



Securities Investors Association (Singapore)

7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111

Tel: (65) 6227 2683 Fax: (65) 6220 6614

Email: admin@sias.org.sg www.sias.org.sg

UEN No: S99SS0111B

GST Reg No: M90367530Y

Issuer: Sunmoon Food Company Limited

Security: Sunmoon Food Company Limited

Meeting details:

Date: 31 July 2018

Time: 2.00 p.m.

Venue: 137 Cecil Street, #03-01 Hengda Building, Singapore 069537 (Room Tokyo 2)

Company Description

Sunmoon Food Company Limited, an investment holding company, distributes and markets branded fresh fruits, vegetables, and consumer products worldwide. Its fresh fruits include apples, pears, stone fruits, and seasonal fruits; and consumer products comprise fruit cups, juices, snacks, and frozen products. The company also manages a network of retail franchise outlets. It distributes products through supermarkets, convenience stores, online and wholesale channels, airlines, and food services. Sunmoon Food Company Limited was founded in 1977 and is headquartered in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=AAJ)



1. As seen in the Consolidated income statement, the group's gross profit slipped to \$776,000 even as revenue increased by 123% to \$44.9 million for the 12 months ended 31 March 2018. The group's gross profit margin was 1.7% in FY2018 and 4.1% in FY2017, or a simple average of 3.9% over the last 27 months.

CONSOLIDATED INCOME STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

		Group	
	Note	2018 \$'000	Period from 1.1.2016 to 31.3.2017 \$'000
			Re-stated
Continuing operations			
Revenue	4	44,879	20,104
Cost of sales		(44,103)	(19,284)
Gross profit		776	820

- (i) **With such thin margin, can management elaborate further on how it is going to generate sustainable long term value for its shareholders?**
- (ii) **Is the company getting a return that is commensurate with the level of risks taken in its business?**
- (iii) **As the company scales up and improves its efficiency and pricing power, what is the projected gross profit margin from its operations in the near/mid-term (e.g. in 2-3 years' time)?**
- (iv) **Would management be refining the "N x G x P" business model to focus on profitability?**

2. The "Recoverability of trade receivables" (page 31) is one of four key audit matters (KAMs) highlighted by the Independent Auditor in their report on the Audit of the Financial Statements. 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.

As noted in the KAM, the carrying amount of trade receivables as at 31 March 2018 amounted to \$10.1 million, net of allowance for doubtful debts of \$2.3 million. This accounts for two-thirds of the group's total equity.

Trade and other receivables have tripled to \$12.1 million as at 31 March 2018 from \$4.1 million a year ago. In particular, trade receivables increased from \$3.4 million to \$10.1 million.

In addition, under Note 27(a) (page 86 – Credit risks; shown below), the amount of trade receivables past due over 90 days but not impaired has increased to \$3.8 million as at 31 March 2018.

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 16.

The age analysis of trade receivables as at the end of the reporting period that are past due but not impaired is as follows:

	Group	
	2018 \$'000	2017 \$'000
Past due 0 to 30 days	3,058	532
Past due 31 to 60 days	606	225
Past due 61 to 90 days	243	102
Past due over 90 days	3,827	1,698

(Source: Company annual report)

- (i) Can management help shareholders understand the specific reasons for the increase in trade receivables past due over 90 days but not impaired?**
- (ii) What was the process by management to evaluate the collectability of these long outstanding debts?**
- (iii) Can management provide a more meaningful analysis by providing an upper limit to the aging (with the appropriate breakdown)? Please also provide a breakdown to show the profile of the debtors with long outstanding debt, including the country, amount overdue and aging.**
- (iv) What are the efforts by management to collect these long outstanding debt?**
- (v) As the group scales up its business rapidly, would the board consider it necessary to review the group's credit risk assessment and ongoing credit evaluation framework to increase its robustness and effectiveness?**

3. On 28 May 2018, the company announced its unaudited full year financial statements for the financial year ended 31 March 2018. It included a restatement of the prior financial year opening balance due to the following reasons:

- Timing of disposal of certain subsidiaries to be delayed from FY2017 to FY2018 as shareholders' approval was only obtained in FY2018
- Intangible assets of \$3.0 million recognised as having been purchased from subsidiary disposed off were de-recognised as these do not meet recognition criteria
- Receivable balances due from certain customers amounting to \$1.5 million were impaired

- Reversal of bonus accruals amounting to \$0.18 million

In addition, on 5 July 2018, the company announced that there are variance between the unaudited full year financial results announcement and the audited financial statements for the financial year ended 31 March 2018.

Other than the adjustment relating to the contingent issuance of top-up adjustment shares to be issued to Shanghai Yiguo, the reasons included:

- Reclassification of balances between “Trade and Other Receivables” and “Trade and Other Payables” - \$688,000
- Provision for directors’ fees - \$43,000

- (i) As the directors have responsibilities to oversee the group’s financial reporting process, can the directors, especially the directors in the audit committee (AC), help shareholders understand their individual and collective efforts in the preparation of the group’s financial statements to give a true and fair view in accordance with the provisions of the Act and FRSS?**
- (ii) Has the AC evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?**
- (iii) What changes has the AC made to the group’s systems and processes to improve the quality and accuracy of the financial statements?**

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

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

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