

**Issuer:** Hengyang Petrochemical Logistics Limited

**Security:** Hengyang Petrochemical Logistics Limited

**Meeting details:**

Date: 23 April 2018

Time: 2:00 p.m.

Venue: Hibiscus Room 1, The Chevrons, 48 Boon Lay Way Singapore 609961

**Company Description**

Hengyang Petrochemical Logistics Limited, an investment holding company, provides logistics services to the petrochemical industry in the People's Republic of China. It operates through Service and Transportation segments. The company offers storage and land transportation services for various types of bulk liquid petrochemicals, gases, and oils, including acetic acid, phenol, acetone, styrene, methanol, mono ethylene glycol, propane, butane, butadiene, fuel oil, and base oil products. It has approximately 49 storage tanks with an aggregate storage capacity of 139,600 cubic meters. In addition, the company engages in the storage, dispatch, and drumming of liquid chemical and oil products; land transportation of petrochemical products; and management of ports terminal. Hengyang Petrochemical Logistics Limited was founded in 2002 and is headquartered in Jiangyin, the People's Republic of China.

(Source: [http://www.sgx.com/wps/portal/sgxweb/home/company\\_disclosure/stockfacts?code=5PD](http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5PD))

1. In FY2017, the group derecognised the assets and liabilities of Jiangyin Foreversun Chemical Logistics Co Ltd (the “China Holdco”) following the completion of the transfer of 49% of its equity interest to Citic Port Investment Co., Ltd. (“CITIC Port”) on 22 May 2017.

As a result, the group lost its practicable ability to direct the relevant activities of this subsidiary.

The group has applied the equity method of accounting for the remaining 51% interests in China Holdco as an investment under “Investment in Joint Venture” and has accounted for its share of results in the joint venture via equity accounting.

- (i) **Can the board help shareholders understand the level of involvement, oversight and control of the China Holdco by the group following the transfer of the 49% interest?**

In the Chairman’s Statement (pages 4 & 5 of the annual report), project development such as Phase I of the Chongqing Project, Phase II of the Wuhan and Yueyang Projects, expansion of the overall storage capacity and provision of supply chain services were mentioned.

- (ii) **Can the board confirm or clarify if these activities listed will all be carried out by the China Holdco?**
- (iii) **What are the remaining operating activities at the company level and outside of the China Holdco?**
- (iv) **Following the restructuring, can the board clarify the strategic direction of the group (now that the group no longer has the practicable ability to direct the relevant activities of the China Holdco)?**

2. On 9 April 2018, the group announced that there are material differences between the unaudited and audited financial statements for the financial year ended 31 December 2017, following the finalisation of the audit.

Other than changes due to the fair value of option granted to CITIC Port (which was not finalised), other adjustments included:

- Share of result of joint venture
- Investment in joint venture
- Amount owing by related parties
- Reclassification of payment made to suppliers of property, plant and equipment from operating activities to investing activities amounting to RMB50,815,000
- Interest paid and capitalised
- Reclassification of foreign currency translation reserve

In the previous year, for the financial year ended 31 December 2016, the group also announced that there were material differences between the unaudited and audited financial statements following the finalisation of the audit.

- (i) **As the directors have responsibilities to oversee the group’s financial reporting process, can the directors, especially the directors in the audit committee (AC), help shareholders understand their individual and collective efforts in the preparation of financial statements to give a true and fair view in accordance with the provisions of the Act and FRSS?**
- (ii) **Has the AC evaluated if the internal finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?**
- (iii) **Following the material changes made in the last two financial years following the finalisation of audit, what improvement has the AC made to the group’s systems and processes?**

3. Following the restructuring exercise, the group’s cash and cash equivalents increased from RMB10.9 million to RMB92.7 million as at 31 December 2017.

As seen in the Financial Highlights (page 11), the group's debt to assets ratio and debt equity ratio have improved significantly from 70%-231% to just 1%.

#### KEY FINANCIAL FIGURES

RMB'000	2017	2016
<b>Key ratios</b>		
Debt to assets ratio	1.09%	69.75%
Debt equity ratio	1.10%	230.63%

(Source: Company annual report)

- (i) **Has the board re-evaluated the group's capital management policy and the optimal capital structure following the change in the business model?**

In the 2016 annual report, the company has stated the following with regard to dividends:

*The Company has not declared or recommended any dividend in respect of FY2016 as the Group needs to conserve cash for operational requirements, further investment and development of its infrastructural facilities as well as to repay borrowings.*

In the 2017 annual report, and following the restructuring and the much improved financial position, the company has stated that:

*The Company has not declared or recommended any dividend in respect of FY2017 as the Group needs to conserve cash for operational requirements, further investment and development of its infrastructural facilities as well as to repay borrowings.*

- (ii) **Can the board help shareholders understand the deliberations it has had on the matter of dividends?**
- (iii) **For FY2017, is it still valid for the directors to claim that the company did not recommend any dividends as it needs to repay borrowings?**
- (iv) **Would the board review and reconsider if it is able to support a dividend payment to shareholders following the successful restructuring with CITIC Port?**