

**Issuer:** Cordlife Group Limited

**Security:** Cordlife Group Limited

**Meeting details:**

Date: 27 October 2017

Time: 10.00 a.m.

Venue: Seletar Room, Level 3, Temasek Club, 131 Rifle Range Road, Singapore 588406

**Company Description**

Cordlife Group Limited, an investment holding company, provides cord blood banking services in Singapore, Hong Kong, India, Malaysia, and internationally. It operates through two segments, Banking and Diagnostics. The company's cord blood banking services include the processing and storage of stem cells. It also offers cord lining banking and newborn screening services for metabolic disorders. The company was formerly known as Cordlife Pte Ltd and changed its name to Cordlife Group Limited in 2011. Cordlife Group Limited was founded in 2001 and is headquartered in Singapore.

(Source: [http://www.sgx.com/wps/portal/sgxweb/home/company\\_disclosure/stockfacts?code=P8A](http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=P8A))

**Q1.** Some of the key highlights as presented in the Chairman's Message (page 5 of the annual report) include:

- We managed to achieve in FY2017 revenue of S\$59.9 million, the highest in any given year since our public listing in 2012
- ... a respectable compounded annual growth rate of approximately 14.6% over the past five years
- Our diagnostics business ... contributed revenue of S\$896,000 in FY2017, up from S\$532,000 in the previous year
- Overall, we made a gross profit of S\$38.8 million in FY2017, representing a compounded annual growth rate of 12.5% for gross profit over the past five years.

In both the Chairman's Message and the Group CEO's Message, it was not mentioned that the group reported a loss for the year attributable to owners of the company of \$(2.6) million.

- a) While shareholders appreciate the hard work and the progress made by the group, it would also be beneficial if the Chairman, the board, the CEO and the company are more transparent with shareholders and provide them with the complete picture so that shareholders understand the prospects and the challenges of the group better. **Would the Chairman consider providing a more balanced and candid view in his message to shareholders to highlight both the opportunities and the challenges faced by the group?**

**Q2.** Shareholder would like to better understand the business model of the group and the key developments in the core markets.

**Business model:** In its reply to the query by SGX-ST on the unaudited financial statements for the period ended 31 March 2017 dated 31 May 2017, the company has explained that the term of the contracts with customers extends up to 21 years and varies according to jurisdiction. The payment options are as follows:

**Response to SGX-ST Query**

The term of the contracts with the Group's customers is a period of 18 or 21 years. Depending on the relevant jurisdiction, customers may choose to make payment through one of the following payment structures according to the terms of the service agreement (the "**Agreement**"):

- (a) a one-time lump sum payment payable within a credit period, the length of which varies depending on the relevant jurisdiction (the "**Lump Sum Payment Plan**");
- (b) an upfront amount upon signing of the Agreement with subsequent yearly instalments over a 18-year or 21-year period;
- (c) monthly instalments over a period of 12, 24, 36 or 48 months beginning on the date of the Agreement (the "**Instalment Payment Plan**"); or
- (d) a first payment made at the time of signing of the Agreement, followed by the payment of a fixed sum made at every anniversary of the baby's birth date between the 11th and the 20th anniversaries of the baby's birth date.

(Source: Company announcement dated 31 May 2017)

- a) **Can the company help shareholders understand the historical trends of the choice of payment options in the different key markets?**

**Singapore:** Revenue in the core market of Singapore dropped to \$26.3 million in 2017 from \$29.4 million in 2016. This 11% drop follows a drop in revenue of 12% in 2016, when revenue slipped from \$33.3 million to \$29.4 million.

- b) **Can management provide some clarity on the competitive landscape in Singapore? What is the group's market share in Singapore? Specifically, how much of the revenue in Singapore constitutes recurring instalment payments by customers on long term payment plans?**

**India:** India is the second largest market behind Singapore with revenue of \$12.4 million in 2017.

- c) **With the accreditation by the College of American Pathologists in November 2016, what impact will it have on the positioning and sales of Cordlife in the Indian market? Was the group affected by the demonetisation efforts?**

**Myanmar:** The group has announced that it became “the first Singapore company to offer banking services for cord blood, cord lining and cord tissue in Myanmar, where more than 900,000 babies are born every year”.

- d) **Can shareholders understand the level of competition in the market? Is the group the first company in Myanmar to offer such services?**

**Q3.** Impairment of trade receivables was one of the four key audit matters (KAMs) highlighted in the Independent Auditor’s Report. 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.

In Note 36 (page 118 – Credit risk), it was said that:

*“Trade receivables comprise amounts due from individual customers and therefore the individuals cannot be subject to the types of credit assessments that could be otherwise undertaken if dealing with a corporate entity”.*

In the reply to the SGX dated 31 May 2017, it was stated that:

*The Group manages its trade debts by performing ongoing credit evaluation of the debtors' financial condition and making specific allowances for impairment of trade receivables based on the expected collectability of the receivables after considering supportable past collection history and responses to the Group's attempts to recover outstanding amounts. An allowance for impairment loss is recognised when there is objective evidence that a trade receivable is impaired.*

- a) **Can management clarify the level of customer credit assessment/credit evaluation that is carried out in each of the markets?**

In addition, it was described in the KAM that:

*As at 30 June 2017, the Group’s non-current and current trade receivables amounted to \$63.1 million and \$24.5 million respectively, net of allowance for impairment of \$0.7 million and \$2.8 million respectively. Non-current trade receivables represent cord blood, cord lining and cord tissue banking service revenue receivable under instalment payment plans that have yet to be billed to the customer.*

The charge for the year on trade receivables increased from \$325,000 in 2016 to \$737,000 in 2017.

- b) **Can management provide a breakdown of the impairment by country?**
- c) **Can shareholders understand if the current portion of receivables is impaired, does management also impair the non-current portion of receivables of the same customer?**
- d) **What are the recovery procedures that can be initiated by the credit control department?**

Receivables that are past due but more than 90 days but not impaired have increased as shown in the company’s disclosure below (page 103).

**Receivables that are past due but not impaired**

The Group and the Company have trade receivables amounting to \$9,387,000 (2016: \$7,982,000) and \$3,885,000 (2016: \$3,501,000) respectively that are past due but not impaired. These receivables are unsecured and the analysis of their aging at the end of the reporting period is as follows:

|                | Total<br>\$'000 | Less than 31<br>days<br>\$'000 | 31 – 60<br>days<br>\$'000 | 61 – 90<br>days<br>\$'000 | >90<br>days<br>\$'000 |
|----------------|-----------------|--------------------------------|---------------------------|---------------------------|-----------------------|
| <b>Group</b>   |                 |                                |                           |                           |                       |
| 30 June 2016   | 7,982           | 1,929                          | 932                       | 574                       | 4,547                 |
| 30 June 2017   | 9,387           | 1,657                          | 853                       | 792                       | 6,085                 |
| <b>Company</b> |                 |                                |                           |                           |                       |
| 30 June 2016   | 3,501           | 1,103                          | 516                       | 276                       | 1,606                 |
| 30 June 2017   | 3,885           | 788                            | 381                       | 227                       | 2,489                 |

- e) **Can the group provide an upper limit to the aging of the trade receivables?**
- f) **Please also provide a breakdown of the receivables that are past due but not impaired on a country by country basis.**
- g) **In particular, trade receivables past due by more than 90 days but not impaired has increased by more than a third to \$6.1 million. What are the group's plans to collect these relatively long overdue payments?**
- h) **As a follow up question to the SGX-ST's query, can the group comment if it has any difficulties in collecting its trade debts and is there evidence of a deterioration to the collectability of the group's trade receivables?**
- i) **If so, how does the board and management intend to improve the customer credit assessment process?**

A copy of the questions for the Annual Report for the financial year ended 30 June 2016 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Cordlife%20Group%20Ltd>

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