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Issuer: SunMoon Food Company Limited

Stock code: AAJ

Meeting details:

Date: 29 September 2020

Time: 2.00 p.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

Q1. The group's revenue dropped 75% to \$18.0 million and the group reported a loss before income tax of \$(2.65) million for the financial year ended 31 March 2020. The financial highlights can be found on page 9 of the annual report and is reproduced below:

FINANCIAL HIGHLIGHTS

	FY2019/20 (12 months)	FY2018/19 (12 months)	FY2017/18 (12 months)	FY2016/17 (15 months) Re-stated	FY2015
Turnover (\$ Millions)	18.00	72.57	44.88	20.10	14.09
Profit/(Loss) from before Income Tax (\$ Millions)*	(2.65)	(3.70)	(3.78)	(7.58)	(4.15)
Shareholders' funds (\$ Millions)	7.74	8.37	14.88	0.68	11.19
Net Tangible Assets per Share (Cents)	0.99	1.17	2.05	0.21	3.51
Net Earning/(Loss) per Share (Cents)*	(0.37)	(0.52)	(0.61)	(2.38)	(1.30)

* Amount attributable to continuing operations and excludes fair value adjustment on financial liabilities arising from contingent issuance of shares

(Source: company annual report)

In the CEO's message, it was disclosed that the decrease in revenue as due to the changes in the economic environment, an organisation re-structuring and the COVID-19 pandemic. The group is focusing on businesses with positive margin and it has improved the gross profit margin to 5.05% in FY2020, compared to just 1.1% in the previous year. However, as shown in the financial highlights, the group has reported losses in the previous 5 financial periods. In fact, since FY2014, the cumulative losses before tax have added up to \$(23.34) million.

Net tangible assets per share has slipped to 0.99 cents as at 31 March 2020.

- (i) **How much progress has the group made in the new business of distributing meat, vegetables and seafood? How synergistic is the sale of meat, vegetables and seafood to the sale of fruits?**
- (ii) **The group discontinued the agricultural products division in FY2018 and is now venturing to distribution of vegetables. Can management help shareholders understand its competitive advantage in this new business area?**
- (iii) **Can management elaborate further on the group's business model and the achievements in the retail and food service sector?**
- (iv) **The group has reported more than 6 years of losses in the last 6 financial periods and shareholders' funds have slipped to \$7.74 million. What are the operational milestones required for the group to at least achieve break-even?**

Q2. On 7 September 2020, the company made a general announcement on SGXNet with the title “General Announcement: Pursuant to Rule 704(6 & 5), Change of auditor, proposed expanded IPT mandate”.

Rule 704(5) and Rule 704(6) relate to the qualified opinion issued by the independent auditor on the audited financial statements for the financial year ended 31 March 2020 and the material adjustments between the audited financial statements for the financial year ended 31 March 2020 (as announced on 7 September 2020) and the unaudited financial statements for the financial year respectively.

- (i) **Has the board/management considered if the title of the company’s announcement could be made clearer to directly refer to the qualified opinion issued by the independent auditors?** Other issuers have used the announcement category “Financial statements and related announcement” and included the subtitle of “Auditor’s comments of accounts” or “Qualified opinion by independent auditor for financial year ended 31 March 2020”.

The basis for qualified opinion relates to the “recoverability of trade receivables from and advances to related parties”. The auditors’ comments are reproduced below:

As disclosed in Note 15 to the financial statements, the Group has gross trade receivables due from related parties amounting to \$6,605,000 and expected credit loss of \$1,441,000 has been provided against these receivables as at 31 March 2020. There were significant delays in the settlement of these trade receivables and a large portion of these debts have become long overdue as at 31 March 2020. Subsequent to the year end, the net outstanding amount has increased. The Group has entered into an instalment plan with the related parties in July 2020 to progressively recover the receivables. Collectively, these factors raise doubts on the ability of the related parties to repay the trade receivables or on the timing of the cash flows. We have also not been able to obtain the relevant financial information of the related parties regarding their financial ability to settle the amounts. As a result, we were unable to determine the reasonableness of the assumptions used to determine the expected credit loss of the trade receivables as at 31 March 2020.

As further disclosed in Note 15, as at 31 March 2020 the Group has \$4,428,000 placed with related parties as advances for purchases of goods. These balances have been accounted for as prepayments for purchase of goods and there were delays by the related parties in fulfilling the expected purchase commitments as at 31 March 2020. A portion of these balances was recovered through purchases after year end and management has represented that the remaining balances are refundable if the related parties are unable to fulfill the purchase commitments. We have also not been able to obtain relevant financial information of the related parties to seek an understanding of their financial position. Consequently, we have not been able to reasonably assess the nature or the appropriateness of the carrying amount of the advances as at 31 March 2020.

- (ii) **Has the audit committee reviewed the long outstanding trade receivables from related parties?**
- (iii) **How did the audit committee facilitate the independent auditors in the audit, especially in requesting for relevant financial information of the related parties regarding their financial ability to settle the outstanding debts?**
- (iv) **Has the audit committee reviewed the group's policy and practice of making advances and pre-payments, especially to related parties?**
- (v) At the annual general meeting scheduled to be held on 29 September 2020, the company is seeking a proposed renewal of the interested person transaction mandate. If approved, the mandate would be expanded in scope. **Would the board consider it prudent to cease all IPTs until the issues raised by the auditors in the audit have been resolved to safeguard the interests of the minority shareholders?**
- (vi) **Given the qualified opinion and the seriousness of the issues raised by the independent auditors, can the directors, especially the independent directors, help shareholders understand why they have stated that "the consolidated financial statements of the Group and the balance sheet of the Company are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 March 2020 and the financial performance, changes in equity and cash flows of the Group for the year" in the Directors' Statement (page 28) [emphasis added]?**

Q3. The attendance of directors at board and board committee meetings is shown in the table below (page 13):

DIRECTORS' MEETINGS HELD FY2019/20

Details of directors' attendance at the Board and Board Committee meetings held for the financial year from 1 April 2019 to 31 March 2020 ("FY2019/20") are summarised in the table below.

DIRECTORS' ATTENDANCE AT BOARD AND BOARD COMMITTEE MEETINGS

	Board	Audit & Risk Committee	Remuneration Committee	Nominating Committee
Number of Meetings held	4	4	1	1
Directors during the financial year				
Mr James Prideaux	4	4	1	1
Mr Gary Loh Hock Chuan	4	NA	NA	NA
Mr Zhang Ye	4	NA	NA	1
Ms Ng Bie Tjin @Djuniarti Intan	4	4	1	1
Mr Yang Guang	4	4	1	1
Mr Jin Guanglei	1	1	1	1
Ms Liu Yuanyuan	3	NA	NA	NA
Mr Cen Jian ⁽¹⁾	NA	NA	NA	NA
Mr Yu Liang ⁽²⁾	1	NA	NA	NA

(1) Mr Cen Jian was appointed as the Executive Director of the Company on 21 August 2020.

(2) Mr Yu Liang had resigned as the Non-Independent Non Executive Director of the Company on 21 August 2020.

(Source: company annual report)

As seen in the table above, Mr Jin Guanglei, Ms Liu Yuanyuan and Mr Yu Liang missed some of the board meetings. Mr Jin Guanglei and Mr Yu Liang attended only 1 board meeting each, the latter just resigned on 21 August 2020. Ms Liu Yuanyuan attended 3 out of the 4 board meetings.

- (i) **What are the extenuating circumstances that caused the directors to be absent for the board meetings?**
- (ii) **Has the nominating committee evaluated the effectiveness of directors in his/her ability and commitment to discharge his/her duties effectively?**
- (iii) **How can the company secretary and the company work together with the board to improve the attendance of directors at the board meetings?**

^Amid the global COVID-19 outbreak, issuers who choose to proceed with the AGM before 30 April 2020 must provide opportunities for shareholders to ask questions. Shareholders are encouraged to read the annual report and submit any questions they might have to the companies in advance. Issuers would then publicly address the questions at the general meeting via the issuer's website, through "live" webcast and on SGXNet.

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

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on [SIAS website](http://www.sias.org.sg)

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^ Joint Statement by Accounting and Corporate Regulatory Authority, Monetary Authority of Singapore and Singapore Exchange Regulation dated 31 Mar 2020 (<https://www.sgx.com/media-centre/20200331-acra-mas-and-sgx-regco-update-guidance-general-meetings>)