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Issuer: Zhongxin Fruit and Juice Limited

Security: Zhongxin Fruit and Juice Limited

Meeting details:

Date: 25 October 2018

Time: 10.00 a.m.

Venue: 8 Wilkie Road, #03-08 Wilkie Edge, Singapore 228095

Company Description

Zhongxin Fruit and Juice Limited, an investment holding company, produces and sells fruit juice concentrates in the People's Republic of China. The company offers concentrated apple juice, which is used as an ingredient in packet juice drinks, soft drinks, cider, yoghurt, and candies. It primarily exports its concentrated apple juice to multinational F&B corporations in the United States, the European Union, South Africa, Canada, Japan, and Australia. The company was formerly known as New Lakeside Holdings Limited and changed its name to Zhongxin Fruit and Juice Limited in February 2013. The company was incorporated in 2002 and is based in Singapore. Zhongxin Fruit and Juice Limited is a subsidiary of SDIC Zhonglu Fruit Juice Co., Ltd.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5EG)

1. The group reported a 37% increase in revenue to RMB121.9 million on higher sales volume due to higher customer demand for concentrated apple juice. Profit for the year improved to RMB5.4 million, up from RMB3.4 million in 2017.

Would the board/management provide shareholders with better clarity on the following matters?

- (i) **Fructose:** In FY2018, the group commenced production of apple and pear fructose. This marks an important step by the group to begin its diversification from apple juice concentrate. The sales of fructose constituted approximately 4% of the group's sales in FY2018. **Can management help shareholders understand the addressable market size of fructose? Is the marketing and sale of fructose carried out and driven by the group or is it carried out by SDIC Zhonglu?**
- (ii) **Coal-fired boilers:** Has the company completed its switch from the coal-fired boilers to the use of natural gas? What is the impact on the group's production costs due to the switch to natural gas? Has all the capital expenditure been recognised in the financial statements?
- (iii) **Freeze damage:** Given the freeze damage experienced in the new pressing season, management expects a reduced supply of apples (as raw material) and the group faces the challenge of higher raw material costs and a shorter processing cycle. **Is the group able to pass on the higher costs to its customers?**
- (iv) **Xuzhou Zhongxin Fruit & Juice Company Limited ("Xuzhou Zhongxin"):** What are management's plans for the Xuzhou Zhongxin plant given that it has ceased production since FY2015? As noted in the key audit matter, the property, plant and equipment at Xuzhou Zhongxin accounts for 21% (or RMB31.5 million) of the group's total assets. **What is the strategic value of Xuzhou Zhongxin in the group's long term growth plans?**
- (v) **Dividend:** The group's financial position has improved as it has reported a cumulative profit of RMB13.2 million and a cumulative net cash flow from operating activities of RMB45.5 million in the past 4 financial years. Equity attributed to owners has increased to RMB77.8 million at the end of the financial period, up from RMB67.7 million as at 30 June 2015. The group's gearing ratio has also improved from 52% to 45% over the same period. Despite the group's improved financial strength, the directors have not declared a dividend "so as to retain cash in the group for its future growth plans (page 24)." **What deliberations did the board have over the declaration of dividends for shareholders? Has the board evaluated how it could balance its growth plans and a sustainable dividend payout?**

2. At the company's Annual General Meeting scheduled to be held on 25 October 2018, the company is seeking shareholders' approval for the renewal of the Shareholders' Mandate for Interested Person Transactions (resolution 6).

In compliance with Rule 920 of the Catalist Rules, the company disclosed that sales by the group to SDIC Zhonglu and its group of companies amounted to RMB121.1 million, out of total group revenue of RMB121.87 million.

Shareholders' approval to enable the entities at risk ("EAR Group") to enter into transactions with SDIC Interested Persons (SDIC Zhonglu together with its associates) was obtained on 21 September 2012.

- (i) As the company is seeking to renew the IPT mandate, how can shareholders obtain a copy of the Circular to shareholders dated 6 September 2012?**
- (ii) Has the AC reviewed if the terms of the IPT are still favourable to the group?**
- (iii) Specifically, the commission of US\$10 per tonne of juice concentrate paid to the SDIC Interested Persons has remained the same since 2012. Given the changes in the technology and in market conditions, has the board reviewed the commission?**
- (iv) Can the Audit committee help shareholders understand how many Category 1 and Category 2 transactions were carried out in the financial year? A Category 1 transaction has value of below or equal to RMB10 million and is approved jointly by the CEO and CFO, without the prior approval of the AC. A Category 2 transaction has value of more than RMB10 million and must be reviewed and approved by the AC before such transaction is entered into.**
- (v) As the IPT involves a niche area (the trading of apple juice concentrate in China), can the AC members help shareholders understand their experience and proficiency that would make them "qualified" to review the IPT transactions?**
- (vi) Can the AC also help shareholders understand the basis of their review and approval of Category 2 IPT transactions? What factors are taken into consideration by the AC in its review of such IPT transactions to ensure that such transactions are carried out on normal commercial terms and are not prejudicial to the interests of the company and its minority shareholders?**

3. On 15 January 2018, the company announced the resignation of Mr. Ngiam Zee Moey. Mr. Ngiam was the Lead Independent Director of the company, Chairman of the Audit Committee and member of Nominating and Remuneration Committees.

In the same announcement, the company stated that it will "identify a suitable candidate as Mr. Ngiam's replacement and will announce any new appointments to the Board and board committees accordingly once finalised."

- (i) Can the board update shareholders on the progress made on identifying a suitable candidate as replacement for Mr. Ngiam? Has the board shortlisted and interviewed potential candidates?**

- (ii) 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?**

The nominating committee has disclosed that, for its search and nomination process for new directors, it will leverage the directors' personal contacts and their recommendations for potential candidates, and will carry out a formal search process via external search consultants, if required.

- (iii) Is the board considering a formal search process to help it in identifying suitable candidates?**

Additional Comment: The company has not included a Sustainability Report in its annual report but has stated that it is working towards the issuance of its sustainability report by 30 June 2019. **Would the company/board explain the impact of climate change on the operations of the group?** This is a material issue that can potentially affect the viability of the group's operations. For instance, the freeze damage experienced this year has limited the supply of apple and pushed up the cost of raw material.

A copy of the questions for the Annual Report for the financial year ended 30 June 2017 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Zhongxin%20Fruit%20and%20Juice%20Ltd>

The company's response could be found here: -----