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Issuer: SunMoon Food Company Limited

Stock code: AAJ

Meeting details:

Date: 30 Jul 2024

Time: 2.00 p.m.

Venue: Capri Changi City, meeting room Pod 1, 3 Changi Business Park Central 1, Singapore 486037

Q1. It is noted that the group holds just \$208,000 in plant and equipment under non-current assets, with current assets totalling \$11 million, comprising cash, trade receivables and inventories. The group's business model appears to primarily involve acting as a middleman, connecting suppliers to buyers while maintaining minimal physical assets.

- (i) **Could management provide shareholders with a holistic overview of the group's businesses model during the AGM and post the entire management presentation on SGXNet for the benefit of all shareholders?**
- (ii) **Please highlight the group's competitive advantages of bringing new products into China ("Import business") and its operations in Southeast Asia.**

Despite the CEO's emphasis on focusing on core categories and customers in the Southeast Asian markets, revenue from this region declined from \$4.27 million to \$1.53 million.

22. SEGMENT INFORMATION (CONTINUED)

Geographical information

The Group operates in several geographical areas. Revenue is based on the region in which the customers are located. Non-current assets comprise of the plant and equipment as presented in the statement of financial position of the Group. Non-current assets are shown by the geographical area in which the assets are located.

	Revenue		Non-current assets	
	2024 \$'000	2023 \$'000	2024 \$'000	2023 \$'000
ASEAN	1,528	4,270	208	43
People's Republic of China	25,533	38,098	-	-
	27,061	42,368	208	43

Revenue of approximately \$22,693,000 (2023: \$25,368,000) is derived from 4 (2023: 4) customers. Revenue from these external third-party customers individually constitutes more than 5% of total revenue for both financial years.

(Source: company annual report)

- (iii) **Please also provide an overview with the breakdown of the group's existing supplier network and sales channels.**
- (iv) **By referring to the Chinese market as the 'import business', can management clarify whether there is a strategic focus on growing China as the core and home market? Is the key management team based in and operating from China?**

- (v) **What are the profiles of the group's four major customers who account for 84% of total revenue? What are management's efforts to ensure that these customers are creditworthy and remain financially strong?**

- (vi) **How dependent is the group on the controlling company, Shanghai Yiguo E-commerce Co. Ltd, and its related entities for operations, strategic planning, and human resources? What is the size of the company's own staff?**

Q2. For the financial year ended 31 March 2024, the group achieved a gross profit of \$820,000 based on revenue of \$27.1 million, resulting in a gross profit margin of 3.0%.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2024

	Note	Group	
		2024 \$'000	2023 \$'000
Revenue	4	27,061	42,368
Cost of sales		(26,241)	(41,490)
Gross profit		820	878
Other income			
– Interest income		1	1
– Other income	5	450	333

(Source: company annual report)

The gross profits in the prior three years are \$878,000 (2.1%) in FY2023, \$1,409,000 (3.6%) in FY2022 and \$900,000 (2.7%) in FY2021. As noted in the CEO's statement, gross profit margin improved by approximately 50%, from 2.1% in 2023 to 3.0% in 2024 as the group shifted its focus to sales of products with higher gross margins.

- (i) **Can the board elaborate on the specific profit margin and other operational and financial metrics considered during the approval process for the group's operational, strategic, and investment plans?**
- (ii) **What are the targeted gross profit margin and net profit margin for the group?**
- (iii) **What is the current cost of capital for the group, and what strategies are in place to ensure that returns exceed this cost to generate shareholder value? How does the board monitor and measure these returns against the cost of capital?**
- (iv) **Can the company identify the key success factors critical to its operations and provide an assessment of the group's strengths and weaknesses in each of these areas? How does the company plan to address any identified weaknesses to improve overall performance?**

Q3. In the annual report for FY2023, the company disclosed that the internal audit was performed for the key subsidiaries by Shanghai Xuancheng Certified Public Accountants, an outsourced internal audit firm in China and there were no exceptions identified.

For FY2024, such disclosure appears to be lacking in the annual report.

- (i) **Could the audit and risk committee (ARC) confirm that there was an independent, objective and effective internal audit function for the group in FY2024? Has the internal audit function been transitioned in-house?**
- (ii) **If so, can the ARC explain the rationale behind transitioning from an outsourced internal audit function to an in-house internal audit team? What benefits does the ARC anticipate from this change?**
- (iii) **Can the ARC provide details on the composition of the in-house internal audit team, including the size of the team and the specific experience, qualifications, and certifications of its members?**
- (iv) **Can the ARC confirm that the in-house internal auditor complies with the standards set by nationally or internationally recognised professional bodies, such as the International Standards for the Professional Practice of Internal Auditing (IIA Standards) issued by the Institute of Internal Auditors?**
- (v) **Can the ARC provide a detailed overview of the scope of the internal audit for FY2024, along with the key findings and specific recommendations made by the internal auditor?**
- (vi) **Did the ARC meet with the internal auditor without the presence of management? How many such meetings were there in the year?**

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

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