



**Securities Investors Association (Singapore)**

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**Issuer:** Tianjin Zhong Xin Pharmaceutical Group Corporation Limited

**Security:** Tianjin Zhong Xin Pharmaceutical Group Corporation Limited

**Meeting details:**

Date: 15 May 2019

Time: 1.30 p.m.

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

**Company Description**

TIANJIN ZHONGXIN PHARMACEUTICAL GROUP CORPORATION LIMITED is a China-based company principally engaged in the manufacturing and sales of pharmaceuticals. The Company's principal businesses include the research, development and manufacture of Chinese patent medicines, Chinese herbal medicines, chemical raw materials and preparations, biomedicine and nutraceuticals, as well as the distribution of pharmaceuticals. The Company's main products include cardiovascular and respiratory medicines, gastrointestinal drugs and anti-cancer drugs.

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

**Q1.** As noted in the work report of the chairman (pages 12 to 19 of the annual report), FY2018 was the first year of the group's "three-year multiplication" plan. In particular, the group's major focus in 2019 is as follows (page 17):

**VIII. Major focus in 2019**

In 2019, the Company will take the improvement of development quality and efficiency as the top priority. With the goal of multiplication over three years, it will harness the potential and vitality of all resources with innovative thinking, and further promote the Company's party-building, reform and adjustment, marketing, technological innovation, scientific management and control and other major work so as to complete all tasks for the whole year by aiming high, from a high base and at a high standard, hence creating "Quality Zhong Xin" and achieving leapfrog development.

(Source: Company annual report; emphasis added)

- (i) Would the board/management elaborate further and clearly state the goals of its "three-year multiplication" plan? Please help shareholders understand the major goals, including any targets on revenue, profit margin, profit, new products and market share.**
- (ii) In particular, is the "goal of multiplication over three years" a target set by the board to double the group's revenue or profits in three years' time?**
- (iii) The group's gross profit margin has steadily increased from 29% in FY2015, to 31% in FY2016, to 38% in FY2017 and to 40% in FY2018. What is the target set by the board on the group's gross profit margin for the mid/long-term?**
- (iv) The group's R&D costs jumped by more than 25% to hit RMB101 million mainly due to "expenditure on generic drug evaluation" (page 20). Would the board/management help shareholders understand the group's strategic plans for generic drugs?**

**Q2.** In FY2018, the group's revenue increased by 12% to hit RMB6.4 billion and the group's balance sheet was strengthened with net cash flows from operating activities amounting to RMB339 million.

As at 31 December 2018, the group's cash and cash equivalents amounted to RMB1.455 billion while the group's borrowings were approximately RMB252 million. The company has declared a cash dividend of RMB2.2 for every ten shares held amounting to RMB169.15 million.

- (i) What were the deliberations by the board on the group's optimal capital structure?**

- (ii) **Are there any major capital needs and significant expansion plans in the next 2-3 years?**
- (iii) **Has the board provided guidance to management on how to better manage the group's working capital?** For instance, inventories have further increased by 20% to RMB1.33 billion and the impairment losses on inventories have nearly doubled from RMB8.34 million in FY2017 to RMB16.12 million in FY2018.
- (iv) **Other financial assets:** In Note 18 (page 107 – Other financial assets), it is shown that the group has over RMB195 million in financial assets, mainly made up of investments in equity shares measured at fair value through other comprehensive income (FVTOCI) (RMB121 million). The investments are in different sectors, such as financial services, transportation and shipping, energy and property development. **Would the board help shareholders understand if these investments are aligned with the group's strategic growth plans?**
- (v) **Would the board consider it opportune to review the group's capital structure, including the group's cash holdings and its dividends, with a view of right-sizing the balance sheet?**

**Q3.** On 15 May 2018, the company announced the appointment of Ms. Yu Hong as executive director. In the announcement of appointment notice, the company has stated that Ms. Yu Hong did not have prior experience as a director of a listed company. An extract of the announcement is shown below:

<p>Any prior experience as a director of a listed company?</p> <p>No</p>
<p>If No, Please provide details of any training undertaken in the roles and responsibilities of a director of a listed company</p> <p>Not Applicable</p>

(Source: Company announcement dated 15 May 2018)

- (i) **As Ms. Yu Hong does not have prior experience as a director of a listed company, would the company help shareholders understand the training that it will be arranging for Ms. Yu Hong to better understand the roles and responsibilities of a director of a listed company (in Singapore)?**

Similarly, on 13 March 2019, the company announced the appointment of Mr. Wang Mai as executive director with effect from 12 March 2019. It was stated that Mr. Wang Mai does not have prior experience as a director of a listed company.

- (ii) **Can the company help shareholders understand the training that Mr. Wang Mai will be undertaking to help him better understand the roles and responsibilities of a director of a listed company (in Singapore)?**



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A copy of the questions for the Annual Report for the financial year ended 31 December 2017 and 31 December 2016 and could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Tianjin%20Zhongxin%20Pharmaceutical%20Group%20Corporation%20Ltd&cid=6730,4649,4311>

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