

TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED
 (Company Registration No. 91120000103100784F)
 (Incorporated in People's Republic of China)

RESPONSE TO SGX QUERIES ON THE SECOND QUARTER RESULTS FOR THE PERIOD ENDED 30 JUNE 2020

All capitalised terms used herein, unless the context otherwise requires, shall bear the meanings ascribed to them in the HY2020 Results (as defined below).

Tianjin Zhong Xin Pharmaceutical Group Corporation Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) has received queries from the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) regarding the Company’s second quarter results for the financial period ended 30 June 2020 (“**HY2020**”) announced on 14 August 2020 (the “**HY2020 Results**”). The Company’s responses to the queries of the SGX-ST are set out below:-

SGX Query 1

Please disclose the nature of "Other income including interest income" of RMB 31.5million in HY2020 and the reasons for the 90.4% increase in "Other income including interest income" in HY2020 as compared to HY2019.

Company’s response:

As of 30 June 2020, the breakdown of other income mainly includes interest income are as follows:

	6-month period from 1 January to 30 June 2020	6-month period from 1 January to 30 June 2019	Change	
	RMB'000	RMB'000	RMB'000	%
Interest income (Note 1)	13,608	7,102	6,506	91.6
Government grant (Note 2)	14,764	4,059	10,705	n.m
Others (Note 3)	3,114	5,377	(2,263)	(42.1)
	31,486	16,538	14,948	90.4

Note 1 – Interest income increased by RMB6.51 million over corresponding period due mainly to increase in bank deposit interest.

Note 2 – Government grant increased by RMB10.71 million over corresponding period due mainly to additional subsidies of RMB9.47 million from the Bureau of Finance of China during HY2020.

Note 3 – Others comprise of investment income and net gain on disposals of financial assets.

SGX Query 2

Please disclose the reasons for the significant 17.7% increase in "Trade and other receivables" in HY2020, as compared to HY2019, when revenue decreased by 7%. To provide a breakdown of these "trade and other receivables", and the nature of these trade and other receivables in HY2020 and HY2019 respectively and disclose the aging of the "trade and other receivables" in bands of 3 months (with the upper limit of the longest due debt specified in bands of 3 months).

Company's response:

The breakdown of trade and other receivables are as follows:

	30 June 2020	31 December 2019	Change	
	RMB'000	RMB'000	RMB'000	%
Trade receivables	1,715,845	1,373,019	342,826	25.0
Other receivables (Note 1)	20,802	11,442	9,360	82.0
Bill receivables	391,258	424,127	(32,869)	(7.7)
	2,127,905	1,808,588	319,317	17.7

Note 1 – Other receivables comprise of security deposits, reserve funds and other non-trade receivables.

The significant 17.7% increase in trade and other receivables as at 30 June 2020, as compared to 31 December 2019 was mainly due to delay in settlement by certain commercial customers and public medical institutions during the aftermath of the COVID-19 pandemic, thus resulting in an increase in accounts receivable of RMB342.8 million.

The aging of trade receivables are as follows:

	Gross amount	Expected loss rate	Loss allowance	Net
	RMB'000	%	RMB'000	RMB'000
<u>2020</u>				
Within 1 year	1,688,392	0.03	507	1,687,885
1 – 2 years	28,244	20.00	5,649	22,595
2 – 3 years	10,730	50.00	5,365	5,365
Over 3 years	138,380	100.00	138,380	-
Total	1,865,746		149,901	1,715,845
<u>2019</u>				
Within 1 year	1,354,268	0.03	400	1,353,868
1 – 2 years	16,366	20.00	3,273	13,093
2 – 3 years	12,116	50.00	6,058	6,058
Over 3 years	135,561	100.00	135,561	-
Total	1,518,311		145,292	1,373,019

The Company monitors the aging of trade receivables in bands of 12 months which is consistent with its annual audited financial statements.

SGX Query 3

In HY2020, the Company recorded RMB 11.7 mil impairment loss on trade and other receivables, made an "allowance for impairment loss on trade receivables" of RMB 4.6mil and "allowance of impairment loss on other receivables" of RMB 492K. Does the Company have difficulty collecting its debts from its trade and other debtors. Please disclose the profile of these debtors, as individuals or corporates and industry; and also elaborate on the Company's impairment policy.

Company's response:

The customers of the company comprise of commercial corporate customers (e.g. retailers and wholesalers) in the pharmaceutical sector, hospitals and public medical institutions. The Company does not have any difficulty in collecting its debts from its trade and other receivables other than delay in settlement of debts from customers in the aftermath of COVID-19 pandemic as mentioned in the Company's response to SGX Query 2 above.

The loss allowances were made in accordance with IFRS 9 which was adopted by the Company in the financial year ended 31 December 2019. The impairment policy is as follows:

For trade receivables, the methodology applied for impairment loss is the simplified approach to measuring expected credit losses ("ECL") which uses a lifetime expected loss allowance for all trade receivables. The expected lifetime losses are recognised from initial recognition of these receivables. Trade receivables are grouped based on shared credit risk characteristics and the days past due for measuring the expected credit losses. The allowance matrix is based on its historical observed default rates (over a period of 60 months) over the expected life of the trade receivables and is adjusted for forward-looking estimates (including aftermath of COVID-19 Pandemic).

The loss allowance of other receivables is recognised based on a general approach at an amount equal to 12-month expected credit losses from initial recognition of receivables until a significant increase in credit risk has occurred, at which point the loss allowance is measured based on lifetime expected credit loss.

SGX Query 4

Please disclose the reasons for the 12% increase in "Trade and other payables" in HY2020, as compared to HY2019, the nature of the underlying transactions and provide a breakdown of these "trade and other payables".

Company's response:

As of 30 June 2020, trade and other payables increased by 12% mainly due to the delay in settlement of debts from customers in the aftermath of COVID-19 pandemic. In order to maintain the Company's cash position, the Company strengthens capital management and control, plans for capital use, and correspondingly extends the payment cycle of its payables.

The breakdown of trade and other payables are as follows:

	30 June 2020	31 December 2019	Change	
	RMB'000	RMB'000	RMB'000	%
Trade payables	737,677	660,904	76,773	11.6
Other payables	968,853	856,478	112,375	13.1
Accrued salaries	172,828	142,940	29,888	20.9
Tax payables	45,228	52,906	(7,678)	(14.5)
Dividend payables	14,768	19,352	(4,584)	(23.7)
Total	1,939,354	1,732,580	206,774	11.9

By order of the Board

Jiao Yan
Company Secretary
3 September 2020