SUNMOON FOOD COMPANY LIMITED
Registration No. 198304656K

RESPONSES TO QUESTIONS FROM SHAREHOLDERS AND THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

The board of directors (“**Board**”) of SunMoon Food Company Limited (“**SunMoon**”, the “**Company**” and together with its subsidiaries, the “**Group**”) would like to thank all shareholders of the Company (“**Shareholders**”) who submitted their questions in advance of the Company’s annual general meeting for the financial year ended 31 March 2020 (“**FY2019/20**”). The Company’s responses to the questions received are set out in **Appendix 1**.

In addition to the questions received from Shareholders, the Company has received certain questions from Securities Investors Association (Singapore) (“**SIAS**”) and has prepared and is releasing with this Announcement, responses to the said questions. The Company’s responses to SIAS’ questions are set out in **Appendix 2**.

It is important to note that these questions and responses should be read in conjunction with the Company’s FY2019/20 Annual Report and along with the Company’s previous announcements.

BY ORDER OF THE BOARD

Mr. Zhang Ye
Executive Director and Chief Executive Officer

29 September 2020

Appendix 1

Q1 **Per previous AGM that I had attended, I recalled that CEO has committed to return SunMoon to the black to his best ability. The total revenue in fiscal year 2020 (FY19/20) was $18.00 million, down 75% from fiscal year 2019 (FY18/19) but the gross profit margin of SunMoon in fiscal year 2020 (FY19/20) is 5.05%. Though the improving gross margin is heartening, I am quite concerned over the huge plunge in revenue. Is there a change in customer focus or strategy or is the company losing its customers base?**

SM: There is no change of the Company's strategy. Sales channels have been increased to supermarket and restaurants compared to only wholesale customers previously. The overall business is on the right track. The decline in revenue is mainly due to the impact of COVID-19, in particular to the China market, resulting in market slowdown which resulted in long periods of lockdown, severely impacting supermarkets and restaurant businesses, temporarily halting of international flight and domestic logistic channels. The impact and effects of COVID-19 had therefore directly impacted SunMoon's business. Prior to FY2019/20, the Company's target customers were mainly wholesalers, which meant competitive margins. For FY2019/20, the Company has increased its sales channels to Chinese supermarkets, and franchise restaurants. Through the increase in sales channel and by entering a more competitive market, the Company is able to improve its gross margin.

However, the Company's efforts to focus on improving its product's gross margins has to be done in tandem with an expansion of product offerings (i.e. higher volumes). It was difficult to achieve higher volumes as the Company was concurrently undergoing business restructuring to reduce and streamline costs which resulted in lower sales.

Nevertheless, given the difficult operating environment, SunMoon will continue to monitor closely the evolving situation and will take the appropriate measures to deal with the implications of COVID-19 to ensure the long-term sustainability and business of the Group.

Q2 **Is there any proper and strict management control over account receivables? The deterioration in aging of trade receivables is alarming. Cash flow is the lifeblood of the company. As at 31 March 2020, the Group gross trade receivables due from Yiguo Group of S$2.7 million are aged more than 365 days, and the related sales were reported in financial year ended 31 March 2019 (FY2018/19). Remaining S$3.9 million was aged less than 365 days and corresponded to sales reported in FY2019/20. Although Yiguo is our controlling shareholder, we also cannot allow this to happen and taking us for a ride. Can the directors give a commitment that this kind of business practice will stop?**

SM: The Company wish to reassure Shareholders that interested parties transaction(s) are carried out in accordance with the guidelines and review procedures approved by Shareholders. In relation to the interested parties transactions entered into for FY2019/20, Shareholders can refer to paragraph 3 of Appendix A of the addendum dated 4 July 2019. In relation to the account receivables due from the Yiguo Group, the Gorup has entered into repayment plans with the Yiguo Group. For more information and details, Shareholders are advised to refer to Note 2.1 of the financial statements at page 45 of the Annual Report for FY2019/20.

Shareholders are to note that the business operating environment has been difficult. Nevertheless, the Board and the Audit and Risk Committee will continue to ensure that the guidelines and review procedures for interested parties transactions are strictly complied with.

Q3 **Generally, ecommerce business is doing well and is the new trend compared to old brick and mortar business in view of covid situation, even for post covid. Is the company capitalizing on this new demand trend?**

SM: The Company is a global distributor and marketeer of branded fresh produce, aquatics, animal proteins and other food related products. The Company remains focus on its objectives, which is to work towards an asset-light, consumer-centric and brand-focused business strategy by tapping on its strong brand equity. While the Company do not have plans to enter into the e-commerce business, the Company has been a distributor of products to various e-commerce platforms such as, Shanghai Yiguo E-commerce Co. Ltd., Shanghai Hema Internet Technology Co. Ltd. and Hangzhou Suning Easier Buy Co. Ltd.

<u>**Appendix 2**</u>

SIAS questions

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)

Q1 **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?

SM: As explained in previous response, the Company had achieved better gross margins and the Company hopes that with an expanded offering of products, revenues would improve in the next financial year. Fresh fruits and vegetables are perishable products which are generally not easy to store and deliver which results in higher wastage and lower gross margins. Nevertheless, the experiences gained in the cold chain processes were valuable and synergistic as the cold chain processes (in handling fresh fruits and vegetables) are similar and applicable in the handling of meat and seafood products.

(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?

SM: The discontinued agricultural products relates primarily to dehydrated garlic and onion products. Shareholders are advised to refer to previous SGX-NET announcements, in particular, the announcements dated 13 May and 14 November 2016 as well as the Shareholders' circular dated 15 May 2017 for a more detailed explanation and rationale. In summary, it was a strategic decision to shift as the discontinuing of agricultural products provides competitive advantages which includes, efficiency of Group's cash conversion cycle (which is important as the Group has no access to new bank lines and working capital) and to reduce reliance on customers in the United States for the discontinued business division.

The current distribution of fresh vegetables, which are similar as fresh fruits business, it is a assets light, supply chain business which is in line with current business model.

(iii) Can management elaborate further on the group's business model and the achievements in the retail and food service sector?

SM: Previously, the Group's supply chain business was to procure its products from its *upstream farm* to its wholesaler and to *downstream retailers and restaurants* before reaching our *end consumers*. This resulted in an inefficient supply chain which resulted in a long process. SunMoon intends to open up the upstream and down stream of the supply chain to form a cross-over model of the entire supply chain, thus allowing SunMoon to take on the role as a service provider (providing upstream centralized procurement services, customized processing services, logistics customs declaration services, etc), through SunMoon's direct sourcing from upstream and then selling to the wholesale market (distributors).

In other words, the current business model will allow SunMoon to provide the role as a service provider directly to the end consumers (which includes the supermarket and restaurants) which SunMoon believes that it will bring greater value its business. The benefits include being able to understand customers' needs first-hand through direct interaction.

(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 breakeven?

SM: For the FY2019/20, SunMoon's target was to break-even as well as to maintain the stability of the business and the team. SunMoon and the management team, collectively, remains committed to continue to ensure and to achieve business profitability as well as the strengthening of the management of *accounts receivables*, which will lay out a solid foundation for growth in next year.

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".

SM: The Company noted the suggestion.

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.***
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> ***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?

SM: The Audit and Risk Committee has reviewed the account receivables from related parties on quarterly basis. For more information on the outstanding trade receivables, Shareholders may wish to refer to the Company's responses in an announcement on SGX-NET dated 11 August 2020.

(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?

SM: The Audit and Risk Committee relied on the Repayment Plans to settle the outstanding debts. For more information and details, Shareholders are advised to refer to Note 2.1 of the financial statements at page 45 of the Annual Report for FY2019/20.

(iv) Has the audit committee reviewed the group's policy and practice of making advances and pre-payments, especially to related parties?

SM: The advances and prepayments (as stated in pages 72 and 73 of SunMoon's Annual Report for FY2019/20) relates to interested persons transaction with related parties.

These advances and prepayments relates to the payment terms of the interested persons transaction with related parties and the Audit and Risk Committee has reviewed such transactions in accordance with the guidelines as set out in the interested persons transaction mandate obtained by Shareholders.

For more information, Shareholders may refer to the addendum dated 7 July 2019 which is attached to the SunMoon's Annual Report for the financial year ended 31 March 2019.

(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?

SM : As a matter of clarification, the proposed renewal of the existing interested person transaction ("**IPT**") mandate at the upcoming AGM is a renewal of the last IPT mandate approved by Shareholders at the AGM dated 30 July 2019. The Proposed Expanded IPT General Mandate (as defined in SunMoon's announcement dated 7 September 2020) will not be proposed for Shareholders' approval at the upcoming AGM on 29 September 2020. The Company is working with the relevant professionals and will make the necessary announcements as and when necessary. Please refer to the SunMoon's announcement dated 7 September 2020 for more information.

Next, if SunMoon ceases all existing IPTs, the management and the board of directors collectively takes the view that it will result in a significant impact on the SunMoon's performance target for the financial year ended 31 March 2021.

The Company believes that the interests of minority shareholders are safeguarded as the guidelines and procedures have been complied with.

(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]?

SM: As stated in Note 2.1 of the financial statements at page 45 of the Annual Report for FY2019/20, the Directors have assessed the recoverability of the trade receivables and advances and are of the view 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.

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?

SM: Mr Jin Guanglei missed the board and committee meetings as he was sick and was recuperating in Canada and, therefore, he was not able to join in the meetings given the different time-zone. While Mr Jin Guanglei was absent from the board meetings, Mr Jin was kept appraised and updated of the agenda and discussions conducted at the board meeting by Mr Zhang Ye.

Mr Yu Liang was travelling due to work reasons to the country side in China and as there was limited access to the internet / telephone signal, he could not attend the meetings. While Mr Yu Liang was absent from the board meetings, Mr Yu Liang was kept appraised and updated of the agenda and discussions conducted at the board meeting by Ms Liu Yuanyuan.

Ms Liu Yuanyuan missed 1 board meeting as she had to attend to an important investors' meeting and was on a business trip. While Ms Liu was absent from the board meeting, Ms Liu was kept appraised and updated of the agenda and discussions conducted at the board meeting by Mr Zhang Ye.

(ii) Has the nominating committee evaluated the effectiveness of directors in his/her ability and commitment to discharge his/her duties effectively?

SM: The Nominating Committee had evaluated and recognised Mr Jin Guanglei, Ms Liu Yuanyuan, Mr Zhang Ye and Mr Yang Guang's suitability to serve as directors of the Company.

Shareholders can refer to pages 5 to 7 of the Company's Annual Report for a brief description of Mr Zhang Ye, Mr Jin Guanglei, Ms Liu Yuanyuan and Mr Yang Guang's key qualifications, experience and previous key positions held.

The NC had also considered diversity, including age diversity, in its review and recommendation of the appointment of Mr Jin Guanglei, Ms Liu Yuanyuan, Mr Zhang Ye and Mr Yang Guang.

(iii) How can the company secretary and the company work together with the board to improve the attendance of directors at the board meetings?

SM: The Company will inform directors in advance of the scheduled meetings. Company secretary will work with Company to send frequent reminders to directors ahead of the scheduled meetings.