

Issuer: Zhongxin Fruit and Juice Limited

Security: Zhongxin Fruit and Juice Limited

Meeting details:

Date: 26 October 2017

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)

Q1. For FY2017, the group generated total revenue of RMB88.96 Million and net profit of RMB3.42 million.

- a) Can management let shareholders know what was the volume of concentrated apple juice produced/sold and what was the average selling price of its products?**

The group has three apple processing sites in Xuzhou city, Jiangsu province, Yuncheng city, Shanxi province and Linyi county, Yuncheng city, Shanxi province (joint venture).

- b) What were the utilisation rates of each of the three manufacturing sites in the group?**
- c) As at 30 June 2017, the group has committed RMB4.5 million (construction costs) for future capital expenditure. Can management tell shareholders what is being constructed, and at which of the three sites?**

Q2. Since the corporate restructuring in 2013, the group has had plans to expand beyond a single-product. From the 2013 Annual Report onwards, the group's Corporate Profile has shown the group's aspirations:

***Annual Report 2013:** Looking ahead, we aim to broaden our product varieties to include vegetable juice, fruit vinegar and fruit wine. We may also develop use of residues from our production to produce by-products such as animal feed, extract pectin and dietary fiber. We will also consider producing other value-added health and beauty food to expand our business segments in the long run.*

In the Chairman's Message in the 2015 Annual Report, it was said that:

Becoming an integrated fruit and vegetable juice production holding company is the Group's strategic development objective for the upcoming year as we aim to expand our product range beyond apple juice. With China as our production platform and Singapore as our capital base, the Group targets to secure a foothold in the processing and trading sectors of the fruit juice industry. By promoting technological innovation, diversifying operating structure for fruits and vegetable juices and related products, and developing production chain for collaborative benefits, we aim to strengthen our market presence to continue enhancing shareholders' value.

This year, in the 2017 annual report, the Chairman has once again made the call for the group to diversify its operations:

In addition, we also endeavour to grow beyond being a company with a single product line. Leveraging on our existing R&D platform, we aim to step up our innovative efforts and strengthen collaboration between our businesses and projects to effectively improve corporate returns. At the same time, we would manage the risks associated with a single product market, so as to generate sustainable returns for our shareholders.

- a) With the core business seemingly stable and growing steadily, can management update shareholders on the progress made in diversifying the group's business? What are the group's growth plans beyond apple juice concentrate? Please include major milestones and targets.**
- b) What is the expected capital expenditure for the expansion?**

Q3. As disclosed in the company's Corporate Governance Report (page 20), the Audit Committee "assists the Board in discharging its responsibility to safeguard the assets of the Company, maintain adequate accounting records, and develop and maintain effective systems of internal control".

In Note 5 (page 50 – Other operating income), the group recognised a Write-back of trade and other payables of RMB183,000 in 2017 and RMB3,736,000 in 2016.

The explanation given in the Note for the write-back of trade payables was given as:

During the current and previous financial year, the Management has gone through a detailed analysis and assessment of the trade and other payables recorded by the Company's subsidiaries, Yuncheng Zhongxin Fruit and Juice Company Limited ("Yuncheng Zhongxin") and Xuzhou Zhongxin and concluded that the outstanding trade and other payables of approximately RMB183,000 (2016: RMB3,736,000) were no longer liable to be paid. Consequently, these amounts were written back to profit or loss as other income in the relevant financial year.

- a) **Can management and the audit committee explain why such adjustments and write-backs are necessary?**
- b) **Are there adequate accounting records and are the internal controls robust enough to ensure that such write-backs are not necessary in the first place?**
- c) **How can management assure shareholders that the write-back of payables was comprehensive?**

The group has said that: "Moving into FY2018, Zhongxin and its subsidiaries will further step up its efforts in enhancing the Company's management and strengthening its internal control" (page 7).

- d) **Can the board and the audit committee provide the detailed plans to strengthen the group's internal controls so as to better safeguard shareholders' interests?**