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

Issuer: Hengyang Petrochemical Logistics Limited

Stock code: 5PD

Meeting details:
Date: 30 April 2021
Time: 11.00 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

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Q1. On 15 October 2020, the company acquired the remaining 35% equity interests in its existing subsidiary Hengyang Holdings Pte Ltd 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 now 51%. The joint venture 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 – Investment in a joint venture). Revenue for the China Holdco 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 (Hengyang Petrochemical Logistics Limited) and its direct subsidiary (Hengyang Holding Pte. Ltd.) are not involved in the day-to-day running of the China Holdco group?**

(ii) **How does the company value-add to the China Holdco?**

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

(iv) **Is the company looking to diversify in other business areas or geographical region on its own?**

(v) **Has the company communicated its expectations to the 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 the 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.

Q2. In the company's report on corporate governance (page 20), the company acknowledged that it has yet to comply with Provision 2.2 of the Code of Corporate Governance 2018, 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 directors, two of whom (being Messrs Anthony Ng Koon Leng and Diong Tai Pew) are independent.

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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 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?**

(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.

The profiles of the directors are shown on pages 12 and 13. 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?**

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

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

Q3. As disclosed in the corporate governance report, following the corporate restructuring involving Jiangyin Foreversun Chemical Logistics Co., Ltd. ("Jiangyin Hengyang" or "China Holdco"), an internal audit department was established in 2017 to oversee the internal audit matters of the group. The IA department now comprises two internal auditors.

Other than a follow-up review of the previous year's internal audit issues of the group, the IA 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.

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(i) **Can the board/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?**

(ii) **In addition, can the board clarify if the internal auditors audit all the major operating subsidiaries, including Jiangyin Foreversun Chemical Logistics Co., Ltd. ("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 workplan?**

(iv) **If the internal audit does not cover the 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?**

^On 1 October 2020, the Accounting and Corporate Regulatory Authority ("ACRA"), the Monetary Authority of Singapore ("MAS") and Singapore Exchange Regulation ("SGX RegCo") published an updated checklist to guide listed entities on the conduct of general meetings arising from the latest updates from the Multi-Ministry Taskforce.

Issuers may continue to conduct their general meetings held on or before 30 June 2021 via electronic means, and are encouraged to do so.

Issuers who, after due consideration of public health and other risks, wish to provide for physical attendance at their general meetings must ensure that they implement all relevant measures to comply with the safe management measures imposed by the Singapore Government.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on SIAS website

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^ Guidance on the Conduct of General Meetings Amid Evolving COVID-19 Situation (https://www.sgx.com/media-centre/20201001-guidance-conduct-general-meetings-amid-evolving-covid-19-situation)

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