



HENGYANG PETROCHEMICAL LOGISTICS LIMITED

(Incorporated in Singapore on 23 April 2008)
(Company Registration Number: 200807923K)

RESPONSES TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

The board of directors (the “**Board**”) of Hengyang Petrochemical Logistics Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) would like to thank the Securities Investors Association (Singapore) (“**SIAS**”) for submitting its questions in advance of the Company’s Annual General Meeting to be held on 30 April 2021 at 11:00am.

Unless otherwise defined, capitalised terms used herein shall have the same meaning as ascribed thereto in the Company’s annual report for the financial year ended 31 December 2020 (“**Annual Report**”).

The Company’s responses to the questions received from SIAS are set out below.

Question 1

SIAS: On 15 October 2020, the Company acquired the remaining 35% equity interests in its existing subsidiary, Hengyang Holding Pte. Ltd. (“**HHPL**”) from a non-related party for a purchase consideration of RMB36.0 million. The resultant group structure can be seen on page 15 of the Annual Report.

The Group’s effective interest in Jiangyin Foreversun Chemical Logistics Co., Ltd (“**China Holdco**” and together with the subsidiaries of China Holdco, the “**China Holdco Group**”) is 51%. The China Holdco Group provides storage and land transportation services for different types of bulk liquid petrochemicals, gases and oils such as Methanol, Acetic Acid, Phenol, Acetone, Styrene, Ethylene Glycol, Polyether Polyol, Propane, Butane, Gasoline, Diesel, Kerosene, Fuel Oil and Base Oil.

The Group’s investment in the 51%-owned joint venture is accounted for using the equity method. The performance of the joint venture can be seen in Note 7 (pages 80 to 82 of the Annual Report – Investment in a joint venture). Revenue for the China Holdco Group increased to RMB1.11 billion in FY2020. Loss for the year improved to RMB(5.93) million from RMB(65.1) million.

- (i) **Can the Board confirm that the Company and its direct subsidiary, HHPL, are not involved in the day-to-day running of the China Holdco Group?**

Company’s Response

Please refer to the Company’s announcement dated 19 March 2017 and the circular dated 13 April 2017 (“**Relevant Documents**”) in relation to the investment by CITIC Port Investment Co., Ltd (“**CITIC Port**”) in China Holdco which resulted in HHPL’s interest in China Holdco reducing from 100% to 51% (“**Transactions**”). As disclosed in the Relevant Documents, in connection with the Transactions, HHPL, CITIC Port and China Holdco had entered into a shareholders agreement dated 17 March 2017 (“**Shareholders Agreement**”) to amongst others regulate their relationship *inter-se* as shareholders of China Holdco and the management of China Holdco.

The Shareholders Agreement provides *inter alia* that:

- (a) The board of directors of China Holdco (“**China Holdco Board**”) shall comprise six (6) directors, three (3) of whom shall be appointed by HHPL and three (3) of whom shall be appointed by CITIC Port. The Chairman of China Holdco shall be a director appointed by CITIC Port and the Vice-Chairman of China Holdco shall be a director appointed by HHPL. The China Holdco Board shall determine all major issues relating to the China Holdco.
- (b) China Holdco shall have a management team comprising one (1) General Manager, Deputy General Managers, Assistant General Managers, one (1) Chief Finance Officer and one (1) Deputy Finance Officer. The General Manager, one (1) Deputy General Manager and the Deputy Finance Officer shall be nominated by HHPL. The General Manager nominated by HHPL shall be the legal representative of China Holdco. One (1) Deputy General Manager, one (1) Assistant General Manager and the Chief Finance Officer shall be nominated by CITIC Port. The management team is accountable to the China Holdco Board and is responsible for the day-to-day management of China Holdco.

(ii) **How does the Company and/or HHPL value-add to China Holdco?**

Company’s Response

Please see the Company’s response to question (i) above. The board and management team of China Holdco comprise representatives nominated by HHPL.

(iii) **What is the staff strength of the Company and its subsidiaries (not including China Holdco)?**

Company’s Response

The Group’s interest in China Holdco represents its entire business and operations in the PRC. Accordingly, the Company and HHPL do not maintain a significant number of employees at the holding company level.

(iv) **Is the Company looking to diversify into other business areas or geographical regions on its own?**

Company’s Response

The Company is open to exploring opportunities in other areas as and when these arise, whether through acquisitions, joint ventures and/or collaborations and such opportunities may not necessarily be within the same business scope as the business activities carried out by the China Holdco Group. The Company will seek the requisite approvals from the SGX-ST and the Company’s shareholders for any diversification of business.

- (v) **Has the Company communicated its expectations to China Holdco on providing cash flow (in the form of dividends)? The Board has stated that it did not recommend any dividend in respect of FY2020 because China Holdco has not proposed or paid a dividend in respect of FY2020. Therefore, the Company could not pay a meaningful amount of dividend without depleting its cash resources.**

Company's Response

The Shareholders Agreement provides *inter alia* that China Holdco's profit distribution to HHPL and CITIC Port shall be determined by the China Holdco Board. As stated in the Company's response to question (i) above, the China Holdco Board comprises representatives nominated by HHPL. The Company understands that the China Holdco Board, in deliberating on payment of dividends, typically considers a number of factors, including the level of cash and reserves, results of operations, business prospects, capital requirements and general financial condition.

Question 2

SIAS: In the Company's report on corporate governance (page 20 of the Annual Report), the Company acknowledged that it has yet to comply with Provision 2.2 of the Code of Corporate Governance 2018 (the "**2018 Code**"), which states that independent directors make up the majority of the Board if the chairman is not independent. The composition of the Board currently comprises five (5) directors, two (2) of whom (being Messrs Anthony Ng Koon Leng and Diong Tai Pew) are independent. The Company has been actively searching for appropriate candidates to appoint as new independent directors and multiple interviews had been conducted in FY2020.

- (i) **Can the Board elaborate further on the search and nominating process for directors, especially independent directors? Is the Nominating Committee ("NC") tapping on the resources of directors' personal contacts and recommendations? If so, how does the practice help the Board to further improve the diversity of thought and avoid groupthink?**

Company's Response

The Nominating Committee ("**NC**") leads the process and makes recommendations to the Board for the selection, approval and appointment of new directors as follows:

- (a) evaluate the balance of skills, knowledge and experience of the Board, and prepare a description of the role and the essential and desirable competencies for particular appointments based on the evaluation results and in consultation with the management;
- (b) assess the suitability of potential candidates introduced by existing directors and/or their network of contacts (the NC may also seek external help to source for potential candidates, if necessary);
- (c) interview candidates on the shortlist to assess their suitability and to ensure that the candidate(s) are aware of the expectations of the Board and the level of commitment required for the role; and
- (d) make recommendations on the selected candidate to the Board for approval.

The NC is of the view that it is important for the Board to have the requisite blend of expertise, skills and attributes to supervise and oversee the management of the Group.

- (ii) **How many candidates were interviewed? The Company has stated that multiple interviews had been conducted in the second half of 2019 and in 2020 but the selection has been delayed due to the COVID-19 situation.**

Company's Response

The Company has been actively searching for appropriate candidate(s) to appoint as new independent director(s). The NC has been assessing potential and/or possible candidates through interviews (which could be formal or informal) in FY2019 and FY2020. However, due to the COVID-19 situation and the lockdown measures imposed in the relevant jurisdictions, the process of selecting an appropriate independent director, who has the relevant experience, a sound track record and who is familiar with the petrochemical logistics industry, has inevitably been delayed. The Board and the NC continue to assess the feasibility of appointing additional independent director(s) during this period.

SIAS: The profiles of the directors are shown on pages 12 and 13 of the Annual Report. The Board, after examining its size and composition, is of the view that it is the appropriate size and is equipped with an appropriate balance and mix of skills, knowledge and experience.

- (iii) **What is the technical, business (M&A-related) and legal experience of the independent directors in the petrochemicals, gases and oils industries in China and what guidance have they given to the Group with regard to the recent major investment/divestment as well as planned expansion?**

Company's Response

Please refer to page 13 of the Annual Report for the profile and experience of the Company's independent directors.

Mr Diong Tai Pew is a practising public accountant and is currently a non-executive independent director of V.S. International Group Ltd., a public listed company in Hong Kong, and a non-executive independent director of V.S. Industry Berhad (VSIB), a public listed company in Malaysia.

Mr Anthony Ng Koon Leng had spent more than 30 years in various senior roles in the Oil, Gas and Chemical Industry with BP and SGS Group, including a stint in the PRC.

Both Mr Diong and Mr Ng had constructively contributed their suggestions, recommendations and opinions based on their knowledge and information in their respective fields of expertise.

- (iv) **When can the Board appoint new directors to comply with Provision 2.2 of the 2018 Code? In addition, has the Board/NC started the progressive renewal of the Board?**

Company's Response

In line with the transitional period as indicated by the Corporate Governance Council with regard to changes to board composition pursuant to the 2018 Code, the Company will endeavour to make changes to its Board composition such that it complies with Provision 2.2 of the 2018 Code by 1 January 2022.

- (v) **When will the Board be developing its formal board diversity policy, as required by the 2018 Code?**

Company's Response

The diversity of skills is important as it helps to provide constructive advice on the Group's strategic and business plans. Taking into the consideration the timeline for compliance with Provision 2.2 of the 2018 Code as mentioned above, the Board is in the process of developing a formal board diversity policy.

Question 3

SIAS: As disclosed in the corporate governance report, following the corporate restructuring involving China Holdco, an internal audit department was established in 2017 to oversee the internal audit matters of the Group. The internal audit department now comprises two (2) internal auditors.

Other than a follow-up of the previous year's internal audit issues of the Group, the internal audit department carried out a review of the budget and cash flow management and interested person transactions within the Group.

For FY2018 and FY2019, the scope had always been "a review of the budget and cash flow management and interested person transactions within the Group". Following the accident at the Deqiao Facility, the internal audit also focused on ensuring that safety management standards are in place.

- (i) **Can the Audit Committee ("AC") confirm that the internal auditors comply with the standards set by nationally or internationally recognised professional bodies, such as the International Standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors?**

Company's Response

The Audit Committee ("AC") confirms that the internal auditor team complies with the relevant applicable standards and requirements.

- (ii) **In addition, can the AC clarify if the internal auditors audit all the major operating subsidiaries, including China Holdco and the PRC subsidiaries held by the China Holdco?**

Company's Response

The AC confirms that the scope of the internal auditor team includes China Holdco and the PRC subsidiaries held by China Holdco.

- (iii) **Why are the internal auditors focused only on budget and cash flow management and interested person transactions? How is the scope of the internal audit determined? Has the AC approved the audit work plan?**

Company's Response

The work scope of the internal audit team includes but is not limited to:

- (a) reviewing and evaluating the soundness and effectiveness of the internal control environment, internal control system and other management measures of the Group and the China Holdco Group, and putting forward suggestions for improvement;
- (b) auditing the whole process of projects, including project approval, signing, investment and recovery, operation status and benefit;
- (c) conducting special audit or audit investigation on the matters that have a significant impact on production and operation, or where the Board deems it necessary to conduct such audit; and
- (d) conducting fraud investigations if necessary.

The AC had assessed and approved the scope of internal audit and its work plan.

- (iv) **If the internal audit does not cover China Holdco, how does the Board ensure that there is a system of internal controls which gives reasonable assurance for the safeguarding of assets in the China Holdco?**

Company's Response

Please refer to the Company's response to question (ii) above.

By Order of the Board

GU WEN LONG
Chairman and Chief Executive Officer

29 April 2021

This announcement has been reviewed by the Company's Sponsor, CIMB Bank Berhad, Singapore Branch ("Sponsor") in accordance with Rule 226(2)(b) of the Singapore Exchange Securities Trading Limited ("SGX-ST") Listing Manual Section B: Rules of Catalist. This announcement has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this announcement including the correctness of any of the statements or opinions made or reports contained in this announcement. The contact person for the Sponsor is Ms Tan Cher Ting, Director, Investment Banking, CIMB Bank Berhad, Singapore Branch at 50 Raffles Place, #09-01 Singapore Land Tower, Singapore 048623, Telephone: (65) 6337 5115.