

Issuer: Tianjin Zhong Xin Pharmaceutical Group Corporation Limited

Security: Tianjin Zhong Xin Pharmaceutical Group Corporation Limited

Meeting details:

Date: 15 May 2017

Time: 13:30H

Venue: Pinnacle Suite, Wangz Business Centre, 7 Temasek Blvd, #44-01, The Penthouse Suntec Tower 1, Singapore 038987 (video conference)

Company Description

Tianjin Zhongxin Pharmaceutical Group Corporation Limited, an investment holding company, produces and sells traditional Chinese medicines, western medicines, and healthcare products primarily in the People's Republic of China. It offers Chinese patent medicines, Chinese medicinal materials, pharmaceutical raw materials and western medicines, bioengineering drugs, nutritious and health products, etc. The company's principal products include Suxiao Jiuxin Wan, Huoxiang Zhengqi Ruan Jiaonang, Zilong Jin Pian, Jinqi Jiangtang Pian, Weichang An Wan, Biqi Jiaonang, a-2b Interferon, Gliclazide, Te Zi She Fu, etc. It is also involved in the wholesale and retail sale of medicines, biochemical pharmaceutical products, and daily use products. In addition, the company sells medicinal products under its own brand and other brands to wholesalers. Tianjin Zhongxin Pharmaceutical Group Corporation Limited was founded in 1992 and is based in Tianjin, the People's Republic of China.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=T14)

Q1. From the Consolidated Statement of Cash Flows (page 50 of the annual report), the impairment of receivables and inventories was RMB 53.1 million in 2016, up from RMB 32.8 million in 2015. The table below shows the impairment of receivables and inventories since 2012.

	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000
Impairment/(Reversal) of receivables and inventories	13,728	(12,764)	6,282	32,847	53,111
Allowance for impairment on other receivables	13,791	2,072	623	19,648	30,212
Allowance/(Reversal) for impairment on trade receivables	(1,504)	(15,346)	2,221	13,325	10,884
Impairment losses/(Reversal) on inventories	1,441	510	3,438	(126)	12,015

(Source: Tianjin Zhong Xin Pharmaceutical Group Corporation Limited Annual Reports)

Trade receivables and Inventories are the two key audit matters highlighted in the Independent Auditors' Report (pages 42 & 43). Given that the Group's total comprehensive income (net of tax) in FY2016 was approximately RMB396 million, the impairment of receivables and inventories amounting to RMB53 million is not immaterial.

- Inventories:** Shareholders would like to ask management for more clarity into the RMB 12.0 million impairment losses on inventories recognised in 2016. **What were the reasons for the larger-than-average impairment losses? Going forward, how can the group better manage the risks related to its inventories?**
- Other receivables:** Of the RMB 30.2 million recognised as allowance for impairment on other receivables, RMB 14.3 million was due to associates and RMB 15.8 million was due to outside parties. **What were the circumstances that led to the increased allowance for impairment on "other receivables" in 2016? Can management explain what these "other receivables" are?**
- Trade receivables:** The group recognised an impairment of RMB 10.9 million in 2016. In Note 29D (page 111 - Credit risk on financial assets), the ageing analysis of trade receivables that are impaired and over 3 years amounted to RMB 155.1 million (as shown below). **Can management provide better visibility into the efforts made to collect the long-overdue trade receivables? Can the audit committee elaborate further on how it assessed the appropriate level of allowance for impairment?**

29D. Credit risk on financial assets (Cont'd)

(b) Ageing analysis of trade receivables as at the end of the reporting year that are impaired:

	Group		Company	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
1 – 2 years	3,846	11,782	3,743	4,308
2 – 3 years	2,350	4,847	1,882	1,455
Over 3 years	155,096	157,997	154,301	154,234
	161,292	174,626	159,926	159,997

The allowance which is disclosed in the Note 21 on trade receivables is based on individual accounts totalling RMB162 million (2015: RMB175 million) and RMB160 million (2015: RMB160 million) for the Group and the Company respectively that are determined to be impaired at the end of the reporting year. These are not secured.

Q2. As noted in Note 23 (page 104 – Share capital), the company has a subtotal of 568,873,076 “A” shares and a further 200,000,000 “S” shares. It was further stated that:

All “S” and “A” shares rank pari passu in all aspects. The par value of these shares is RMB1.00. These shares are fully paid and carry one vote each and have no right to fixed income. The holders of these shares are entitled to receive dividends when declared by the Company. All shares carry one vote per share without restrictions at meetings of the Company.

Can shareholders understand if “S” shares and “A” shares are fungible? If not, can the company elaborate further on the reasons why the “S” shares and “A” shares are not fungible? Since both classes rank pari passu in all aspects, what would be the reason that they are not fungible?

Q3. Mr. Zhang Jian Jin and Mr. Ma Gui Zhong are Non-Executive Directors of the company and also members of the Strategy committee. In addition, Mr. Zhang is a member of the remuneration committee and Mr. Ma is a member of the nominating committee. The directors’ attendance at board meetings is disclosed in the Corporate Governance Statement (page 27) and is shown below:

Directors’ Meetings held in 2016

During the year, the Board had held 11 meetings, and the Directors’ attendance at these meetings are as follows:

Name of director	Number of Board	
	Meetings held	Attendance
Wang Zhi Qiang	11	11
Zhang Jian Jin	11	0
Ma Gui Zhong	11	0
Wang Lei	11	11
Yan Min	7	7
Zhou Hong	11	11
Timothy Chen Teck Leng	11	11
Vincent Toe Teow Heng	11	11
Qiang Zhi Yuan	11	11

- a) In 2014, Mr. Zhang and Mr. Ma attended all 11 board meetings held in that financial year. In 2015, of the 10 board meetings, Mr. Zhang attended 6 meetings and Mr. Ma attended 7 meetings. In 2016, both directors were absent from all 11 board meetings. **Shareholders would like to understand the reasons for Mr. Zhang and Mr. Ma’s absence from the board meetings.**
- b) In addition, Mr. Ma attended 0 of 2 nominating committee meetings while Mr. Zhang was absent from the sole remuneration committee meeting in 2016. **Would the Chairmen of the nominating committee and the remuneration committee comment if the respective board committees have been effective?**