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

Issuer: Hyphens Pharma International Limited

Stock code: 1J5

Meeting details:
Date: 12 June 2020
Time: 2.00 .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. As noted in the chairman's statement, the group signed an exclusive distribution agreement with H. Lundbeck A/S Group to market and distribute its products in Vietnam. This enabled the group to market and launch products targeted at the treatment of disorders in the central nervous system in Vietnam.

The specialty pharmaceutical principals segment remains the largest revenue and profit contributor for the group, achieving revenue of $65.2 million and segment profit before tax of $6.1 million.

(i) **What are the main selling points of the group that allowed it to win the exclusive distribution rights from specialty pharmaceutical principals?**

(ii) **Does the group usually have the exclusive distribution rights for the ASEAN region (namely the five countries where the group has a direct presence - Singapore, Indonesia, Malaysia, the Philippines and Vietnam)?**

(iii) **Are there other key markets in ASEAN that the group would be exploring?**

Q2. The "impairment of trade receivables" is a key audit matter (KAM) highlighted by the Independent Auditor in their Report on the Audit of the Financial Statements (page 40). Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.

As noted in the KAM:

> *The carrying amount of trade receivables amounted to $27,507,000 which accounted for approximately 34% of the group's total assets as at the reporting year end…. The gross amount of trade receivables past due over 90 days amounted to $1,478,000. Allowance for impairment of trade receivables made was $220,000. Management is of the view that the remaining amounts are recoverable, based on their knowledge of the customers' payment history and credit worthiness.*

In particular, the age analysis of trade receivables past due is shown below (page 80):

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18. Trade and other receivables (cont'd)

(ii) Trade receivables that are past due and / or impaired

The age analysis of non-related party gross trade receivables past due is as follows:

	Group		Company	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Past due less than 30 days	6,735	2,285	–	–
Past due 30 to 60 days	3,697	2,129	–	–
Past due 60 to 90 days	2,527	1,914	–	–
Past due over 90 days	1,698	1,716	–	–
Total	14,657	8,044	–	–

(Source: company annual report)

Trade receivables past due has increased from $8.0 million as at 31 December 2018 to $14.66 million as at the end of the financial year 2019. It appears that the collection of trade receivables across the board slowed down. Trade receivable past due less than 30 days more than doubled from $2.3 million to $6.7 million.

While trade receivables past due over 90 days decreased slightly to $1.7 million, it is still at a relatively significant level. For reference, revenue for 2019 was $119.4 million while net profit was $6.5 million.

(i) **Can management help shareholders understand the underlying reasons for the increase in trade receivables past due?**

(ii) **How does the board ensure that the group adheres to its credit risk policies and collects the trade receivables as and when they are due in a timely manner?**

(iii) **For the long outstanding amounts past due over 90 days, can management disclose the upper limit? What are the profiles of the major customers with long outstanding debt?**

Q3. As disclosed in Note 15 (pages 74 to 76), the group has goodwill (as intangible asset) amounting to $4.85 million of which $4.77 million relates to the goodwill associated with Ocean Health Pte Ltd and DAC Pharmalab Pte Ltd. Ocean Health is primarily engaged in distributing healthcare supplements under its registered trademark, "Ocean Health" and various series of skin care products mainly under a non-registered brand, "Therapeutic Dermatologic Formula" while DAC Pharmalab's core business is provision of bottling and labelling services to Ocean Health Singapore.

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In FY2018, there was an impairment loss on goodwill amounting to $(993,000) in consideration of reduced rate of sales growth in the acquired proprietary brands under Ocean Health due to weaker retail sales in Singapore.

Revenue growth rates were revised down from 8%-9% to 4%-5% in 2018, and further adjusted to 3%-5% in FY2019. The terminal growth rate at 1.4% (2018: 2.0%) per annum.

In the 2018 annual report, the impairment was attributed to "increased competition in the market".

(i) **Can the board help shareholders understand the value proposition of its healthcare supplements business under Ocean Health to consumers?**

(ii) **On what basis did the group project the growth rates to be 8%-9% in prior years?**

(iii) The healthcare supplements business has been a very crowded space. Consumers can easily purchase the supplements from global online stores that carry a huge range of products. Locally, there are several large retail network chains of healthcare supplements shops. **Can management elaborate further on the "increased competition in the market" experienced in 2018 that caused the impairment?**

(iv) **Given that management has further adjusted its growth rates to 3%-5%, what are management's pro-active plans to maintain/increase sales in the segment?**

^Amid the global COVID-19 outbreak, issuers who choose to proceed with the AGM before 30 April 2020 must provide opportunities for shareholders to ask questions. Shareholders are encouraged to read the annual report and submit any questions they might have to the companies in advance. Issuers would then publicly address the questions at the general meeting via the issuer's website, through "live" webcast and on SGXNet.

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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^ Joint Statement by Accounting and Corporate Regulatory Authority, Monetary Authority of Singapore and Singapore Exchange Regulation dated 31 Mar 2020 (https://www.sgx.com/media-centre/20200331-acra-mas-and-sgx-regco-update-guidance-general-meetings)

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