumption trajectories in real time. After completion, it can plan and use energy more reasonably, reduce energy consumption per unit product, and improve economic benefits.
8. Focusing on reducing steam consumption, combining the current status of electricity and water management, and starting from two aspects of technical transformation and management, which have achieved significant control effects and achieved steam balance in winter.

We target a 1% decrease of total energy consumption in FY2020.

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 FY2019, we provided the following training to our employees:

- New employee on-boarding
- Professionalism
- Leadership training for Head of department
- Job transfer training
- Sales management
- Production management
- Equipment management
- Safety knowledge and skills training
- Quality, Safety and Occupational Health, Environment and Energy management
- Theoretical training for both in-base and out of the base, and polypropylene installations training.

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

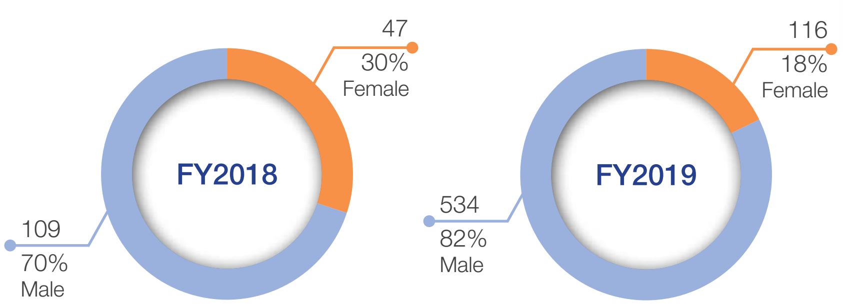
All employees at our operations hold permanent contracts and work full-time. We seldom rely on workers who are not full-time employees.

DIVERSITY AND EQUAL OPPORTUNITY

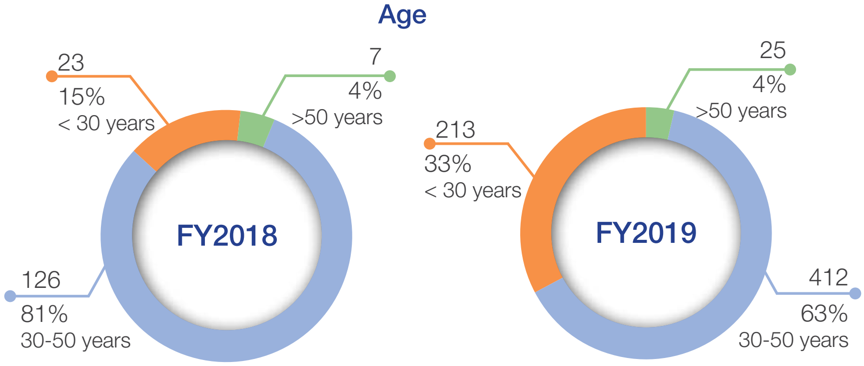
A diverse workforce is an asset in today's ever-changing global marketplace. We cultivate an inclusive culture where employees with wide-ranging backgrounds and qualities are highly motivated, engaged and connected.

Due to our acquisition of Dongming Qianhai Petrochemical Co., Ltd., our workforce has increased fourfold. From 156 in 2018, we are now 650 in headcount as of 31 December 2019 distributed as follows:

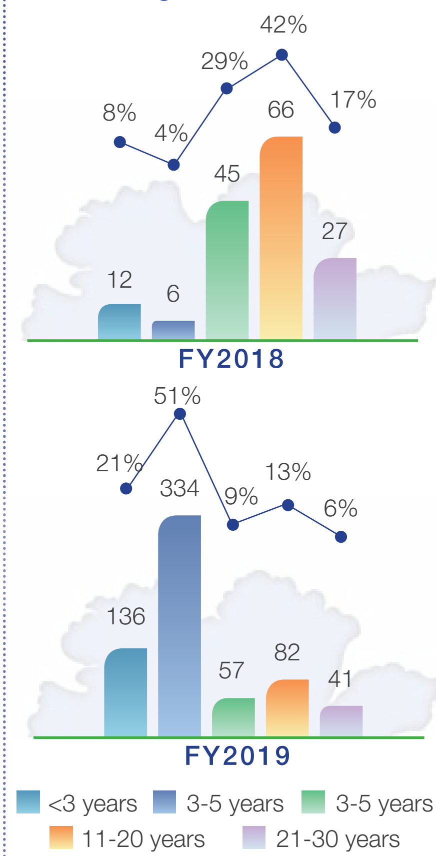
Gender



Age



Length of Service



Every employee plays an essential role in our Company. We organise different types of activities for our employees regularly, such as tug-of-war and cultural activities during Women's day.


Employee tug-of-war


Women's day cultural activities

Our recruitment of staff is based solely on merit and qualifications, without discrimination of race, age, gender, religion or ethnicity. Similar to 2018, we have no reported discrimination in 2019. We target to have zero complaint on discrimination in the upcoming years.

SOCIAL

OCCUPATIONAL HEALTH AND SAFETY

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

The focus on health and safety is important for Sinostar Pec to achieve world-class performance. It is not only a fundamental right for our workers to be able to work in a safe environment, but when our employees' wellness is attained, our productivity increases, and our best is given to our customers. From implementing job safety guidelines and procedures to conduct rigorous safety trainings, we are committed to provide a hazard-free workplace to ensure the 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 zero (FY2018: Nil) industrial accident as well as zero (FY2018: Nil) man-day lost for FY2019.

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

1. New employees should receive three levels of occupational health, safety and environmental protection training at no less than 72 hours. Each year, no less than 20 hours of retraining should be conducted.
2. In relation to the transfer of employees or the adoption of new technologies, new equipment or new materials, special occupational health, safety and environmental protection training shall be carried out.
3. The implementation rate of occupational health, safety and environmental protection education and training programs shall be 100%.
4. The passing rate of occupational health, safety and environmental protection education and training shall be 100%.
5. Workers shall only be employed if they acquired relevant certifications and qualifications for certain designated work scope as stipulated in the government regulations.
6. The passing rate of safety training for key responsible person and safety management personnel of the production and operation unit shall be 100%.

The Group also made significant improvements to its safety policy in 2019. To comply with regulatory requirements, following enhancements were made:

- Demolished the management office near to the former liquefied gas tank, replaced it with a new anti-explosion control room, including the operation room, cabinet, etc., to completely eradicate the issue of insufficient safety spacing;

- Moved the existing Distributed Control System (DCS) cabinet to the new anti-explosion room and upgraded the new DCS operating system.

- Equipped all polypropylene equipment with an independent Safety Instrumented System (SIS).

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

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

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

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

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. Quality management has enhanced by implemented the followings:

1. Taking advantage of the shutdown and maintenance opportunities, contacted the laboratory to calibrate and maintain some instruments, sampling cylinders, inspection marks, etc. At the same time, contacted the quality inspection center to optimize and update some inspection standards in conjunction with UOP to ensure that the special bottles are dedicated to ensure the representativeness of the samples. The test standard method is currently valid.
2. Combined with the overhaul and technical improvement of the device, some supervision and inspection plans were optimized and adjusted. At the same time, the quality of some external raw materials was investigated and analyzed in advance in conjunction with the distribution company, which fully prepared for the start of preparation of materials.
3. Pay close attention to the feedback of the quality of the raw materials of the upstream companies in time, and cooperate with the production profession to carry out targeted adjustment and control measures according to the quality of the upstream raw materials. Actively coordinate the quality inspection center to strengthen the timely comparison and analysis of the distillation export. The upstream raw material equipment is also adjusting and controlling and the mutual supply of raw materials contains some materials of poor quality during the early shutdown period. The quality supervision and control of distillate outlets has been formulated.
4. Carry out preventive control in advance as product quality inevitably will encounter the problem of high water content due to hydrocarbon tank inspection and top-line operation in the water tank area. We also carry out random inspection and analysis on product quality of each car after loading to ensure that the manufactured products meet customer quality requirements. At the same time, the risk of lower product quality such as large water content and lower purity of the product caused by preliminary water tank overhaul and top line operations may be eliminated. At present, each raw material is normally used, and the MTBE product tank is normally used; the propylene product tank has been reduced from about 300 ppm of water in the initial stage to less than 20 ppm and has reached the quality standard of superior products; the storage tank of isobutylene products has been reduced from about 300 ppm in the initial stage of operation to within 50 ppm, the quality standards of superior products.
5. Focus on strengthening the quality control of chemical excipients. In view of the use of chemical auxiliary equipment in the installation and the small number of manufacturers, we actively cooperate with the company to conduct research and analysis on the quality of chemical auxiliary materials, collect the use of similar domestic equipment, and take samples for laboratory analysis.
6. Eliminate disadvantages and create excellence, accelerate the speed of unloading, improve the efficiency of logistics operations, and improve customer satisfaction. Effectively achieve "time is efficiency, logistics is efficiency", and optimize management to increase efficiency.
7. A scientific research group was set up to improve the technology research of high value-added products of hybrid dehydrogenation units to provide strong organizational, financial and personnel protection for technology development and applied research.
8. Actively carry out process innovation and process optimization. The "Research Group on Optimization of Process Flow for the Processing of Hetero-butene Heterogeneous Raw Materials" was organized. The research group worked out a large number of experimental research operations to optimize the analysis of data to find out the optimal operating parameters and verify the actual production. At present, the optimization and innovation process is running well and the project has won the first prize of Heze Science and Technology Innovation.

CUSTOMER SATISFACTION

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

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

We use the result of the survey for competition analysis, understanding gaps and finding opportunities for improvement. These are also reported to the relevant departments in the company such as the Enterprise Management Department and the Production Operations Department for management review and for the continuous improvement of the quality system. The satisfaction rate was above 98% (FY2018: 98%) on average throughout the year.

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

SOCIOECONOMIC COMPLIANCE

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

There were no non-compliance noted in FY2019 (FY2018: Nil). Our objective is to maintain zero incidents of non-compliance.

LOCAL COMMUNITIES

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

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

AWARDS

Our products and services are well received by our customers and formally recognized. "Hengchang" polypropylene was awarded "Shandong Province Famous Brand", and "Hengchang" trademark is awarded "Shandong famous brand". Our Chairman Li Xiangping was given awards to recognise his active participation in social charities events in both FY2016 and FY2017. In FY2018, we were awarded "Shangdong Top 40 Brands. In FY2019, the optimization and innovation process works well and the project has won the first prize of "Heze Science and Technology Innovation."

GOVERNANCE

SUSTAINABILITY GOVERNANCE

At Sinostar Pec, we believe that strong governance is the key to a sustainable business. Throughout 2019, we continue to comply with the Code of Corporate Governance. Please refer to the pages 45 to 68 on the details of the SGX Code of Corporate Governance.

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

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

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

BUSINESS ETHICS AND COMPLIANCE

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

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

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

For FY2019, there were zero (FY2018: Nil) significant fines or non-monetary sanctions for non-compliance with laws and regulations.

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

ENTERPRISE RISK MANAGEMENT (ERM)

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

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

For detailed disclosure on ERM, please refer to page 61.

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

GRI STANDARDS CONTENT INDEX

GRI Standard	Disclosure		Reference / Description
GRI 101: Foundation 2016			
GENERAL DISCLOSURE			
GRI 102 : General Disclosures 2016	102-1	Name of organisation	SINOSTAR PEC HOLDINGS LIMITED
	102-2	Activities, brands, products and services	Pages 12 to 15
	102-3	Location of headquarters	Pages 2, 29
	102-4	Location of operations	Pages 2 to 3
	102-5	Ownership and legal form	Pages 2 to 3
	102-6	Markets served	Page 2
	102-7	Scale of the organisation	Pages 2 to 3, 37
	102-8	Information on employees and other workers	Page 37
	102-9	Supply chain	Pages 12 to 13
	102-10	Significant changes to the organisation and its supply chain	Pages 20 to 21
	102-11	Precautionary Principle or approach	We do not specifically address the Precautionary Principle.
	102-12	External initiatives	Page 41
	102-13	Membership of associations	None
	102-14	Statement from senior decision maker	Page 31
	102-16	Values, principles, standards and norms of behaviour	Page 42
	102-18	Governance structure	Pages 45 to 68
	102-40	List of stakeholder groups	Pages 32 to 33
	102-41	Collective bargaining agreements	None
	102-42	Identifying and selecting stakeholders	Page 32
	102-43	Approach to stakeholder engagement	Pages 32 to 33
	102-44	Key topics and concerns raised	Pages 32 to 33
	102-45	Entities included in the consolidated financial statements	Page 3
	102-46	Defining report content and topic boundaries	Page 31
	102-47	List of material topics	Page 33
	102-48	Restatement of information	None
	102-49	Changes in reporting	None
	102-50	Reporting period	Page 31

GRI STANDARDS
CONTENT INDEX

GRI Standard	Disclosure		Reference / Description
GRI 102 : General Disclosures 2016	102-51	Date of most recent previous report	11 April 2019
	102-52	Reporting cycle	Page 31
	102-53	Contact point for questions about the report	Page 31
	102-54	Claims if reporting in accordance with the GRI Standards	Page 31
	102-55	GRI content index	Pages 43 to 44
	102-56	External Assurance	Page 31
MATERIAL TOPICS			
GRI 201: Economic performance	201-1	Direct economic value generated and distributed	Page 34
GRI 205: Anti-corruption	205-1	Operations assessed for risks related to corruption	Page 34
GRI 302: Energy	302-1	Energy consumption within the organization	Pages 35 to 36
GRI 307: Environmental compliance	307-1	Non-compliance with environmental laws and regulations	Page 35
GRI 403: Occupational Health and Safety	403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Pages 38 to 39
GRI 405: Diversity and equal opportunity	405-1	Diversity of governance bodies and employees	Page 37
GRI 413: Local Communities	413-1	Operations with local community engagement, impact assessments, and development programs	Page 41
GRI 419: Socioeconomic Compliance	419-1	Non-compliance with laws and regulations in the social and economic area	Page 41

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE

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

This Report describes the Company’s ongoing efforts in FY2019 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 2019, 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 (5) directors, which include one Executive Director, one Non-Executive Chairman, one Non-Executive Director, and two Independent Non-Executive Director, all of whom are from different disciplines and bring with them a diverse range of experience which will enable them to contribute effectively to the Company.

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

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

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

Delegation of the Board

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

Attendance at Board and Board Committee Meetings

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

The attendance of the Directors at Board and committee meetings during the financial year under review is tabulated below:

Directors	Board		Audit Committee		Nominating Committee		Remuneration Committee		Risk And Investment Committee	
Name of Directors	Number of Meetings Held	Number of Meetings Attended	Number of Meetings Held	Number of Meetings Attended	Number of Meetings Held	Number of Meetings Attended	Number of Meetings Held	Number of Meetings Attended	Number of Meetings Held	Number of Meetings Attended
Li Xiang Ping	4	4	4	4	1	1	1	1	1	1
Zhang Liu Cheng	4	4	–	–	–	–	–	–	1	1
Teo Moh Gin	4	4	4	4	1	1	1	1	1	1
Li Zhi[(1)]	4	2	–	–	–	–	–	–	–	–
Zhao Jinqing	4	4	4	4	1	1	1	1	–	–

Note:

1. Mr Li Zhi was appointed as Non-Executive Director of the Company on 29 April 2019.

Matters Requiring Board Approval

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

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

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

Board Orientation and Training

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

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

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

Principle 2: BOARD COMPOSITION AND GUIDANCE

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

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

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 2019, the NC is of the view that all its Independent Non-Executive Directors have satisfied such criteria of independence as a result of its review. The independence of each Independent Non-Executive Director will be reviewed annually by the NC.

Board Composition and Size

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

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

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

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

Principle 3: CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

As the Non-Executive Chairman, Mr Li Xiang Ping leads the Board in encouraging constructive relations between the Board and Management, as well as between Board members. He promotes high standards of corporate governance. The Non-Executive Chairman leads each Board meeting and ensures full discussion of the items on the agenda. The Board is of the view that with the establishment of the three Board committees, there are adequate safeguards in place to prevent an uneven concentration of power and authority in a single individual. In assuming their roles and responsibilities, the Non-Executive Chairman and the Chief Executive Officer consult with the Board and the respective Committees on major issues.

No lead independent non-executive director has been appointed by the Board as the Chairman and Chief Executive Officer are two separate persons and it also fulfils the Code's requirement that at least one-third of the Board should comprise of Independent Non-Executive Director.

Principle 4: BOARD MEMBERSHIP

The NC comprises the following members:

Zhao Jinqing (Chairman)
Li Xiang Ping
Teo Moh Gin

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

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

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

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

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

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

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

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

Name of director	Appointment	Date of initial appointment	Date of last re-election	Current Directorships in listed companies	Past Directorships in listed companies
Li Xiang Ping Age: 59	Non-Executive Chairman	6 July 2006	26 April 2018	None	None
Zhang Liu Cheng Age: 48	Chief Executive Officer and Executive Director	6 July 2006	29 April 2019	None	None
Teo Moh Gin Age: 61	Independent Non-Executive Director	29 June 2007	29 April 2019	None	Changjiang Fertilizers Holdings Limited Cedar Strategic Holdings Ltd
Zhao Jinqing Age: 62	Independent Non-Executive Director	7 March 2015	28 April 2017	None	None
Li Zhi Age: 34	Non-Executive Director	29 April 2019	N.A	None	None

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

Directors' Time Commitment

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

Selection Criteria and Nomination Process for New Directors

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

There is no alternate director being appointed to the Board for the financial year ended 31 December 2019.

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 Xiang Ping and Mr Zhao Jinqing will be retiring by rotation pursuant to the Article 104 of the Articles and Association. Mr Li Xiang Ping and Mr Zhao Jinqing, being eligible for re-election have offered themselves for re-election. In addition, Mr Li Zhi who is appointed as Non-Executive Director on 29 April 2019, will be retiring and eligible for re-election pursuant to Article 114 of the Articles of Association. The key information on Mr Li Xiang Ping, Mr Zhao Jinqing and Mr Li Zhi can be found in the 'Board of Directors' section of the Annual Report.

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

Name of Director	Li Xiang Ping	Zhao Jinqing	Li Zhi
Date of appointment	6 July 2006	7 March 2015	29 April 2019
Date of last re-appointment	26 April 2018	28 April 2017	N.A
Age	59	62	34
Country of principal residence	PRC	PRC	PRC
The Board's comments on this appointment (including rationale, selection criteria, and the search and nomination process)	The Board, having considered the recommendation of the Nominating Committee and having assessed Mr. Li Xiang Ping's requisite knowledge and experiences to assume the responsibilities as Non-Executive Chairman of the Company.	The Board, having considered the recommendation of the Nominating Committee and having assessed Mr. Zhao Jinqing's requisite knowledge and experiences to assume the responsibilities as Independent Director of the Company.	The Board, having considered the recommendation of the Nominating Committee and having assessed Mr. Li Zhi's requisite knowledge and experiences to assume the responsibilities as Non-Executive Director of the Company.
Whether appointment is executive, and if so, the area of responsibility	Non-Executive	Non-Executive	Non-Executive
Job title (e.g. Lead ID, AC Chairman, AC Member, etc.)	Non-Executive Chairman, Member of the Audit Committee, Remuneration Committee, Nominating Committee.	Non-Executive Director, Chairman of Nominating Committee, Member of Audit Committee and Remuneration Committee.	Non-Executive Director, Chairman of Risk and Investment Committee

Name of Director	Li Xiang Ping	Zhao Jinqing	Li Zhi
Professional qualifications	Bachelor's degree in Financial Accounting the University of Shandong Officials Business Administration Graduate programme from the Shandong University	Bachelor's degree in Chinese Major from the Central Radio and Television University Bachelor's degree of Economic Management from Party School of the Central Committee of the Communist Party of China	Bachelor Degree in Information Management and Information Systems, Beijing Jiaotong University MBA Guanghua School of Management, Peking University.
Any relationship (including immediate family relationships) with any existing Director, existing executive officer, the issuer and/or substantial shareholder of the listed issuer or of any of its principal subsidiaries	Father of Li Zhi, Non-Executive Director of the Company	None	Son of Mr Li Xiang Ping, the Non-Executive Chairman of the Company
Conflict of interest (including any competing business)	Chairman of Shandong Dongming Petrochem Group Co., Ltd	None	Director and Vice President of Shandong Dongming Petrochem Group Co., Ltd
Undertaking (in the format set out in Appendix 7.7) under Rule 720(1) has been submitted to the listed issuer	Yes	Yes	Yes
Working experience and occupation(s) during the past 10 years	2001 till current Chairman of Shandong Dongming Petrochem Group Co., Ltd.	March 2003 to December 2014 Deputy Director General, Quota & License Administrative Bureau of the Ministry of Foreign Trade and Economic Cooperation	July 2007 to April 2017 Business Supervisor of PetroChina International Co.,Ltd. September 2019 till current Director and Director and CEO of Shandong Dongming Petrochem Group Co., Ltd April 2017 till current General Manager of Pacific Commerce (Holdings) Pte. Ltd.
Shareholding interest in the listed issuer and its subsidiaries	Yes	None	None

Name of Director	Li Xiang Ping	Zhao Jinqing	Li Zhi
Shareholding details	Please refer to Substantial Shareholder Section of Annual Report.	N.A	N.A
Other Principal Commitments Including Directorships			
Past (for the last five years)	Chairman of Shandong Dongming Petrochem Group Co., Ltd	None	Director of Pacific Commerce (Holdings) Pte. Ltd. Director of Pacific Commerce Shipping Pte. Ltd. Director of Intelligent People Holdings Limited
Present	Chairman of Shandong Dongming Petrochem Group Co., Ltd	None	Director and Vice President of Shandong Dongming Petrochem Group Co., Ltd. Director of Pacific Commerce (Holdings) Pte. Ltd. Director of Pacific Commerce Shipping Pte. Ltd. Director of Intelligent People Holdings Limited
Information Required Pursuant to Listing Rule 704(7)			
(a) Whether at any time during the last 10 years, an application or a petition under any bankruptcy law of any jurisdiction was filed against him/her or against a partnership of which he/she was a partner at the time when he/she was a partner or at any time within two years from the date he/she ceased to be a partner?	No	No	No

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

Name of Director	Li Xiang Ping	Zhao Jinqing	Li Zhi
(f) Whether at any time during the last 10 years, judgement has been entered against him/her in any civil proceedings in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his/her part, or he/she has been the subject of any civil proceedings (including any pending civil proceedings of which he/she is aware) involving an allegation of fraud, misrepresentation or dishonesty on his/her part?	No	No	No
(g) Whether he/she has ever been convicted in Singapore or elsewhere of any offence in connection with the formation or the Management of any entity or business trust?	No	No	No
(h) Whether he/she has ever been disqualified from acting as a Director or an equivalent person of any entity (including the trustee of a business trust), or from taking part directly or indirectly in the Management of any entity or business trust?	No	No	No
(i) Whether he/she has ever been the subject of any order, judgement or ruling of any court, tribunal or governmental body, permanently or temporarily enjoining him/ her from engaging in any type of business practice or activity?	No	No	No
(j) Whether he/she has ever, to his/ her knowledge, been concerned with the Management or conduct, in Singapore or elsewhere, of the affairs of:-	No	No	No
• any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere; or	No	No	No

Name of Director	Li Xiang Ping	Zhao Jinqing	Li Zhi
• any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere; or	No	No	No
(k) Whether he/she has been the subject of any current or past investigation or disciplinary proceedings, or has been reprimanded or issued any warning, by the Monetary Authority of Singapore or any other regulatory authority, exchange, professional body or government agency, whether in Singapore or elsewhere?	No	No	No
• any entity or business trust which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, in connection with any matter occurring or arising during that period when he/she was so concerned with the entity or business trust?	No	No	No

Key Information on Directors

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

Principle 5: BOARD PERFORMANCE

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

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

For financial year ended 31 December 2019, individual assessment of directors had been conducted at the NC meeting held on 27 February 2020. The criteria for assessment include performance of principal functions and fiduciary duties, level of participation at meetings and individual attendance record.

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

Principle 6: ACCESS TO INFORMATION

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

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

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

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

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

REMUNERATION MATTERS

Principle 7: PROCEDURES FOR DEVELOPING REMUNERATION POLICIES

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

Teo Moh Gin (Chairman)
Zhao Jinqing
Li Xiang Ping

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

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

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

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

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

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

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

Procedure for setting Remuneration

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

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

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

Principle 8: LEVEL AND MIX OF REMUNERATION

Remuneration of Executive Directors and Key Management Personnel

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

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

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

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

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

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

Remuneration of Non-Executive Directors

The Independent Non-Executive Directors receive directors' fees, in accordance with their contributions, taking into account factors such as responsibilities, effort and time spent for serving the Board and Board Committees. For the financial year ending 31 December 2020, directors' fees of S$344,000 are recommended by the Board and subject to the approval of shareholders at the Company's AGM to be held on 29 June 2020.

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 2019 are set out below:

Remuneration bands	Salary [1]	Variable or performance related income/ bonuses	Directors' fees[2]	Total
	%	%	%	%
Directors				
Below S$250,000				
Li Xiang Ping	–	–	100	100
Zhang Liu Cheng	70	30	–	100
Teo Moh Gin	–	–	100	100
Zhao Jinqing	–	–	100	100
Li Zhi	–	–	100	100
Executive Officers				
Below S$250,000				
Li Bingwei	100	–	–	100
Ma Xian Dong	100	–	–	100
Tan Yew Chee William	70	30	–	100
Yang Shu Fang	100	–	–	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 2019 is S$338,286.

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 2019.

The Company has not implemented any employee share scheme during the financial year ended 31 December 2019.

ACCOUNTABILITY AND AUDIT

Principle 10: ACCOUNTABILITY

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

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

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

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

Principle 11: RISK MANAGEMENT AND INTERNAL CONTROLS

Risk Management

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

Internal Controls

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

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

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

Based on the internal controls established and maintained by the Group, work performed by the internal and external auditors and the documentation on the Group's key risks referred to above, reviews performed by Management, AC and the Board, the AC and the Board are of the opinion that the Group's internal controls, addressing financial, operational and compliance risks, were adequate as at 31 December 2019. This is in turn supported by assurance from the CEO and the Chief Financial Officer that:

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

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

Whistle-blowing Policy

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

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

Interested Person Transactions

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

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

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

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

A summary of the interested person transactions for FY2019 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		RMB 1,647,160,981
- Sale of residual oil		RMB 2,553,281
- Purchase of utilities		RMB 4,934,368
- Logistics & transport related services provided to		RMB 9,566,633
Shandong Dongming Petrochem Group Co., Ltd. (山东东明石化集团有限公司)		
- Purchase of utilities, part & components		RMB 15,898,071
- Sale of processed LPG		RMB 59,956,056
- Logistics & transport related services provided to		RMB 219,263
- Accrued Interest on loan from non-controlling interest	RMB 40,016,375	

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 Runze Petrochemical Co., Ltd (东明润泽化工有限公司)		
- Purchase of utilities, part & components		RMB 113,569,845
- Sale of Hydrogen gas		RMB 176,307,029
- Sale of utilities		RMB 16,734,057
Dongming Crude Oil Distribution Co., Ltd (东明石油经销有限公司)		
- Logistics & transport related services provided to		RMB 4,554,678
- Purchase of raw LPG from markets		RMB 75,114,630
- Consignment fee	RMB 3,525,119	
Shandong Dongming Lishu Petroluem Co., Ltd (山东东明梨树化学有限公司)		
- Sales of processed LPG		RMB 299,061,703
- Purchase of LPG		RMB 169,075,389
- Logistics& transport related services provided to		RMB 5,459
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 158,687
Shandong Dongming Petrochem Group Huize Co., Limited (山东东明石化集团汇泽有限公司)		
- Sales of processed LPG		RMB 24,872

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 2019, the Company has complied with Listing Rule 1207(19).

Principle 12: AUDIT COMMITTEE

The AC comprises the following members:

Teo Moh Gin (Chairman)
Zhao Jinqing
Li Xiang Ping

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

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

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

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

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

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

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

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

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

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

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

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

- reviewing any potential conflicts of interests;
- undertaking such other reviews and projects as may be requested by the Board and reporting to the Board its findings from time to time on matters arising and requiring the attention of the AC; and
- generally undertaking such other functions and duties as may be required by statute or the SGX-ST Listing Manual, and by such amendments made thereto from time to time.

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

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

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

The IC comprising the following members:

Li Zhi (Chairman)
Teo Moh Gin
Zhang Liu Cheng

Mr Teo Moh Gin is an Independent Non-Executive Directors, Mr Zhang Liu Cheng is an Executive Director and CEO, whilst Mr Li Zhi is the Non-Executive Chairman. The terms of reference of the IC, which have been approved and adopted, are as follows:-

- to analyst the economic and systematic risk and evaluate its impact on the company;
- to develop risk management policies and processes;
- to oversight and monitor the investment risk management policies and process of the company and its subsidiaries;
- to evaluate and review major investment, capital investment and financing and made recommendation to Board for consideration;
- to determine the matters delegated by the Board on urgent basis ; and
- such other matters as may be assigned by the Board from time to time.

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

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

For the year ended 31 December 2019, the amount of audit fees paid or payable to external auditors of the Group amounted to S$182,000, including audit fee of S$180,000 and non-audit services fee at S$2,000. The AC has reviewed the non-audit services provided by the external auditors and is satisfied that the non-audit services would not affect the independence and objectivity of the external auditors.

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

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

Principle 13: INTERNAL AUDIT

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

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

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

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

Principle 14: SHAREHOLDER RIGHTS AND RESPONSIBILITIES

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

(a) Pursuant to the Articles

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

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

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

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

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

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

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

(b) Pursuant to the Act

(i) Convening of an extraordinary general meeting on requisition

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

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

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

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

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

(ii) Calling of meetings

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

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

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

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

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

Principle 15: COMMUNICATION WITH SHAREHOLDERS

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

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

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

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

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

Principle 16: CONDUCT OF SHAREHOLDER MEETINGS

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

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

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

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

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 2019 and the statement of financial position of the Company as at 31 December 2019.

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 Group and of the Company as at 31 December 2019 and the financial performance, changes in equity and cash flows of the Group for the year ended on that date, and

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

Directors

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

Li Xiang Ping	(Non-executive chairman)
Zhang Liu Cheng	(Chief executive officer and Executive director)
Teo Moh Gin	(Independent non-executive director)
Zhao Jin Qing	(Independent non-executive director)
Li Zhi	(Non-executive director) - Appointed on 29 April 2019

Arrangements to enable directors to acquire benefits by means of the acquisition of shares and debentures

Neither at the end of nor at any time during the financial year was the Company nor any of its subsidiaries was a party to any arrangement whose object was to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' interests in shares or 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 2019	**As at 31 December 2019 and 21 January 2020**	As at 1 January 2019	**As at 31 December 2019 and 21 January 2020**
The Company -				
Sinostar PEC Holdings Limited				
(Ordinary shares with no par value)				
Li Xiang Ping	–	**–**	336,497,600	**369,898,500**
Zhang Liu Cheng	200,000	**200,000**	–	**–**
Teo Moh Gin	100,000	**100,000**	–	**–**
Holding Company -				
Intelligent People Holdings Limited				
(Ordinary shares of US$1 each)				
Li Xiang Ping	10,000	**10,000**	–	**–**

Mr Li Xiang Ping, by virtue 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.

Except as disclosed in this statement, no other director who held office at the end of the financial year had interests in shares, debentures, warrants or share options of the Company, or of related corporations, either at the beginning of the financial year, or date of appointment if later, or at the end of the financial year.

Share options

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

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

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

Audit Committee

The members of the Audit Committee at the end of the financial year were as follows:

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

Mr Teo Moh Gin and Mr Zhao Jin Qing are Independent non-executive Directors, whilst Mr Li Xiang Ping is the Non-executive Chairman.

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:

(a) overall scope of both the internal and external audits and the assistance given by the Company's officers to the auditors. The Audit Committee 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;

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

(c) 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 2019 as well as the independent auditor's report thereon; and

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

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

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

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

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

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 32 to the financial statements.

On behalf of the Directors

LI XIANG PING
DIRECTOR

ZHANG LIU CHENG
DIRECTOR

9 April 2020

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 2019, 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 and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards (International) ("SFRS(I)s") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2019 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 (the "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* (the "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.

Emphasis of Matter

We draw your attention to Note 15 to the financial statements, which describes the restructuring of part of the loans from Non-Controlling Interest ("NCI") from Current to Non-Current after the balance sheet date.

The loan restructuring post balance sheet has resulted in RMB45 million being due in the next 12 months after the year end, and the remainder of RMB705 million over a period of 2021 to 2025, and classified as Non-Current Liability. Prior to the loan restructuring the whole amount of RMB750 million loans from NCI was due as Current Liability.

The restructured loan had the impact of reducing the Net Current Liability of RMB746 million in financial year ended 2019 to Net Current Liability of RMB41 million in current financial year.

Our opinion is not modified in respect of this matter.

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 for the financial year ended 31 December 2019. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th>Key Audit Matter</th><th>Our audit performed and responses thereon</th></tr>
<tr><td>

1. Loans of RMB850 million from NCI
(Refer to Note 15 to the financial statements)

We noted that included in Dongming Qianhai Petrochemical Co., Ltd.'s ("Dongming Qianhai") liabilities is an internal borrowing from NCI, Shandong Dongming Petrochem Group Co., Ltd. amounting to RMB850,000,000 as at 31 December 2019.

The RMB850 million loan (meant for Dongming Qianhai's working capital purposes) arose from 5 internal loan agreements which were signed between Dongming Qianhai and Shandong Dongming Petrochem Group Co., Ltd. during 2019. The details are as follows:

<table>
<tr><th></th><th></th><th>Amount (RMB)</th><th>Signed on</th></tr>
<tr><td>●</td><td>1st tranche</td><td>100 million</td><td>4 January 2019</td></tr>
<tr><td>●</td><td>2nd tranche</td><td>150 million</td><td>3 April 2019</td></tr>
<tr><td>●</td><td>3rd tranche</td><td>200 million</td><td>3 June 2019</td></tr>
<tr><td>●</td><td>4th tranche</td><td>200 million</td><td>28 September 2019</td></tr>
<tr><td>●</td><td>5th tranche</td><td>200 million</td><td>7 October 2019</td></tr>
</table>

These loan agreements state that with effect from their respective dates of disbursement, the 5 tranches of loans aggregating to RMB850 million (as stated above) will bear interest rate at 4.5675% per annum and will be repayable within 12 months from the respective dates of disbursements.

We have raised this matter to the Board on the Group's ability to repay this NCI loan within the next 12 months and whether there is any going concern issue arising from the payment of these RMB850 million loans to NCI. The Board based on their judgement is of the view that there is no going concern issue given that the NCI, Shandong Dongming Petrochem Group Co., Ltd. had given a written undertaking not to early recall the loan amount. On 2 April 2020, Dongming Qianhai entered into a long term borrowing agreement with the NCI. As RMB100 million was repaid on 3 January 2020, the remaining balances of the 4 tranches of loans aggregating to RM750 million in 2019 were renewed on 2 April 2020 and due to be repayable over a 5 years term with the final repayment due on 1 April 2025.

</td><td>

Our audit procedures included but were not limited to the following:

1) Agree the various tranches of loans aggregating to RMB850 million to their respective loan agreements;

2) Inquire and made independent check on the reasonableness of the interest rate of 4.5675% per annum;

3) Inquired with the Board and the Audit Committee on the ability of the Group to repay the RMB850 million loans from NCI;

4) Obtained and sighted the duly signed written undertaking from Shandong Dongming Petrochem Group Co., Ltd.;

5) Assessed the financial capability of Shandong Dongming Petrochem Group Co., Ltd. to provide this undertaking; and

6) Discussed going concern assumption with the Board and Audit Committee.

</td></tr>
</table>

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) Chairman's Message;

(c) Our Business Segments;

(d) Key Products and Services;

(e) Operation's Review;

(f) Latest Developments;

(g) Board of Directors;

(h) Key Management;

(i) Financial Highlights;

(j) Corporate Information;

(k) Sustainability Report;

(l) Corporate Governance;

(m) Directors' Statement;

(n) Statistics of Shareholdings;

(o) Notice of Annual General Meeting; and

(p) Proxy Form

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

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

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

Responsibilities of Management and Directors for the Financial Statements

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

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

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

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.

Auditor's Responsibilities for the Audit of the Financial Statements (Cont'd)

(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.

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 Ravinthran Arumugam.

RT LLP
Public Accountants and
Chartered Accountants
Singapore

Singapore, 9 April 2020

STATEMENTS OF **FINANCIAL POSITION**

As at 31 December 2019

	Note	The Group 2019 RMB'000	The Group 2018 RMB'000	The Company 2019 RMB'000	The Company 2018 RMB'000
ASSETS					
Non-current					
Property, plant and equipment	5	1,635,133	1,521,040	–	–
Right-of-use assets	6	4,852	–	–	–
Land use rights	7	92,368	70,038	–	–
Goodwill on consolidation	8	10,345	10,345	–	–
Investment in subsidiaries	9	–	–	250,041	250,041
Investment security	10	30,450	30,450	–	–
		1,773,148	1,631,873	250,041	250,041
Current					
Land use rights	7	1,085	1,484	–	–
Inventories	11	92,766	102,253	–	–
Trade and other receivables	12	42,879	66,549	–	–
Prepayments	13	8,400	14,048	–	–
Amount owing by a subsidiary	9	–	–	14,376	35,711
Amounts owing by affiliated companies	14	2,810	692	–	–
Amount owing by Non-Controlling Interest	15	137,757	192,700	–	–
Cash and cash equivalents	16	66,247	426,215	500	2,358
		351,944	803,941	14,876	38,069
Total assets		2,125,092	2,435,814	264,917	288,110
EQUITY AND LIABILITIES					
Capital and Reserves					
Share capital	17	316,125	316,125	316,125	316,125
Retained earnings/(accumulated losses)	18	192,355	109,123	(52,907)	(29,006)
Capital reserve	19	250,000	250,000	–	–
Other reserves	20	75,123	60,782	–	–
		833,603	736,030	263,218	287,119
Non-Controlling Interests		157,160	132,838	–	–
Total equity		990,763	868,868	263,218	287,119
LIABILITIES					
Non-current					
Lease liabilities	21	4,781	–	–	–
Bank borrowings	22	31,250	156,250	–	–
		36,031	156,250	–	–
Current					
Trade and other payables	23	97,429	119,614	1,699	991
Amounts owing to affiliated companies	24	25	160,485	–	–
Loans from Non-Controlling Interest	15	850,000	1,000,000	–	–
Lease liabilities	21	356	–	–	–
Bank borrowings	22	125,000	125,000	–	–
Current tax payable		25,488	5,597	–	–
		1,098,298	1,410,696	1,699	991
Total equity and liabilities		2,125,092	2,435,814	264,917	288,110

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 2019

The Group	Note	2019 RMB'000	2018 RMB'000
Revenue	4	3,660,048	2,259,480
Cost of sales		(3,389,710)	(2,131,469)
Gross profit		270,338	128,011
Other income	25 (a)	24,555	6,858
Distribution costs	25 (b)	(892)	(926)
Administrative expenses	25 (c)	(58,799)	(21,821)
Other operating expenses	25 (d)	(57)	(96)
Finance costs	25 (e)	(51,258)	–
Profit before tax	26	183,887	112,026
Tax expense	27	(45,873)	(29,323)
Net profit, representing total comprehensive income for the financial year		138,014	82,703
Profit attributable to:			
Equity holders of the Company		113,692	82,703
Non-Controlling Interests		24,322	–
Net profit, representing total comprehensive income for the financial year		138,014	82,703
		RMB cents	RMB cents
Earnings per share	28		
- Basic		17.76	12.92
- Diluted		17.76	12.92

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 2019

					Other reserves					
The Group	Note	Share capital RMB'000	Retained earnings RMB'000	Capital reserve RMB'000	Statutory common reserve RMB'000	Voluntary common reserve RMB'000	Sub-total RMB'000	Equity attributable to owners RMB'000	Non-Controlling Interests RMB'000	Total RMB'000
Balance as at 1 January 2018		316,125	300,571	–	51,188	797	51,985	668,681	–	668,681
Acquisition of subsidiary		–	–	–	–	–	–	–	132,838	132,838
Net profit, representing total comprehensive income for the year		–	82,703	–	–	–	–	82,703	–	82,703
Transactions with owners in their capacity as owners										
- Dividends paid	30	–	(15,354)	–	–	–	–	(15,354)	–	(15,354)
- Transfer to statutory common reserve		–	(8,797)	–	8,797	–	8,797	–	–	–
Transfer to capital reserve		–	(250,000)	250,000	–	–	–	–	–	–
Balance as at 31 December 2018		316,125	109,123	250,000	59,985	797	60,782	736,030	132,838	868,868
Effect from adoption of SFRS(I) 16	2.3	–	(180)	–	–	–	–	(180)	–	(180)
Balance as at 1 January 2019		316,125	108,943	250,000	59,985	797	60,782	735,850	132,838	868,688
Net profit, representing total comprehensive income for the year		–	113,692	–	–	–	–	113,692	24,322	138,014
Transactions with owners in their capacity as owners										
- Dividends paid	30	–	(15,939)	–	–	–	–	(15,939)	–	(15,939)
- Transfer to statutory common reserve		–	(14,341)	–	14,341	–	14,341	–	–	–
Balance as at 31 December 2019		316,125	192,355	250,000	74,326	797	75,123	833,603	157,160	990,763

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 2019

The Group	Note	2019 RMB'000	2018 RMB'000
Operating activities			
Profit before tax		183,887	112,026
Adjustments for:			
Amortisation of land use rights	7	984	–
Depreciation of property, plant and equipment	5	177,555	23,001
Depreciation of right-of-use assets	6	425	–
Loss on disposal of property, plant and equipment	25 (c)	–	511
Gain on property, plant and equipment written off	25 (a)	(752)	–
Interest expense	25 (e)	51,258	–
Interest income	25 (a)	(3,919)	(5,620)
Operating profit before working capital changes		409,438	129,918
Change in inventories		9,487	(4,542)
Change in amount owing by/(to) affiliated company - Trade		(162,578)	(3,402)
Change in operating receivables		(2,280)	(22,405)
Change in operating payables		(22,185)	(11,027)
Cash generated from operations		231,882	88,542
Tax paid		(25,982)	(27,466)
Net cash generated from operating activities		205,900	61,076
Investing activities			
Acquisition of property, plant and equipment		(290,923)	(69,245)
Proceeds from disposal of property, plant and equipment		27	104
Acquisition of land use rights in 东明县菜园集镇西台集行政村 (Note A)		(13,790)	–
Refund received on land use rights in 东明县菜园集李屯行政村		22,473	–
Acquisition of a subsidiary (Note B)		–	503
Change in amount owing by Non-Controlling Interest	15	54,943	–
Interest received		3,919	10,782
Net cash used in investing activities		(223,351)	(57,856)
Financing activities			
Dividends paid	30	(15,939)	(15,354)
Proceeds from loans from Non-Controlling Interest	15	850,000	–
Repayment of loans from Non-Controlling Interest	15	(1,000,000)	–
Payment of principal portion of lease liabilities	15	(320)	–
Repayment of bank borrowings	15	(125,000)	–
Interest paid		(51,258)	–
Net cash used in financing activities		(342,517)	(15,354)
Net decrease in cash and cash equivalents		(359,968)	(12,134)
Cash and cash equivalents at beginning of financial year		426,215	438,349
Cash and cash equivalents at end of financial year	16	66,247	426,215

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

Note A:

During the financial year, the Group acquired land use rights with an aggregate cost of RMB23,506,000 (2018: RMBNIL).

	RMB'000
Aggregate cost for land	23,506,000
Less: Prepayment made in 2018	(9,716,000)
Net cash payable on acquisition	13,790,000

Note B:

In 2018, the Group acquired 70% equity interest in Dongming Qianhai Petrochemical Co., Ltd. ("Dongming Qianhai") for a cash consideration of RMB317,800,000. Upon the acquisition, Dongming Qianhai became a subsidiary of the Group. The effect of the acquisition on the cash flows of the Group is as follows:

The fair values of the identifiable assets and liabilities as at the acquisition date were as follows:

	RMB'000
Property, plant and equipment	1,390,098
Land use rights	71,522
Investment securities	30,450
Trade and other receivables	45,975
Amount owing by Non-Controlling Interest	192,700
Inventories	72,268
Cash and bank balances	503
Total assets	1,803,516
Trade and other payables	77,922
Amounts owing to affiliated companies	1,550
Borrowings	1,281,250
Total liabilities	1,360,722
Total identifiable net assets acquired at fair value	442,794
Less: Non-Controlling Interests measured at the NCI's proportionate share of Dongming Qianhai's net identifiable assets	(132,838)
Add: Goodwill arising from acquisition	7,844
Purchase consideration	317,800
Less: Cash and cash equivalents in subsidiary acquired	(503)
Net cash payable on acquisition	317,297

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

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 which is incorporated in the British Virgin Islands ("BVI").

The Company's registered office is located at 30 Cecil Street, #19-08 Prudential Tower, Singapore 049712.

The principal activity of the Company is that of an investment holding company. The principal activities of its subsidiaries are disclosed in Note 9 to the financial statements.

The consolidated financial statements of the Group and statement of financial position and statement of changes in equity of the Company for the financial year ended 31 December 2019 were authorised for issue in accordance with a resolution of the directors on the date of the Directors' Statement.

2. Summary of significant accounting policies

2.1 Basis of preparation

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

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 presented in RMB have been rounded to the nearest thousand (RMB'000), unless otherwise stated.

2.2 Going concern

The Group's current liabilities exceeded its current assets by RMB746,354,000 (2018: RMB606,755,000).

This is principally due to the RMB850 million (2018: RMB1 billion) loans from the NCI of Dongming Qianhai, arising from the acquisition of Dongming Qianhai as disclosed in Note 15. This factor indicates the existence of a material uncertainty which may cast significant doubt on the Group and the Company's ability to continue as going concerns.

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

(i) On 2 April 2020, Dongming Qianhai entered into a long term borrowing agreement with the NCI. As RMB100 million was repaid on 3 January 2020, the remaining balances of the 4 tranches of loans aggregating to RM750 million in 2019 were renewed on 2 April 2020 and due to be repayable over a 5 years term with the final repayment due on 1 April 2025.

(ii) The NCI, Shandong Dongming Petrochem Group Co., Ltd. has given a written undertaking not to early recall the loan amounts comprising 5 tranches of loans aggregating to RMB850 million (2018: RMB1 billion);

(iii) Upon reaching the loan repayment due dates for the respective tranches of loans (as detailed in Note 15), if the loan has not been settled, the NCI will base on the Group's subsidiary (Dongming Qianhai) repayment ability and financial health at the point of due date to mutually agree on the next proposed repayment schedules; and

(iv) To-date, the Group has fully settled 1 tranche of the NCI loans of RMB100 million on the due date of 3 January 2020.

2. Summary of significant accounting policies (Cont'd)

2.3 New and amended standards and interpretations

2.3.1 Adoption of new and revised standards

On 1 January 2019, the Group and the Company adopted the new and revised SFRS(I) pronouncements that are relevant to its operations. The adoption of these new/revised SFRS(I) pronouncements does not result in changes to the Group's and the Company's accounting policies and has no material effect on the amounts reported for the current or prior years, except as dicussed below.

SFRS(I) 16 Leases

The Group applied SFRS(I) 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated - i.e.it is presented, as previously reported, under SFRS(I) 1-17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in SFRS(I) 16 have not generally been applied to comparative information.

Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under SFRS(I) INT 4 Determining whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in SFRS(I) 16.

On transition to SFRS(I) 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied SFRS(I) 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under SFRS(I) 1-17 and SFRS(I) INT 4 were not reassessed for whether there is a lease under SFRS(I) 16. Therefore, the definition of a lease under SFRS(I) 16 was applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee

As a lessee, the Group leases many assets including leasehold land, building on leasehold land and motor vehicle. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under SFRS(I) 16, the Group recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on statement of financial position.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of property, the Group has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

Leases classified as operating leases under SFRS(I) 1-17

Previously, the Group classified property leases as operating leases under SFRS(I) 1-17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the respective lessee entities' incremental borrowing rates applicable to the leases as at 1 January 2019.

2. Summary of significant accounting policies (Cont'd)

2.3 New and amended standards and interpretations (Cont'd)

2.3.1 Adoption of new and revised standards (Cont'd)

Leases classified as operating leases under SFRS(I) 1-17 (Cont'd)

Right-of-use assets are measured at their carrying amount as if SFRS(I) 16 had been applied since the commencement date, discounted using the applicable incremental borrowing rates at the date of initial application: the Group applied this approach to all of its leases.

The Group has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Group used a number of practical expedients when applying SFRS(I) 16 to leases, previously classified as operating leases under SFRS(I) 1-17. In particular, the Group:

- to apply a single discount rate to a portfolio of leases with reasonably similar characteristics.
- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets;
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

Leases classified as finance leases under SFRS(I) 1-17

The Group do not have leases previously classified as finance leases under SFRS(I) 1-17.

Impact on financial statements

Impact on transition

On transition to SFRS(I) 16, the Group recognised additional right-of-use assets, and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below.

	1 January 2019 RMB'000
Right-of-use assets	5,277
Lease liabilities	(5,457)
Retained earnings	180

2. Summary of significant accounting policies (Cont'd)

2.3 New and amended standards and interpretations (Cont'd)

2.3.1 Adoption of new and revised standards (Cont'd)

Impact on transition (Cont'd)

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

	RMB'000
Operating lease commitments as at 31 December 2018	8,288
Less:	
Commitments relating to short-term leases	(877)
	7,411
Weighted average incremental borrowing rate as at 1 January 2019	4.65%
Lease liabilities as at 1 January 2019	5,457

2.3.2 Standards issued but not yet effective

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

	Effective for annual periods beginning on or after
Amendments to References to the Conceptual Framework in SFRS(I) Standards	1 January 2020
Amendments to SFRS(I) 1-1 and SFRS(I) 1-8: *Definition of Material*	1 January 2020

The management expect that the adoption of the standards above will have no material impact on the financial statements in the year of initial application.

2.4 Significant accounting policies

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

2.4.1 Group accounting

(a) 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 9 to the financial statements.

2. Summary of significant accounting policies (Cont'd)

2.4 Significant accounting policies (Cont'd)

2.4.1 Group accounting (Cont'd)

(a) Consolidation (Cont'd)

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

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

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

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

(b) 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.

2. Summary of significant accounting policies (Cont'd)

2.4 Significant accounting policies (Cont'd)

2.4.1 Group accounting (Cont'd)

(b) Acquisitions (Cont'd)

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.

(c) 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.

(d) Transactions with Non-Controlling Interests

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

(e) Transactions eliminated on consolidation

Intra-group balances and transactions arising are eliminated in preparing the consolidated financial statements.

(f) Subsidiaries in the separate financial statements

Investments in subsidiaries are stated in the Company's statements of financial position at cost less accumulated impairment losses.

2. Summary of significant accounting policies (Cont'd)

2.4 Significant accounting policies (Cont'd)

2.4.2 Property, plant and equipment and depreciation

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

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

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

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

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

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

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

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

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

2. Summary of significant accounting policies (Cont'd)

2.4 Significant accounting policies (Cont'd)

2.4.3 Leases

The Group has applied SFRS(I) 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under SFRS(I) 1-17 and SFRS(I) INT 4. The details of accounting policies under SFRS(I) 1-17 and SFRS(I) INT 4 are disclosed separately.

(a) Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in SFRS(I) 16.

This policy is applied to contracts entered into, on or after 1 January 2019.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the lessee's incremental borrowing rate. Generally, the Group uses the lessee's incremental borrowing rate as the discount rate.

The Group determines the lessee's incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

2. Summary of significant accounting policies (Cont'd)

2.4 Significant accounting policies (Cont'd)

2.4.3 Leases (Cont'd)

(a) Policy applicable from 1 January 2019 (Cont'd)

As a lessee (Cont'd)

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item and lease liabilities as a separate line item in the statement of financial position.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

2. Summary of significant accounting policies (Cont'd)

2.4 Significant accounting policies (Cont'd)

2.4.3 Leases (Cont'd)

(b) Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
  - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
  - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
  - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

As a lessee

In the comparative period, as a lessee, assets held under leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

2.4.4 Land use rights

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

2.4.5 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.

2. Summary of significant accounting policies (Cont'd)

2.4 Significant accounting policies (Cont'd)

2.4.6 Financial assets

(a) Classification and measurement

Financial assets are classifies into the following measurement categories:

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

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

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

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

(b) At initial recognition

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

(c) At subsequent measurement

(i) Debt instruments

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

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

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

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

2. Summary of significant accounting policies (Cont'd)

2.4 Significant accounting policies (Cont'd)

2.4.6 Financial assets (Cont'd)

(c) At subsequent measurement (Cont'd)

(ii) Equity investments

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

(d) Impairment

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

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

2.4.7 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.

2.4.8 Investment in subsidiaries

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

2.4.9 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.

2.4.10 Borrowings

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

2. Summary of significant accounting policies (Cont'd)

2.4 Significant accounting policies (Cont'd)

2.4.11 Borrowing costs

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

2.4.12 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.

2.4.13 Financial liabilities

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

Financial liabilities are recognised when the Group and the Company 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.

2.4.14 Provisions

Provisions are recognised when the Group and the Company 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.

2. Summary of significant accounting policies (Cont'd)

2.4 Significant accounting policies (Cont'd)

2.4.15 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 or substantively entacted 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.

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.

2. Summary of significant accounting policies (Cont'd)

2.4 Significant accounting policies (Cont'd)

2.4.15 Taxes (Cont'd)

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 9% to 16% 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.

2.4.16 Impairment of non-financial assets

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

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

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

2. Summary of significant accounting policies (Cont'd)

2.4 Significant accounting policies (Cont'd)

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

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.

2.4.17 Revenue recognition

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

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

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

Gas separation

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

Transport and logistic services

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

Interest income is recognised using the effective interest method.

2. Summary of significant accounting policies (Cont'd)

2.4 Significant accounting policies (Cont'd)

2.4.18 Employee benefits

Pension obligations

The Group and the Company 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.

2.4.19 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 Group and the Company 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.

2. Summary of significant accounting policies (Cont'd)

2.4 Significant accounting policies (Cont'd)

2.4.20 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.

2.4.21 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 dometic partner;

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

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

2. Summary of significant accounting policies (Cont'd)

2.4 Significant accounting policies (Cont'd)

2.4.22 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.

3. Critical accounting estimates, assumptions and judgements

The preparation of the financial statements in conformity with SFRS(I) requires management to exercise judgements in the process of applying the Group's accounting policies, as described in Note 2 to the financial statements, 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 period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

3.1 Critical judgements made in applying accounting policies

In the process of applying the Group's accounting policies, the following are the critical judgement, apart from those involving estimates as detailed in Note 3.2 to the financial statements, that management has made which have the most significant effect on the amounts recognised in the consolidated financial statements:

(a) Provision for expected credit losses ("ECLs") of trade receivables

The Group uses a debtor by debtor basis to calculate ECLs for trade receivables. The Group does not track changes in credit risk, but instead recognises a loss allowances based on lifetime ECLs at each reporting date.

The Group considers a trade receivables in default based on days past due for its customer. However, in certain cases, the Group may also consider a trade receivables to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhacement helf by the Group. A trade receivable is written off when there is no reasonable expectation of recovering the contractual cash flows.

The carrying amount of trade receivables is disclosed in Note 12.

3. Critical accounting estimates, assumptions and judgements (Cont'd)

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

(b) Recoverability of refundable deposit of RMB16,698,000

As disclosed in Note 12, the Group's subsidiary, Dongming Qianhai has a deposit amounting to RMB16,968,000 (2018: RMB38,850,000) as at 31 December 2019 with the PRC government for the purpose of securing 3 plots of state owned land in the PRC with land area of 189,863 square meters. The Group has since successfully acquired these 3 plots of land of 189,863 square meters and had obtained the land use right as disclosed in Note 7 where Dongming Qianhai's plant and equipment currently reside in.

The Board informed that this refundable deposit amounting to RMB16,968,000 (2018: RMB 38,850,000) will be refunded to Dongming Qianhai by the PRC government in due course. The Group has received the refundable deposit from the PRC government subsequent to the year end.

3.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, 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.

(a) 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 2019 is RMB1,635,133,000 (2018: RMB1,521,040,000).

(b) Income taxes

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

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

As at 31 December 2019, 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 27 to the financial statements.

3. Critical accounting estimates, assumptions and judgements (Cont'd)

3.2 Key sources of estimation uncertainty (Cont'd)

(c) 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 11 to the financial statements.

4. Revenue

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

	Gas Separation		Transport and Logistic Services		Total	
	2019	2018	2019	2018	2019	2018
The Group	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Revenue:						
Liquefied petroleum gas	2,266,042	1,362,485	–	–	2,266,042	1,362,485
Propylene	955,090	418,013	–	–	955,090	418,013
Polypropylene	296,521	337,172	–	–	296,521	337,172
Transport and logistic services	–	–	142,395	141,810	142,395	141,810
Total revenue	3,517,653	2,117,670	142,395	141,810	3,660,048	2,259,480
Timing of transfer of goods or service						
At a point in time	3,517,653	2,117,670	142,395	141,810	3,660,048	2,259,480
Over time	–	–	–	–	–	–
	3,517,653	2,117,670	142,395	141,810	3,660,048	2,259,480

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 2018	10,465	120,629	20,303	53,923	301	10,473	216,094
Acquisition of a subsidiary	691,174	621,665	77,125	134	–	–	1,390,098
Additions	779	1,687	3,567	–	338	62,874	69,245
Disposals	–	(3,057)	(1,509)	(2,503)	–	–	(7,069)
Balance as at 31 December 2018	702,418	740,924	99,486	51,554	639	73,347	1,668,368
Additions	3,329	24,884	15,685	27	88	246,910	290,923
Disposals	–	–	(35)	–	–	–	(35)
Write-off	–	(54,248)	(48)	–	(13)	–	(54,309)
Balance as at 31 December 2019	705,747	711,560	115,088	51,581	714	320,257	1,904,947
Accumulated depreciation:							
Balance as at 1 January 2018	7,788	86,780	12,747	23,167	300	–	130,782
Depreciation for the year	303	10,150	287	12,176	85	–	23,001
Disposals	–	(2,778)	(1,400)	(2,277)	–	–	(6,455)
Balance as at 31 December 2018	8,091	94,152	11,634	33,066	385	–	147,328
Depreciation for the year	34,399	113,001	19,568	10,407	180	–	177,555
Disposals	–	–	(8)	–	–	–	(8)
Write-off	–	(55,009)	(39)	–	(13)	–	(55,061)
Reclassification	966	(3,549)	2,654	–	(71)	–	–
Balance as at 31 December 2019	43,456	148,595	33,809	43,473	481	–	269,814
Carrying amount:							
Balance as at 31 December 2019	662,291	562,965	81,279	8,108	233	320,257	1,635,133
Balance as at 31 December 2018	694,327	646,772	87,852	18,488	254	73,347	1,521,040

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

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

The Company	Electronic system and equipment RMB'000
Cost:	
Balance as at 1 January 2018, 31 December 2018 and 2019	27
Accumulated depreciation:	
Balance as at 1 January 2018, 31 December 2018 and 2019	27
Carrying amount:	
Balance as at 1 January 2018, 31 December 2018 and 2019	–

The Group	Note	2019 RMB'000	2018 RMB'000
Depreciation expense charged to:			
Cost of sales/inventories		176,809	22,852
Distribution costs	25 (b)	1	1
Administrative expenses	25 (c)	745	148
		177,555	23,001

6. Right-of-use assets

The Group	Leasehold land RMB'000	Buildings on leasehold land RMB'000	Motor vehicle RMB'000	Total RMB'000
Cost:				
Balance as at 31 December 2018	–	–	–	–
Effect from adoption of SFRS(I) 16	3,906	153	1,591	5,650
Balance as at 1 January 2019	3,906	153	1,591	5,650
Additions	–	–	–	–
Balance as at 31 December 2019	3,906	153	1,591	5,650
Accumulated depreciation:				
Balance as at 31 December 2018	–	–	–	–
Effect from adoption of SFRS(I) 16	274	99	–	373
Balance as at 1 January 2019	274	99	–	373
Depreciation for the year	99	8	318	425
Balance as at 31 December 2019	373	107	318	798
Carrying amount:				
Balance as at 31 December 2019	3,533	46	1,273	4,852
Balance as at 31 December 2018	–	–	–	–

7. Land use rights

The Group	Land use rights RMB'000
Cost:	
Acquisition of a subsidiary	71,522
Balance as at 31 December 2018	71,522
Additions	22,915
Balance as at 31 December 2019	94,437
Accumulated amortisation:	
Balance as at 1 January 2018 and 31 December 2018	–
Amortisation for the year	984
Balance as at 31 December 2019	984
Carrying amount:	
Balance as at 31 December 2019	93,453
Balance as at 31 December 2018	71,522
Amount to be amortised:	
- Not later than one year	1,085
- Later than one year but not later than five years	4,340
- Later than five years	88,028
	93,453

The Group	2019 RMB'000	2018 RMB'000
Current	1,085	1,484
Non-current	92,368	70,038
	93,453	71,522

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

Location	Lease period	Land area
东明县菜园集李屯行政村	50 years (commenced on March 2016 to February 2066)	123,873 square meters
	50 years (commenced on April 2018 to March 2068)	189,863 square meters
东明县菜园集镇西台集行政村	50 years (commenced on December 2019 to December 2069)	129,548 square meters

As at 31 December 2019, the land use rights have remaining tenures from 46 to 49 years.

8. Goodwill on consolidation

The Group	2019 RMB'000	2018 RMB'000
Cost:		
Balance as at 1 January 2019	10,345	2,501
Acquisition of a subsidiary	–	7,844
Balance as at 31 December 2019	10,345	10,345
Accumulated impairment:		
Balance as at 31 December 2018 and 2019	–	–
Carrying amount:		
Balance as at 31 December 2018 and 2019	10,345	10,345

For the purposes of impairment testing, goodwill has been allocated to the Group's CGUs as follows:

The Group	2019 RMB'000	2018 RMB'000
Group		
Dongming Changshun Transport Company Limited (东明县昌顺运输有限公司) ("Changshun Transport")	2,501	2,501
Dongming Qianhai Petrochemical Co., Ltd. (东明前海化工有限公司) ("Dongming Qianhai")	7,844	7,844
	10,345	10,345

Management has used the value-in-used (discounted cash flow) method to determine the recoverable amount of the goodwill of RMB7,844,000, arising from the acquisition of a subsidiary during financial year ended 31 December 2018. Management determines that the recoverable amount is higher than the carrying amount. Accordingly, no impairment for allowance is provided.

The recoverable amount is determined based on the forecast cash inflows from cash-generating unit of the newly acquired subsidiary. The discount rate of 11.61% is used by management. This discount rate of 11.61% is after considering the lack of marketability using a Black Scholes option pricing model previously adopted by professional JLL in their valuation report dated 12 June 2017 for determining identifiable assets and liabilities as at 31 March 2017.

9. Investment in subsidiaries/Amount owing by a subsidiary

The Company	2019 RMB'000	2018 RMB'000
Investment in subsidiaries	250,041	250,041

The Company	2019 RMB'000	2018 RMB'000
Amount owing by a subsidiary		
- Loan to subsidiary	14,376	13,711
- Dividends receivable	–	22,000
	14,376	35,711

9. 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
		2019	2018	2019	2018	
		RMB'000	RMB'000	%	%	
Subsidiary held by the Company						
Dongming Hengchang Petrochemical Co., Ltd.[1] (东明恒昌化工有限公司) ("Dongming Hengchang")	The People's Republic of China	250,041	250,041	100%	100%	Manufacture and sale of propylene, polypropylene and LPG products
Subsidiaries held by Dongming Hengchang						
Changshun Transport[1][2]	The People's Republic of China	–	–	100%	100%	Provide logistics and transportation for petroleum products
Dongming Qianhai[1][3]	The People's Republic of China	–	–	70%	70%	Manufacture and sale of propylene, purified isobutylene, methyl tert-butyl ether, commonly known as MTBE, hydrogen and mixed gas
		250,041	250,041			

(1) Audited by RT LLP Singapore for the purpose of expressing an opinion on the consolidated financial statements for the financial year ended 31 December 2019

(2) Acquired on 12 August 2015

(3) Acquired on 26 December 2018

Loan to subsidiary relates to unsecured advances and accrued interest on the advances, both of which are repayable by 28 November 2020 (2018: 28 November 2019). Interest is charged at 3% (2018: 3%) per annum. The carrying value approximates the fair value of the advances.

The amount owing by a subsidiary is denominated in RMB.

10. Investment security

Financial instruments

The Group	2019 RMB'000	2018 RMB'000
At fair value through other comprehensive income		
- Equity security (Unquoted)		
东明前海热力有限公司	30,450	30,450

The Group has elected to measure these equity security at FVOCI due to the Group's intention not to hold these equity instruments for trading but for long-term appreciation.

11. Inventories

The Group	2019 RMB'000	2018 RMB'000
Raw materials	41,740	46,657
Finished goods	51,026	55,441
Consumables	–	155
	92,766	102,253
Inventories charged to cost of sales	3,899,777	2,131,469

12. Trade and other receivables

	The Group		The Company	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Trade receivables	12,705	5,727	–	–
Accrued revenue (i)	6,656	17,719	–	–
Advance payments	–	190	–	–
Advances made to staff (ii)	640	–	–	–
Interest receivables	–	1,053	–	–
Refundable deposits (iii)	16,968	38,850	–	–
Other receivables	5,910	3,010	–	–
	42,879	66,549	–	–

12. Trade and other receivables (Cont'd)

The age analysis of trade receivables is as follows:

The Group	2019 RMB'000	2018 RMB'000
Current (within 30 days)	12,705	5,727

Note:

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

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

(iii) Refundable deposits of RMB16,968,000 (2018: RMB38,850,000) relates to deposits placed by Dongming Qianhai in December 2017 with the PRC government for the purpose of securing 3 plots of state owned land in the PRC with land area of 189,863 square meters. The Group has since successfully acquired these 3 plots of land of 189,863 square meters and had obtained the land use right as disclosed in Note 7 where Dongming Qianhai's plant and equipment currently reside in.

The Board informed that this refundable deposit amounting to RMB16,968,000 (2018: RMB38,850,000) will be refunded to Dongming Qianhai by the PRC government in due course. The Group has received the refundable deposit from the PRC government subsequent to the year end.

Trade and other receivables are denominated in RMB.

13. Prepayment

	The Group		The Company	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Prepayment for future land use	–	9,716	–	–
Prepayments	8,400	4,332	–	–
	8,400	14,048	–	–

Prepayment for future land use of RMB9.716 million in 2018 was related to prepayment for a piece of land of 129,548 square meters in the PRC. The land use right prepayment was made in connection with proposed investment in relation to construction of a polypropylene production plant in Dongming County, Shandong Province, China as announced by the Company on 14 September 2018 (Note 31.3). The polypropylene production plant will have an estimated production capacity of processing 200,000 tonnes of polypropylene per annum. The land title of the said land were successfully obtained in December 2019.

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

14. Amounts owing by affiliated companies

The Group	2019 RMB'000	2018 RMB'000
Trade		
– 山东东明石化集团有限公司	–	418
– 山东东明石化集团华和能源有限公司	57	–
– 山东东明石化集团油品销售有限公司	11	–
– 东明石油经销有限公司	1,898	–
– 山东东明石化集团安徽销售有限公司	431	–
– 山东东明石化集团山西销售有限公司	339	–
– 东明润明油品销售有限公司	13	–
– 山东东明石化集团胜利能源有限公司	28	–
– 山东东明石化集团济宁能源销售有限公司	33	–
– 东明中油燃料石化有限公司	–	274
	2,810	692

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.

15. Amount owing by Non-Controlling Interest/Loans from Non-Controlling Interest

The Group	2019 RMB'000	2018 RMB'000
Amount owing by Non-Controlling Interest	137,757	192,700

The Group	2019 RMB'000	2018 RMB'000
Loans from Non-Controlling Interest		
Current:		
Loan 1	–	200,000
Loan 2	–	200,000
Loan 3	–	200,000
Loan 4	–	200,000
Loan 5	–	200,000
Loan 6	100,000	–
Loan 7	150,000	–
Loan 8	200,000	–
Loan 9	200,000	–
Loan 10	200,000	–
	850,000	1,000,000

15. Amount owing by Non-Controlling Interest/Loans from Non-Controlling Interest (Cont'd)

Loans from Non-Controlling Interest	Interest rate	Due date	Status at date these financial statements were authorised for issuance
Loan 1	4.5675%	4 January 2019	Fully settled
Loan 2	4.5675%	3 April 2019	Fully settled
Loan 3	4.5675%	3 June 2019	Fully settled
Loan 4	4.5675%	8 September 2019	Fully settled
Loan 5	4.5675%	7 October 2019	Fully settled
Loan 6	4.5675%	3 January 2020	Fully settled
Loan 7	4.5675%	2 April 2020	* Rollover and renewed
Loan 8	4.5675%	2 June 2020	* Rollover and renewed
Loan 9	4.5675%	27 September 2020	* Rollover and renewed
Loan 10	4.5675%	6 October 2020	* Rollover and renewed

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

The NCI has given a written undertaking not to early recall the loan amounts. In addition, upon reaching the loan repayment due dates for the respective tranches of loans cited above, the NCI will base on the Group subsidiary's repayment ability and financial health at the point of due date to mutually agree on the next proposed repayment schedules.

* On 2 April 2020, Dongming Qianhai entered into a long term borrowing agreement with the NCI. As RMB100 million was repaid on 3 January 2020, the remaining balances of the 4 tranches of loans aggregating to RM750 million in 2019 were renewed on 2 April 2020 and due to be repayable over a 5 years term with the final repayment due on 1 April 2025.

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

			Non-cash changes		
	2018	Cash flows	Adoption of SFRS(I) 16	Acquisition	2019
The Group	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Loans from Non-Controlling Interest					
- Current	1,000,000	(150,000)	–	–	850,000
Lease liabilities (Note 21)					
- Current	–	17	339	–	356
- Non-current	–	(337)	5,118	–	4,781
	–	(320)	5,457	–	5,137
Bank borrowings (Note 22)					
- Current	125,000	–	–	–	125,000
- Non-current	156,250	(125,000)	–	–	31,250
	281,250	(125,000)	–	–	156,250

15. Amount owing by Non-Controlling Interest/Loans from Non-Controlling Interest (Cont'd)

The Group	2017 RMB'000	Cash flows RMB'000	Non-cash changes: Adoption of SFRS(I) 16 RMB'000	Non-cash changes: Acquisition RMB'000	2018 RMB'000
Loans from Non-Controlling Interest					
- Current	–	–	–	1,000,000	1,000,000
Bank borrowings (Note 22)					
- Current	–	–	–	125,000	125,000
- Non-current	–	–	–	156,250	156,250
	–	–	–	281,250	281,250

16. Cash and cash equivalents

	The Group 2019 RMB'000	The Group 2018 RMB'000	The Company 2019 RMB'000	The Company 2018 RMB'000
Cash on hand	52	57	41	31
Bank balances	59,195	319,158	459	2,327
Fixed deposit	7,000	107,000	–	–
	66,247	426,215	500	2,358

The fixed deposit earned interest at 1.59%-3.68% (2018: 2.30%-3.40%) per annum with maturity period of half yearly and unfixed period (2018: 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 cash equivalents are denominated in the following currencies:

	The Group 2019 RMB'000	The Group 2018 RMB'000	The Company 2019 RMB'000	The Company 2018 RMB'000
Singapore dollar	487	2,345	487	2,345
United States dollar	13	13	13	13
Renminbi	65,747	423,857	–	–
	66,247	426,215	500	2,358

Cash and cash equivalents of RMB65,747,000 (2018: RMB423,857,000) 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.

17. Share capital

	No. of shares		Amount	
	2019	**2018**	**2019**	**2018**
The Group and The Company			**RMB'000**	**RMB'000**
Issued and fully paid, with no par value				
Balance at beginning and at end of the year	640,000,000	640,000,000	316,125	316,125

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

18. Retained earnings/(accumulated losses)

		2019	**2018**
The Group	**Note**	**RMB'000**	**RMB'000**
Retained earnings/(accumulated losses)			
- Balance at beginning of the year		109,123	300,571
- Adjustment from the adoption of SFRS(I) 16		(180)	–
- Total comprehensive income for the year		113,692	82,703
- Transfer to statutory common reserve	20	(14,341)	(8,797)
Dividends paid	30	(15,939)	(15,354)
Transfer to capital reserve	19	–	(250,000)
Balance at end of the year		192,355	109,123

19. Capital reserve

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

This capital reserve is a non-distributable reserve.

20. Other reserves

The Group	Note	2019 RMB'000	2018 RMB'000
Other reserves comprised the following:			
Statutory common reserve			
- Balance at beginning of the year		59,985	51,188
- Transfer from retained earnings	18	14,341	8,797
- Balance at end of the year		74,326	59,985
Voluntary common reserve			
- Balance as at beginning and end of the year		797	797
Total reserves		75,123	60,782

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.

21. Lease liabilities

	The Group		The Company	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Maturity analysis:				
Less than 1 year	599	–	–	–
Between 2 to 5 years	2,033	–	–	–
More than 5 years	7,085	–	–	–
	9,717	–	–	–
Less: Unearned interest	(4,580)	–	–	–
	5,137	–	–	–
Analysed as:				
Current	356	–	–	–
Non-current	4,781	–	–	–
	5,137	–	–	–

22. Bank borrowings

	The Group		The Company	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Secured loans from bank:				
Industrial and Commercial Bank of China	156,250	281,250	–	–
Analysed as:				
Current	125,000	125,000	–	–
Non-current	31,250	156,250	–	–
	156,250	281,250	–	–

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

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

Fair value of non-current bank borrowings

	The Group		The Company	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current	31,250	156,250	–	–

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

	The Group		The Company	
	2019	2018	2019	2018
	%	%	%	%
Bank borrowings	4.75	4.75	–	–

23. Trade and other payables

	The Group		The Company	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables [i]	46,343	60,659	–	–
Accrual for salaries and related costs	7,137	3,523	269	–
VAT payables	10,661	23,576	–	–
Provision for directors' fees	445	343	445	343
Advances received from customers [ii]	9,378	16,900	–	–
Amount owing to directors [v]	70	70	–	–
Amount owing to staff	299	135	–	–
Amount owing to outsourced transportation companies [iv]	412	684	–	–
Refundable deposits received from third parties [iii]	699	7,838	–	–
Amount owing to sundry creditors	21,985	5,886	985	648
	97,429	119,614	1,699	991

Note:

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

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

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

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

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

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

Trade and other payables are denominated in the following currencies:

	The Group		The Company	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Singapore dollar	1,699	991	1,699	991
Renminbi	95,730	118,623	–	–
	97,429	119,614	1,699	991

24. Amounts owing to affiliated companies

The Group	2019 RMB'000	2018 RMB'000
Trade		
– 山东东明石化集团有限公司	–	35
– 东明中油燃料石化有限公司	–	158,900
– 石化集团鲁班建筑有限公司直属队	25	1,550
	25	160,485

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

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

25.(a) Other income

The Group	2019 RMB'000	2018 RMB'000
Interest income - bank	3,724	5,620
Interest income - Non-Controlling Interest	195	–
Subsidies from PRC Government	19,397	830
Gain on property, plant and equipment written off	752	–
Others	487	408
	24,555	6,858

Subsidies from PRC Government in 2019 related to

(i) grant (重大技术改造贷款补贴) received by Dongming Qianhai Petrochemical Co., Ltd. from the local authority; and

(ii) monetary reward incentive received by Dongming Changshun Transport Company Limited for promoting the business activities in Ganyu and for contributing to more tax payments.

Subsidies from PRC Government in 2018 related to monetary reward incentive received by Dongming Changshun Transport Company Limited for promoting the business activities in Ganyu and for contributing to more tax payments.

25.(b) Distribution costs

The Group	Note	2019 RMB'000	2018 RMB'000
Employee benefits expense	25 (f)	682	711
Depreciation of property, plant and equipment	5	1	1
Short-term lease rentals		110	109
Others		99	105
		892	926

25.(c) Administrative expenses

The Group	Note	2019 RMB'000	2018 RMB'000
Amortisation of land use rights	7	984	–
Depreciation of property, plant and equipment	5	745	148
Depreciation of right-of-use assets	6	425	–
Directors' fees		1,620	1,453
Employee benefits expense	25 (f)	26,248	5,868
Exchange loss		198	208
Short-term lease rentals		46	217
Entertainment expenses		972	427
Travelling and accommodation		1,723	925
Repair and maintenance		261	77
Environment fee		653	131
Professional fee		340	485
Audit fee	26	1,247	884
Cleaning expense		216	216
Non-claimable value added tax		18,191	6,550
Loss on disposal of property, plant and equipment		–	511
Others		4,930	3,721
		58,799	21,821

25.(d) Other operating expenses

The Group	2019 RMB'000	2018 RMB'000
Bank charges	57	81
Others	–	15
	57	96

25.(e) Finance cost

The Group	2019 RMB'000	2018 RMB'000
Loans from Non-Controlling Interest	40,194	–
Lease liabilities	259	–
Bank borrowings	10,803	–
Others	2	–
	51,258	–

25.(f) Employee benefits expense

The Group	Note	2019 RMB'000	2018 RMB'000
Directors' remuneration			
- salaries and related costs		1,118	1,225
- defined contributions		–	1
Key management personnel (other than directors)			
- salaries and related costs		1,990	1,392
- defined contributions		130	139
Other than directors and key management personnel			
- salaries and related costs		77,994	29,716
- defined contributions		8,284	1,670
		89,516	34,143
As disclosed in:			
Cost of sales/inventories		62,586	27,564
Distribution costs	25 (b)	682	711
Administrative expenses	25 (c)	26,248	5,868
		89,516	34,143

26. Profit before tax

The Group	Note	2019 RMB'000	2018 RMB'000
Profit before tax has been arrived at after charging and (crediting):			
Audit fee	25 (c)	1,247	884
Amortisation of land use rights	7	984	–
Depreciation of property, plant and equipment	5	177,555	23,001
Depreciation of right-of-use assets	6	425	–
Gain on property, plant and equipment written off	25 (a)	(752)	–
Short-term lease rentals		157	326

27. Tax expense

The Group	2019 RMB'000	2018 RMB'000
Current tax expense	45,873	29,323

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	2019 RMB'000	2018 RMB'000
Profit before tax	183,887	112,026
Tax at statutory rate of 25% (2018: 25%)	46,759	29,723
Tax at statutory rate of 17% (2018: 17%)	(83)	(1,167)
Adjustments:		
Tax effect on non-taxable income	(2,257)	(260)
Tax effect on non-deductible expenses	201	19
Utilisation of previously unrecognised tax losses	(976)	–
Deferred tax assets not recognised	2,229	1,008
	45,873	29,323

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, Dongming Qianhai and Changshun Transport for the financial year ended 31 December 2019 are 25% (2018: 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 RMB52,275,379 (2018: RMB68,214,846) 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 2019, the aggregate amount of temporary differences relating to undistributed profits of a subsidiary for which deferred tax liabilities have not been recognised is RMB118,342,890 (2018: RMB104,046,508). No deferred tax liability has been recognised because the Group has not fully utilised the subsidiary's unremitted earnings before 31 December 2007 as discussed above.

Unabsorbed losses and unrecognised deferred tax assets

As at 31 December 2019, the Group has untilised tax losses amounting to RMB19,160,844 (2018: RMB8,256,960), which arose solely from Changshun Transport and the Company. No deferred tax assets have been recognised in respect of the untilised tax benefits arising from these unabsorbed losses as the directors are of the view that it is not probable that future taxable profits will be available against which the Group can utilise the benefits.

28. 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 RMB113,692,000 (2018: RMB82,703,000) based on the weighted average number of ordinary shares in issue of 640,000,000 (2018: 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 RMB113,692,000 (2018: RMB82,703,000) based on the weighted average number of ordinary shares in issue of 640,000,000 (2018: 640,000,000) shares during the financial year.

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

29. 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	2019 RMB'000	2018 RMB'000
Defined contribution national pension plan	3,786	1,493

30. Dividends

The Group and the Company	2019 RMB'000	2018 RMB'000
Ordinary dividends paid		
- final tax-exempt (one-tier) dividend paid in respect of previous financial year of S$0.005 (equivalent to RMB0.0249) [2018: S$0.005 (equivalent to RMB0.0239)] per share	15,939	15,354

The Group and the Company	2019 SGD'000	2018 SGD'000
Proposed but not recognised as a liability as at 31 December:		
Dividends on ordinary shares, subject to shareholders' approval at an Annual General Meeting to be convened		
- final tax-exempt (one-tier) dividend for 2019: S$NIL (2018: S$0.005) per share	–	3,200

31. Commitments

31.1 Operating lease commitments – as lessee

The Company leases leasehold land and building on leasehold land under non-cancellable operating lease agreements. These leases have varying terms.

As at 31 December 2018, the future minimum lease payables under non-cancellable operating leases contracted for but not recognised as liabilities were as follows:

	2018
	RMB'000
Not later than one year	359
Later than one year but not later than five years	1,796
Later than five years	6,133
	8,288

Minimum lease payments recognised as an expense in profit or loss for the financial year ended 31 December 2018 amounted to RMB326,000.

As disclosed in Note 2.3.1, the Company has adopted SFRS(I) 16 on 1 January 2019. These lease payments have been recognised as right-of-use assets and lease liabilities on the statement of financial position as at 31 December 2019, except for short-term and low-value leases.

31.2 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.

31.3 Capital commitments

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

	2019	**2018**
The Group	**RMB'000**	**RMB'000**
Capital commitments in respect of property, plant and equipments and land use rights	856,276	1,116,937

31. Commitments (Cont'd)

31.3 Capital commitments (Cont'd)

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

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

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

The total costs of the Proposed Investment are currently estimated by the Board to be approximately RMB1.2 billion. This would include the estimated cost of:

(a) the construction of the factory building - RMB130,000,000;

(b) the production facilities - RMB880,000,000; and

(c) other related matters including the Land Acquisition - RMB190,000,000.

As at 31 December 2019, the Group has successfully secured the land use rights certificate for the Land.

The construction of the Proposed Investment is currently still in-progress and the Group is expecting the construction of the Proposed Investment to be completed in Q42020.

32. 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 2.

Affiliated companies transactions

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

The Group	2019 RMB'000	2018 RMB'000
Sales to affiliated companies		
– 东明中油燃料石化有限公司	12,120	12,585
– 山东东明石化集团恒基化工有限公司	–	140
– 山东东明梨树化学有限公司	299,067	331,610
– 山东东明石化集团有限公司	60,175	70,711
– 东明石油经销有限公司	8,080	1,246
– 东明润泽化工有限公司	193,041	–
– 东明润明油品销售有限公司	159	494
– 东明前海化工有限公司	–	640,942
– 山东东明石化集团汇泽有限公司	25	4,124
	572,667	1,061,852
Purchases from affiliated companies		
– 东明中油燃料石化有限公司	1,647,161	1,924,784
– 山东东明梨树化学有限公司	169,075	–
– 东明石油经销有限公司	75,115	–
	1,891,351	1,924,784
Rental and utilities charged by affliated companies		
– 东明中油燃料石化有限公司	4,934	4,820
– 山东东明石化集团有限公司	15,801	18,922
– 东明润泽化工有限公司	43,504	23,425
	64,239	47,167
Other expenses by affiliated companies		
– 东明中油燃料石化有限公司	1	–
– 山东东明石化集团有限公司	97	–
– 东明润泽化工有限公司	70,066	–
	70,164	–
Interest accrued from loan to affiliated company		
– 山东东明石化集团有限公司	39,999	–

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

33. Disclosure of directors' remuneration

	2019 Number of directors	2018 Number of directors
RMB750,000 to RMB1,000,000	1	1
RMB500,000 to RMB749,999	1	1
RMB250,000 to RMB499,999	2	3
Below RMB250,000	1	–

34. 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.

34.1 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.

34.2 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 Group and the Company to interest rate risk relates mainly to its bank deposits and cash funds placed with financial institutions as shown in Note 16 to the financial statements.

34. Financial risk management objectives and policies (Cont'd)

34.2 Interest rate risk (Cont'd)

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.

34.3 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 Group and the Company adopt the policy of dealing only with high credit quality counterparties.

The Group's and the Company's objective is to seek continual growth while minimising losses incurred due to increased credit risk exposure.

As the Group and the Company do not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the statements of financial position.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period.

The Group has determined the default event on a financial asset to be when the counterparty fails to make contractual payments, within 30 days when they fall due, which are derived based on the Group's historical information.

The Group considers "low risk" to be an investment grade credit rating with at least one major rating agency for those investments with credit rating. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at reporting date with the risk of default as at the date of initial recognition.

The Group considers available reasonable and supportive forwarding-looking information which includes the following indicators:

- Internal credit rating
- External credit rating
- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtor's ability to meet its obligations
- Actual or expected significant changes in the operating results of the debtor
- Significant increases in credit risk on other financial instruments of the same debtor
- Significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of debtors in the Group and changes in the operating results of the debtor

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making contractual payment.

34. Financial risk management objectives and policies (Cont'd)

34.3 Credit risk (Cont'd)

The Group determined that its financial assets are credit-impaired when:

- There is significant difficulty of the debtor
- A breach of contract, such as a default or past due event
- It is becoming probable that the debtor will enter bankruptcy or other financial reorganisation
- There is a disappearance of an active market for that financial asset because of financial difficulty

The Group categorises a loan or receivable for potential write-off when a debtor fails to make contractual payments more than 120 days past due. Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. Where loans and receivables have been written off, the Group continues to engage enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

The Group did not recognise impairment on the Group's trade receivables as the computed amount is deemed immaterial by the Group.

Credit risk concentration profile

The trade receivables of transport and logistic business comprise 2 debtors (2018: 5) that collectively contributed 80% (2018: 33%) of the Group's trade receivables. These 2 (2018: 5) individually represented between 19% - 60% (2018: 5% - 18%) of the Group's trade receivables.

Further details of credit risks on trade and other receivables are disclosed in Note 12.

34.4 Liquidity risk

Liquidity risk is the risk that the Group and the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments that are settled by delivering cash or another financial asset. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. The Group's and the Company's financial liabilities based on contractual undiscounted cash flows is disclosed in the notes to the financial statements.

The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group and the Company manage its liquidity risk by ensuring the availability of adequate funds to meet all its obligations in a timely and cost-effective manner and to maintain a balance between continuity of funding and flexibility through the use of borrowing facilities.

The Group and the Company finances its working capital requirements through a combination of funds generated from operations and bank borrowings. The ability of the Group and the Company to pay its debts as and when they fall due is also dependent on the written undertaking of its Non-Controlling Interest as disclosed in Note 2.2. The directors are satisfied that funds are available to finance the operations of the Company.

34. Financial risk management objectives and policies (Cont'd)

34.4 Liquidity risk (Cont'd)

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Group's and the Company's financial liabilities at the end of the reporting period based on contractual undiscounted repayment obligations.

The Group	Note	Carrying amount RMB'000	Contractual cash flows RMB'000	Within 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	More than 5 years RMB'000
2019							
Financial liabilities							
Lease liabilities	21	5,137	9,717	599	599	1,434	7,085
Bank borrowings	22	156,250	161,816	130,195	31,621	–	–
Trade and other payables	23	97,429	97,429	97,429	–	–	–
Amounts owing to affiliated companies	24	25	25	25	–	–	–
Loans from Non-Controlling Interest	15	850,000	870,446	870,446	–	–	–
		1,108,841	1,139,433	1,098,694	32,220	1,434	7,085
2018							
Financial liabilities							
Bank borrowings	22	281,250	297,949	136,133	130,195	31,621	–
Trade and other payables	23	119,614	119,614	119,614	–	–	–
Amounts owing to affiliated companies	24	160,485	160,485	160,485	–	–	–
Loans from Non-Controlling Interest	15	1,000,000	1,045,675	1,045,675	–	–	–
		1,561,349	1,623,723	1,461,907	130,195	31,621	–

The Company	Note	Carrying amount RMB'000	Contractual cash flows RMB'000	Within 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	More than 5 years RMB'000
2019							
Financial liabilities							
Trade and other payables	23	1,699	1,699	1,699	–	–	–
2018							
Financial liabilities							
Trade and other payables	23	991	991	991	–	–	–

34. Financial risk management objectives and policies (Cont'd)

34.5 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 Group and the Company do not hold any quoted or marketable financial instrument, they are not exposed to any movement in market prices.

34.6 Categories of financial instruments

The carrying amount of the different categories of financial instruments is as follows:

	The Group		The Company	
	2019	**2018**	**2019**	**2018**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Financial assets				
Amortised cost				
Cash and bank balances	66,247	426,215	500	2,358
Trade and other receivables	25,271	27,509	–	–
Amount owing by a subsidiary	–	–	14,376	35,711
Amount owing by Non-Controlling Interest	137,757	192,700	–	–
Amounts owing by affiliated companies	2,810	692	–	–
	232,085	647,116	14,876	38,069
FVOCI				
Investment securities	30,450	30,450	–	–
	262,535	677,566	14,876	38,069
Financial liabilities				
Amortised cost				
Trade and other other payables	86,768	92,463	1,699	991
Amounts owing to affiliated companies	25	160,485	–	–
	86,793	252,948	1,699	991

34.7 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 subjected to any regulatory control by the authorities.The Group is able to secure stable supplies of its raw materials from its suppliers at reasonable price. Accordingly, the Group does not engage in hedging for commodity price risk as it deems that the cost of hedging is too high.

34. Financial risk management objectives and policies (Cont'd)

34.8 Fair value measurements

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

The table below presents assets and liabilities measured and carried at fair value and classified by level of the following fair value measure hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can assess at the measurement date (Level 1);

(b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e as prices) or indirectly (i.e derived from prices) (Level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The Group	2019 RMB'000	2018 RMB'000
Fair value through OCI - Level 2		
Investment security	30,450	30,450

The fair values is determined by the Group's 18% proportionate share of the net assets of the investment security as at 31 December 2019. The Board and management is of the view that the net assets of the investment security approximate its fair value. The fair values are within Level 2 of the fair value hierarchy.

35. 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.

35. Segment information (Cont'd)

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.

(a) Reportable segments

	Gas Separation		Transport and Logistic Services		Total	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Revenue						
External customers	3,517,653	2,117,670	142,395	141,810	3,660,048	2,259,480
Inter-segment sales	645,743	–	41	–	645,784	–
Total revenue	4,163,396	2,117,670	142,436	141,810	4,305,832	2,259,480
Segment assets	1,889,654	2,112,722	52,107	59,847	1,941,761	2,172,569
Segment liabilities	43,127	67,635	8,353	9,847	51,480	77,482
Results						
Segment results	260,850	126,208	6,017	1,803	266,867	128,011
Unallocated expenses						
Unallocated corporate expenses					(35,641)	(21,605)
Profit from operations					231,226	106,406
Finance income					3,919	5,620
Finance cost					(51,258)	–
Proft before tax					183,887	112,026
Tax expense					(45,873)	(29,323)
Profit after tax					138,014	82,703

35. Segment information (Cont'd)

(a) Reportable segments (Cont'd)

	2019 RMB'000	2018 RMB'000
Segments' assets for reportable segments	1,941,761	2,172,569
Other assets		
Unallocated		
Amounts owing by affiliated companies	2,810	692
Amount owing by Non-Controlling Interest	137,757	192,700
Cash and cash equivalents	500	2,358
Other receivables	31,919	57,150
Goodwill on consolidation	10,345	10,345
	2,125,092	2,435,814
Segments' liabilities for reportable segments	51,480	77,482
Other liabilities		
Unallocated		
Other payables	51,086	42,132
Amounts owing to affiliated companies	25	160,485
Bank borrowings	156,250	281,250
Loan from Non-Controlling Interest	850,000	1,000,000
Current tax payable	25,488	5,597
	1,134,329	1,566,946

	2019 RMB'000	2018 RMB'000
Customer 1	2,191,917	331,610
Customer 2	704,653	640,942

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

(b) Geographical information

No information on geographical information is presented as the principal operation of the Group relates to the manufacture and sale of propylene, polypropylene and LPG products and provision of transport and logistic services entirely in the PRC.

36. 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 20, 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 2019 and 2018.

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 2019 and 2018.

DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 - 99	0	0.00	0	0.00
100 - 1,000	118	5.17	109,100	0.02
1,001 - 10,000	1,077	47.24	7,416,400	1.16
10,001 - 1,000,000	1,072	47.02	57,525,800	8.99
1,000,001 AND ABOVE	13	0.57	574,948,700	89.83
TOTAL	**2,280**	**100.00**	**640,000,000**	**100.00**

SHAREHOLDINGS HELD IN HANDS OF PUBLIC

Based on information available to the Company as at 30 March 2020, approximately 33.41 % of the issued ordinary shares of the Company is held by the public and therefore Rule 723 of the Listing Manual issued by SGX-ST is complied with.

TWENTY LARGEST SHAREHOLDERS

NO.	NAME	NO. OF SHARES	%
1	INTELLIGENT PEOPLE HOLDINGS LIMITED	329,996,000	51.56
2	PHILLIP SECURITIES PTE LTD	62,975,700	9.84
3	CITIBANK NOMINEES SINGAPORE PTE LTD	59,079,700	9.23
4	UOB KAY HIAN PRIVATE LIMITED	43,070,900	6.73
5	RHB SECURITIES SINGAPORE PTE. LTD.	40,015,500	6.25
6	RAFFLES NOMINEES (PTE.) LIMITED	20,459,847	3.20
7	DBS NOMINEES (PRIVATE) LIMITED	9,151,453	1.43
8	SEE GIM TEE OR SEI KIM HOE	2,679,600	0.42
9	UNITED OVERSEAS BANK NOMINEES (PRIVATE) LIMITED	1,857,800	0.29
10	OCBC SECURITIES PRIVATE LIMITED	1,851,000	0.29
11	MOK TIAN SOON	1,532,300	0.24
12	TIAN TIAN	1,265,500	0.20
13	MAYBANK KIM ENG SECURITIES PTE. LTD.	1,013,400	0.16
14	AW YONG SAI CHIN	1,000,000	0.16
15	OCBC NOMINEES SINGAPORE PRIVATE LIMITED	852,000	0.13
16	MA ONG KEE	800,000	0.13
17	SEE GIM TEE	796,000	0.12
18	WEI RAN	779,000	0.12
19	ENG KOON HOCK	775,500	0.12
20	WENG TUCK WAH	750,000	0.12
	TOTAL	**580,701,200**	**90.74**

SHAREHOLDINGS STATISTICS

As at 30 March 2020

SUBSTANTIAL SHAREHOLDERS

	Direct Interests		Deemed Interest		Total	
	Number of Shares	%	Number of Shares	%	Number of Shares	%
Substantial Shareholders						
Intelligent People Holdings Limited	329,996,000	51.56	39,902,500[(1)]	6.23	369,898,500	57.79
Li Xiang Ping			356,801,800[(2)]	57.79	369,898,500	57.79
UBS Group AG			56,320,400[(3)]	8.8	56,320,400	8.8

(1) Intelligent People Holdings limited is deemed to be interested in 26,805,800 ordinary shares held under the name of RHB Securities Singapore Pte Ltd.

(2) Li Xiang Ping is deemed to be interested in 356,801,800 shares held by Intelligent People Holdings Limited and RHB Securities Singapore Pte Ltd.by virtue of Section 7 of the Companies Act, Cap. 50.

(3) Deemed interests arising by virtue of (a) UBS Group AG having an interest, or (b) Section 7(4) or 7(4A) of the Companies Act in units over which UBS AG have an interest, by reason of the ability to exercise voting discretion and to acquire/dispose of shares.

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SINOSTAR

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