Securities Investors Association (Singapore)
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UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Sinostar PEC Holdings Limited

Security: Sinostar PEC Holdings Limited

Meeting details:
Date: 29 April 2019
Time: 9.30 a.m.
Venue: Grand Salon Ballroom Level 2, Conrad Centennial Singapore,2 Temasek Boulevard Singapore 038982

Company Description

Sinostar PEC Holdings Limited is a Singapore-based investment holding company. The Company is engaged in producing and supplying downstream petrochemical products. The Company operates in three segments: Gas Separation, Transport & logistic Service, and Others. Gas Separation segment is engaged in the manufacturing and sales of liquefied petroleum gas (LPG), propylene and polypropylene. Transport & logistic Service segment is engaged in the provision of logistics and transportation for petroleum products. Others segment is engaged in the sales of steam to its affiliated companies. It is engaged in the fractionation of raw LPG to produce downstream petrochemicals, namely, propylene, polypropylene and LPG. The Company's products cater to a range of industrial applications and are sold to manufacturers of petrochemicals, plastic products and LPG distributors. Its subsidiaries are Dongming Hengchang Petrochemical Co., Ltd. and Dongming Changshun Transport Company Limited.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=C9Q)

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Q1. As noted in the chairman's message, the acquisition of a 70% stake in Dongming Qianhai Petrochemical Co. Ltd. was highlighted as a major milestone for the group in its long-term growth. The newly acquired company has expertise in processing and selling propylene, purified isobutylene and methyl tertbutyl ether (MTBE) and it allowed the group to double its propylene capacity to 180,000 tonnes a year.

- **(i) As the new plant has just finished its trial run, does the group have the expertise to scale up the plant to full production smoothly?**
- **(ii) Would the new plant be more efficient than the existing plant?**
- **(iii) How is the group going to fill up the demand for the new capacity?**
- **(iv) Does the group also have the necessary supporting infrastructure and technical/engineering team to operate the new plant efficiently?**

The group's capital structure was materially changed with the acquisition of Dongming Qianhai which had liabilities of RMB1 billion as an internal loan from the non-controlling interest (NCI), Shandong Dongming Petrochem Group Co. Ltd. While the NCI has given an undertaking not to recall the loans early, it will also refinance the loans when the five tranches of RMB200 million fall due.

- **(v) Has the board reviewed this arrangement and did it consider alternate forms of financing? Did the board consider it prudent to acquire a long term asset with short term "vendor" financing?**

Q2. In addition, in FY2018, the group also commenced with the construction of a polypropylene production plant.

With the expansion, the group's production capacity will increase from 50,000 tonnes to 250,000 tonnes per annum. The new 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.

The applications of polypropylene include high-end medical equipment, automotive accessories, home appliances, electrical films, food packaging and other consumer products.

- **(i) What is the total amount of capital expenditure for the new polypropylene production plant?**
- **(ii) Does the group have the necessary funds to complete the high-tech plant?**
- **(iii) What is management's experience in running a Spheripol plant? Will there be a steep learning curve in the operationalisation of the plant?**
- **(iv) By growing its production capacity to 250,000 tonnes per annum, will the market be able to support this surge in supply?**

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(v) **In management's projections and budgeting for the plant, what assumptions (utilisation rate, average selling prices, raw material prices) were used?**

Q3. Would the board/management provide shareholders with better clarity on the following governance matters? Specifically:

(i) **Size of board:** The board comprises 4 members, with a non-executive non independent chairman, an executive director and two independent directors. The directors considered the present size of 4 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. **As the group operations are substantially scaled up with the two investments, will the board be re-evaluating its size and composition?**

(ii) **Appropriate balance and diversity of skill: Has the nominating committee reviewed the overall desired competency matrix of the board and identified any gaps in skills or competencies that could be addressed in future director appointments?**

(iii) **Independent director:** Mr Teo Moh Gin has served on the board since June 2007. In August 2018, the Monetary Authority of Singapore issued a revised Code of Corporate Governance ("2018 CG Code") and the Singapore Exchange has made amendments to its Listing Rules which came into effect on 1 January 2019, except for the rules on the 9-year tenure for independent directors and the requirement for independent directors to comprise one-third of the board which come into effect on 1 January 2022. Under the revised Listing Rules, the term of an independent director will be limited to nine years after which the long tenured directors will be subject to a two-tier vote by shareholders. **Has the company evaluated the impact of the 2018 CG Code and the amendments to the Listing Rules on the board?**