

Fruit company SunMoon restructures operations, looks to expand market

| BY NOVA THERESIAN TO |

Gary Loh Hock Chuan made his money during his 12-year career as a stockbroker and banker. But these days, he is trying to grow his wealth by investing in ailing companies and setting them back on the path to profitability by "building a real sustainable business". One of the companies he is working on is SunMoon Food Company. Formerly known as FHTK, it grows and sources fresh fruits like apples, grapes and pears in China and exports them to the US, UK, Canada, Spain, The Netherlands, Australia as well as Southeast Asia.

SunMoon also produces dehydrated garlic and onion powder, which it sells to companies like US-based McCormick & Co.

Listed in 1997, just as the financial crisis was beginning to bite, the company had little time to make a good impression on investors. It quickly sank into losses, and never really recovered. Shares in the company, which traded as high as 33 cents in 1997, tumbled to a low of half a cent in April 2006. But Loh reckons there is value in the company and that its floundering business can be turned around with a fresh injection of capital and some modifications to its business model. "It has two things that we thought are very good," he tells *The*

Edge Singapore, "a very good global brand and [an international] customer base."

In January last year, Loh began discussions with the board of SunMoon on investing in the company and turning it around. In May, Loh was appointed deputy chairman and chairman of the executive committee, and set about restructuring the company's management team and business operations. Among other things, the company's businesses were segmented into four divisions — trading, plantations, packaging and dehydrated food processing — in order to better monitor and manage them. In June, Wee Liang Pin, an individual with three decades of experience in the food business, was

appointed CEO of the company.

The next step was to bolster SunMoon's balance sheet, which had been battered by years of losses. As at end-2006, the company had accumulated losses of \$65.6 million and bank loans of \$39.4 million. According to Loh, the company's debts were weighing down its profitability and hampering its ability to lift itself back to profitability.

Tapping on his links in the world of finance, Loh's private equity outfit, First Alverstone Capital, formed an investment vehicle called FACT 2006 Pte Ltd and raised money from several investors for SunMoon. Besides Loh himself, the prominent names on the list of investors include Tang Wee Loke, a long-time top executive at UOB KayHian; Tony Tan, a former deputy chairman of healthcare group Parkway Holdings; QAP Capital, an investment company linked to Nicky Tan, who sits on the boards of several public-listed companies; and Jopie Ong, the group managing director at retailing group Metro Holdings.

According to SunMoon's corporate filings, FACT 2006 has agreed to inject \$60 million into the company in the form of a convertible loan to bolster its balance sheet. So far, \$35 million has been advanced, of which \$23 million went to paying off banks and suppliers, and the remaining \$12 million used as working capital.

New business model

One key area of SunMoon's operations that's being overhauled now are its plantations in China. The company owns some 1,769ha of plantation land in Shandong province, which it acquired over the years from local farmers. However, the quality of the fruits produced by these plantations declined over time, forcing SunMoon to sell large quantities of them to local fruit juice companies at relatively low prices instead of exporting them as premium fresh fruit.

The reason for this was because the farmers who worked the plantations were employees with no incentive to improve the quality of the fruits, according to Loh. "We couldn't control the Chinese farmers. They were not used to the fact that they have to work for people."

SunMoon is now leasing the land it owns to farmers, promising to buy the fruits they produce only if they are of sufficiently high quality. That makes the farmers responsible for the profitability of their own operations. "It is an

incentive for them," says CEO Wee. "If they grow better fruits, they get more money." And, it allows SunMoon to only buy good quality fruits without bearing the cost of poor quality harvests. SunMoon has already subleased 620ha of its plantations. It plans to sublease at least half of the remaining 1,149ha that it owns, keeping about 500ha that it will run itself.

SunMoon has also expanded the range of fruits grown at the plantations, which now include premium "stone" fruits like peaches, nectarines and cherries. It is also looking at reducing its reliance on plantations in China, perhaps sourcing for premium fruits from elsewhere in the world. SunMoon currently has 32 fruits processing lines with a total capacity of 500 metric tonnes per day.

Expanding to new markets

Further along the chain, SunMoon is also trying build and expand the distribution segment of its operations. The company has traditionally sold its fruits to importers in different coun-



Grapes in a SunMoon plantation

tries, who then on-sell them to local supermarkets and food stores. SunMoon is now trying to expand its distribution network to more countries. It is in discussions with importers in Japan, Korea and the Middle East.

The company is also trying to go directly to local distributors in some markets and even setting up its own stores. In Singapore, SunMoon is already in discussions with several local supermarket operators. And, it is planning to set up concept fruit stores in China and the region. In the next 12 months, Loh plans to launch at least 10 of these stores, located mainly in China's first-tier cities like Shanghai and Beijing.

In the meantime, SunMoon is selling non-core assets to clean up its balance sheet and raise more cash to fuel its growth. On Nov 15, SunMoon sold its properties in Hong Kong for HK\$7.1 million (\$1.3 million). The following day, it sold its 47.5% stake in Hotel Longsin Co Ltd in Shandong for \$1.2 million. According to Loh, SunMoon would continue to dispose its non-core assets for working capital and focus on its fruits and dehydrated produce business.

So far, however, Loh's moves haven't lifted SunMoon out of the red. The company reported a 12.6% dip in revenue to \$23.1 million for 1H to Dec 30, and a net loss of \$7.3

million. Shares in SunMoon have gone nowhere for months, hovering last week at just one cent, giving the company a market value of \$63.3 million.

Loh is optimistic about an improvement in the months ahead though. Not that he's in a hurry to cash out. In fact, SunMoon isn't the only company he's busy trying to revive. His private equity outfit First Alverstone has also invested in Friven & Co (formerly known as Mayfran International), which sells bed sheets and other soft furnishings. And, he insists that he plans to remain invested in the companies even after they turn profitable, as long as he can keep adding value. **E**



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