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Issuer: Jiutian Chemical Group Limited

Stock code: C8R

Meeting details:

Date: 28 April 2021

Time: 10.30 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.

Q1. As noted in the chairman's statement, the group reported a record-setting year for 2020 even as the COVID-19 pandemic raged across the world. In FY2020, the group increased its revenue by 9% to RMB 1.15 billion and recognised a net profit of RMB 173.1 million, an improvement over the RMB (278.9) million loss in FY2019. This was driven by a surge in demand for the group's main products from downstream users who are experiencing strong growth in both local and export markets.

Due to the closure of one of the largest competitors in the industry (which resulted in higher average selling prices) and the depressed market for energy (hence low raw material prices), the group capitalised on the turn of events to improve gross profit margins to 24% in FY2020, up from 7%.

The chairman has stated that customers in certain sectors are experiencing high growth rates, such as electric vehicle (EV) batteries, semiconductor, pharmaceuticals and animal feeds customers.

- (i) **Can management help shareholders better understand the uses of the group's products in EV, semiconductor and animal feeds?**
- (ii) **How much visibility into customers' demand does the group have?**
- (iii) **Does the group see further consolidation in the industry?** The group is now China's second-largest DMF producer following the permanent closure of one of the group's largest competitors. **In addition, what lessons, if any, could be learnt from the group's competitors who have exited the market?**
- (iv) **How much pricing power does the group have? Would the continued good performance of the group depend largely on the average selling price achieved and also the cost of raw material?**

The group has also ventured into the production of Oxygen-18 and deuterium-depleted water ("DDW", commonly known as light water) through the 45% owned subsidiary company, Henan Herunsheng Isotope Technology Co., Ltd.

- (v) **What is the scale of its investments into Oxygen-18 and DDW manufacturing? Who are the customers for these products?**

Q2. As can be seen from the consolidated statement of cash flows (page 64), after a rights issue raising RMB 49 million, the group ended the year with RMB 259.7 million of cash and cash equivalents.

For FY2020, receivables increased by RMB 189.7 as at 31 December 2020 (page 64). Trade and other receivables increased to RMB 665.1 million (page 61 – Statements of financial position). In Note 12 (page 87 – Trade and other receivables), it was shown that trade bills receivables increased from RMB 308.5 million to RMB 385.4 million as at 31 December 2020.

- (i) **What is management's strategy to better manage its credit risk and to improve on its collection?** The group has stated that more customers opted to use trade bills as a form of repayment which has led to a longer credit repayment period.

Separately, total advance payments to suppliers have increased significantly to RMB 77.8 million as at 31 December 2020.

	Group		Company	
	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Advance payments to suppliers:				
- Associated company	21,213	-	-	-
- Related party	51,852	4,873	-	-
- Third parties	4,688	626	-	-
Total advance payments to suppliers	77,753	5,499	-	-

(Source: company annual report)

The details of the advance payments made to interested parties are shown on pages 49 and 50. Reasons have included net advances given for working capital purposes, net advances for raw material and purchase of electricity and industrial steam.

The auditors have also included an emphasis of matter related to the amount due from an associated company (page 56). It was noted that non-trade receivables from an associated company, Anyang Jiujiu Chemical Technology Co. Ltd ("Anyang Jiujiu") amounted to RMB145,000,000 and constituted 10% of the group's total assets.

- (ii) **Can the board, especially the independent directors, help shareholders better understand the commercial basis to provide advance payments to suppliers? How were such terms negotiated?**
- (iii) **Did the board carry out a risk assessment on the advance payments made to its suppliers?**

Q3. The group reported a profit and total comprehensive income for FY2020 of RMB 173.7 million (page 62 – Consolidated statement of changes in equity). On page 63, in the statement of changes in equity for the company, it was shown that the company recognised a loss and total comprehensive loss for the financial year of RMB (10.7) million (reproduced below).

STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2020

	Note	Share capital RMB'000	Accumulated losses RMB'000	Total equity RMB'000
Company				
Balance at 1 January 2019		661,153	(113,138)	548,015
Loss and total comprehensive loss for the financial year		–	(228,593)	(228,593)
Balance at 31 December 2019		661,153	(341,731)	319,422
Issue of shares	24	49,002	–	49,002
Share issue expenses	24	(178)	–	(178)
Loss and total comprehensive loss for the financial year		–	(10,685)	(10,685)
Balance at 31 December 2020		709,977	(352,416)	357,561

(Source: company annual report)

- (i) **Can the board help shareholders reconcile the significant difference in the profit and loss at the group level and at the company level?**

In addition, on page 47, the company has stated that it has not recommended any dividend for FY2020 as the company was not profitable and was not in a position to declare dividend to shareholders as at 31 December 2020. According to SGX's data on the company's corporate actions, the company last paid a dividend in May 2008.

- (ii) **Can the board help shareholders understand the deliberations it has had on the declaration of dividends?**
- (iii) **How does the board balance growth and providing returns to shareholders?**

^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>)