SUNMOON FOOD COMPANY LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration No. 198304656K)

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The Board of Directors (the "**Board**") of SunMoon Food Company Limited (the "**Company**" and its subsidiaries, the "**Group**") refers to the announcements of the Company dated 12 October, 15 October and 17 October 2020.

For completeness, the Board believes that it will be appropriate to first provide a more complete background information, as this will give shareholders of the Company ("**Shareholders**") a better context in relation to the recent developments.

1. Background

Board's assessment of going concern ***prior*** to 9 October 2020

1.1 As set out in the Company's SGX-NET announcement dated 7 September 2020, the Board announced that the Company's external independent auditor (then), Ernst & Young LLP, had provided a qualified opinion in their Independent Auditor's Report dated 4 September 2020 (the "**Independent Auditor's Report**") in relation to the audited financial statements for the financial year ended 31 March 2020 ("**FY2019/20**").

The qualified opinion relates to the following issues, (i) *Recoverability of trade receivables from and advances to related parties*; and (ii) *Material Uncertainty Related to Going Concern*.

1.2 In response, the Board had indicated in the Company's FY2019/20 annual report and also as announced in the Company's announcement dated 7 September 2020 that the Board was of the view that the use of the going concern assumption in the preparation of the accompanying financial statements was appropriate based on the factors as set out in Note 2.1 of the Company's FY2019/20 annual report (on pages 44 and 45). Please refer to **Annex A** for an extract of Note 2.1 which sets out the consideration factors taken into account by the Board.

1.3 The Board recognises that the collectability of the related parties account receivables[(1)] was an important factor and had as such, been focused on ensuring repayment from the Yiguo related entities. In ensuring repayment, Shareholders would note that the Group had entered into repayment plans and had obtained separate collateral (in the form of pledged shares of another Yiguo-related entity) from Shanghai Yiguo E-Commerce Co., Ltd.

For more details, Shareholders are advised to refer to paragraphs (ii) and (iii) of Note 2.1 (see **Annex A**).

1.4 As such, when it was made aware on or around late Friday evening (9 October 2020) that Shanghai Yiguo E-Commerce Co., Ltd, Shanghai Winchain Supply Chain Management Co. Ltd and Shanghai Exfresh Logistic Co Ltd ("**3 YG Entities**") had entered into bankruptcy reorganisation, the Board promptly took action to announce the same on Monday, 12 October 2020 as it was deemed to be a material information. In addition, the Board immediately constituted the Executive Committee(2) to, *inter alia*, take over the day-to-day management and operations of the Group from the management team.

***Notes**:*

*(1) Based on the Company's latest announced financial statement for the financial period ended 30 June 2020 ("**1Q FY2020/21 Results**"), the total account receivables, which include advances/prepayment net of accounts payables owing from the Yiguo-related entities (which includes Shanghai Yiguo E-Commerce Co., Ltd, Shanghai Winchain Supply Chain Management Co. Ltd and Shanghai Exfresh Logistic Co Ltd ("**3 YG Entities**")) amount to approximately S$13.2 million (and approximately S$12.4 million from the 3 YG Entities).*

(2) As announced in the Company's announcement dated 12 October 2020, the Executive Committee comprises of Mr James Prideaux, Mr Gary Loh Hock Chuan, Ms Ng Bie Tjin@Djuniarti Intan and Mr Yang Guang.

Background on when the Board was informed of the bankruptcy reorganisation

1.5 The Board believes that it is important to first address and clarify concerns (if any) of the Shareholders, relating to the Company's internal controls and reasons why the bankruptcy reorganisation was discovered only on 9 October 2020, before addressing the actions/steps needed to be taken for the Board to assess the Company as a going concern.

1.6 The Board wishes to update Shareholders that it was first informed during the Audit and Risk Committee ("**ARC**") meeting on 13 July 2020 that the Yiguo group was going through internal restructuring and in subsequent ARC and Board meetings.

Accordingly, the Board was aware that Yiguo group was undergoing *internal restructuring* (and not a *bankruptcy reorganisation*).

1.7 In becoming aware of the bankruptcy reorganisation, the Executive Committee immediately commenced formal inquiry proceedings on 13 October 2020 to question and to understand from the management team on the recent developments, as well as to address questions from the Executive Committee.

1.8 Accordingly, the Company voluntarily suspended trading of its shares and explained in the Company's announcement dated 17 October 2020 that "…*as the Company is unable to reasonably assess its financial position and inform the market accordingly, the Board has resolved that the trading of the shares of the Company continue to be suspended on a voluntary basis under Rule 1303(3)(c).*"

More details relating to the bankruptcy reorganisation of the 3 YG Entities

1.9 In relation to the bankruptcy reorganisation, the Executive Committee had appointed Chinese counsel on 16 October 2020.

1.10 By way of an update, the Board wishes to inform Shareholders that the Company is still compiling the necessary supporting documents to submit the necessary creditors' proof of debt filings to the joint trustee in respect of the bankruptcy reorganisation of the Yiguo group. Notwithstanding that the deadline for such submission is 19 October 2020 as disclosed in the previous announcements, the Company has been advised by its Chinese counsel that the proof of debt can be filed after the deadline, and that such filings are still valid.

2. Board's action plan to assess going concern issues

2.1 As Shareholders would note, the Board was unable to assess its financial position as a *going concern* as the factors set out in Note 2.1 (see **Annex A**) were substantially relating to the collectability of the account receivables by the Yiguo group (including the 3 YG Entities).

2.2 It is therefore imperative for the Board to seek and obtain alternative fund-raising options and accordingly, the Board has taken steps to secure an interest-free loan. For more details on the interest-free loan, Shareholders are advised to refer to paragraph 3 below.

2.3 Lastly, the Board and Executive Committee will focus its attention on the following:

(a) continually follow-up and obtain updates on the bankruptcy reorganisation;

(b) ensure minimal disruption to business operations;

(c) finalise and implement the existing fund-raising options which the Board deems to be appropriate given its existing circumstances to ensure that the Company can operate as a going concern; and

(d) prepare and present a resumption proposal to the Exchange to lift the voluntary suspension.

3. Interest-free Loan

3.1 The Board is pleased to announce that on 27 October 2020, **(1)** the Company has, through Shanghai SunMoon Supply Chain Management Co., Ltd (上海膳麦供应链管理有限公司) **("SMF Shanmai")** , entered into an interest-free loan agreement with Jiangzhong Shiliao (Hubei) Technology Co., Ltd. ("**Lender**") ("**Loan Agreement**") and in connection with the Loan Agreement, **(2)** the Company has entered into a placement agreement with the Lender for the proposed allotment and issuance of new ordinary shares (to be determined) ("**Placement Agreement**").

3.2 Pursuant to the Loan Agreement, the Lender will provide a loan of RMB34,893,795 (approximately S$6,856,631) ("**Interest Free Loan**") to the Company. The Interest Free Loan amount will be disbursed directly to SMF Shanmai in the following tranches:

Payment time of Lender	Loan amount
On 30 September 2020 (paid)	RMB 3,200,000 (approximately S$628,800)
By 31 October 2020	RMB 7,180,000 (approximately S$1,410,870)
By 30 November 2020	RMB 6,260,000 (approximately S$1,230,090)
By 31 December 2020	RMB 4,800,000 (approximately S$943,200)
By 31 January 2021	RMB 5,170,000 (approximately S$1,015,905)
By 28 February 2021	RMB 2,757,000 (approximately S$541,751)
By 31 March 2021	RMB 5,526,795 (approximately S$1,086,015)
Total	**RMB 34,893,795** (approximately S$6,856,631)

3.3 Shareholders would note that the Interest Free Loan amount of RMB 34,893,795 represents the total amount owing by the Yiguo group to SMF Shanmai as at 30 July 2020.

Information of Lender

3.4 Jiangxi Jiangzhong Shiliao Technology Co., Ltd., the shareholder of Jiangzhong Shiliao (Hubei) Technology Co., Ltd. is a dietary therapy product developer, which has established China's largest dietary therapy food manufacturing base in Gongqing City, Jiangxi Province to develop, produce and sell dietary therapy food with "*stomach nourishing*" characteristics. At the beginning of its establishment, Jiangxi Jiangzhong Shiliao Technology Co., Ltd. established its own development goal - research "*eat*" with scientific diet, healthy food and nutrition, and traditional Chinese food therapy. It combines the theory of traditional Chinese medicine and modern

nutrition, and utilises the traditional food therapy formula with modern technology to make high-quality food therapy products and to promote national health.

3.5 **Principal terms of the Loan Agreement**

3.5.1 The Interest Free Loan will be disbursed in tranches (as set out in paragraph 3.2 above).

3.5.2 The term of the Interest Free Loan will commence on the date when the loan is disbursed and end on the 90th day when any of the following conditions is satisfied:

(a) as of the date when the Chinese Court approves the bankruptcy reorganisation plan of the 3 YG Entities but the Lender or its designated party is not the investor in the reorganisation plan approved by the Chinese Court;

(b) the bankruptcy reorganisation of the 3 YG Entities fails, and the Chinese Court having jurisdiction rules and orders the 3 YG Entities to proceed with the bankruptcy liquidation procedures; or

(collectively, the above conditions (a) and (b) is referred to as "**Subscription Events**")

(c) as of the date when the Chinese Court approves the bankruptcy reorganisation plan of the 3 YG Entities and the Lender or its designated party is the investor in the reorganisation plan approved by the Chinese Court.

3.5.3 Observer rights – The Lender shall have the right to appoint an observer to the Company's Board and/or Executive Committee and such rights shall end on the date on which SMF Shanmai has fully repaid the disbursed Interest Free Loan or the Lender completes the subscription of the Company's Shares (see paragraphs 3.6.1 and 4 below for more details). The observer has the right to attend Board meetings of the Company and/or meetings of the Executive Committee without voting rights.

3.6 **Loan repayment scenarios**

For Shareholders' information, the Loan Agreement sets out the following loan repayment scenarios:

3.6.1 **Scenario A** – In the event the Subscription Events occur, the Company may, at its option, elect to repay the loan due and owing by way of issuance of new ordinary shares to the Subscriber (defined in paragraph 4.1 below), subject to certain conditions and the funds raised from such a share issuance will be used to repay the amount of loan due and owing. The Company has therefore entered into the Placement Agreement with the Lender, please see paragraph 4 below for details of the proposed placement.

3.6.2 **Scenario B** – In the event of the scenario as set out in paragraph 3.5.2(c) above, the Lender will acquire the equivalent amount of account receivables due from the 3 YG Entities to SMF Shanmai ("**Purchase of AR**") and the total amount owing that is due and payable by SMF Shanmai (pursuant to the Interest Free Loan) will be used to set off the consideration payable by the 3 YG Entities for the Purchase of AR.

3.6.3 **Scenario C** – SMF Shanmai has the option to elect, any time after the disbursement of any instalment of the Interest Free Loan, to repay the loan.

3.6.4 **Scenario D** – In the event the Placement Agreement (referred to in paragraph 3.6.1 above) terminates due to non-fulfilment of the conditions precedent of the Placement Agreement, the loan will be payable by SMF Shanmai and the term of the loan will be extended to 30 June 2022.

Rationale for the Loan Agreement

3.7 The Interest Free Loan will have put the Company in a net positive equity position and also improve the Company's cash flow. In the scenario where the bankruptcy reorganisation fails, and the Company is required to issue new shares to the Lender (or its designated party), the Company will still be in a net positive equity position.

3.8 After taken into consideration the above, the repayment scenarios (as set out in paragraph 3.6 above), as well as the existing circumstances of the Company, the Board is of the view that the entering into of the Loan Agreement is in the best interests of the Shareholders.

4. Proposed Placement

4.1 As set out in paragraph 3.6.1 above, should the Subscription Events occur, the Company may elect to issue new ordinary shares to be determined ("**Subscription Shares**") pursuant to the terms and conditions as set out in the Placement Agreement, for the repayment of amount of the Interest Free Loan already disbursed to SMF Shanmai, to the Lender or its designated parties ("**Subscriber**") ("**Proposed Placement**").

4.2 Conditions Precedent

The obligations of the Company and the Subscriber to complete the Proposed Placement are conditional upon the following conditions precedent:

(a) the approval in-principle for the listing and quotation of the Subscription Shares on the SGX-ST being obtained from the SGX-ST and not having been revoked or amended and, where such approval is subject to conditions, such conditions being acceptable to the Company in its sole discretion, and to the extent that any conditions for the listing and quotation of the Subscription Shares on the SGX-ST are required to be fulfilled on or before each respective completion, they are so fulfilled. In connection with the above application, the Company will seek approval from the SGX-ST for the listing and quotation of the Subscription Shares on the SGX-ST in three (3) separate tranches after each subscription date;

(b) the approval of the Shareholders (or independent Shareholders if requested by the SGX-ST) being obtained at a general meeting to be convened for the allotment and issuance of the Subscription Shares to the Subscriber or the approved nominee;

(c) approval of the independent Shareholders being obtained at a general meeting to be convened (the Shareholders' vote to be undertaken by way of a poll), to waive their rights to receive a general offer pursuant to Rule 14 of the Code from the Subscriber or the approved nominee (if applicable) and parties acting in concert with the Subscriber or the approved nominee (if applicable) ("**Whitewash Resolution**");

(d) the subscription, issue and allotment and offering (if any) of the Subscription Shares being in compliance with the Securities and Futures Act and/or other applicable legislation in applicable jurisdictions in connection with offers of securities and not being prohibited by any statute, order, rule or regulation promulgated by any legislative, executive or regulatory body or authority of Singapore, the People's Republic of China and/or of any applicable jurisdictions; and

(e) there having been, as at each completion, no occurrence of any event nor the discovery of any fact rendering untrue or incorrect in any respect or any breach of any of the warranties and undertakings contained in the Placement Agreement if they were repeated on and as at each completion;

(f) the Subscriber or its approved nominee (if it is a PRC vehicle or a non-PRC special purpose vehicle to be incorporated for the purpose of the Proposed Placement) having obtained the necessary corporate approval and approval from all relevant authorities in the

PRC (if any) to subscribe for the Subscription Shares in accordance with the terms of the Placement Agreement;

(g) the waiver from the Securities Industry Council ("**SIC**") being granted by the SIC of the requirement under Rule 14 of the Code for the Subscriber or its approved nominees (as the case may be) and its concert parties to make a general offer for the Shares not already owned by them in the event the Subscriber or its approved nominees (as the case may be) acquires 30% or more of the total voting rights in the Company as a result of the Proposed Placement,

(collectively, the "**Conditions Precedent**").

If any of the Conditions Precedent set forth in paragraph 4.2 are not satisfied or (i) in connection with paragraph 4.2(e), waived by the Company in respect of a breach by the Subscriber of any of the warranties and undertakings; or (ii) in connection with paragraph 4.2(e), waived by the Subscriber in respect of a breach by the Company of any of the warranties and undertakings, by 30 September 2021 or such other date as the Subscriber and the Company may agree, the Subscriber Agreement shall terminate.

Shareholders are to note that in the event where the Placement Agreement is terminated pursuant to non-satisfaction of Conditions Precedent, the Subscriber shall ensure and procure that the repayment of the outstanding Interest Free Loan under the Loan Agreement is extended for a period no later than 30 June 2022. The extension of repayment obligation shall survive the termination of the Placement Agreement.

4.3 **Principal terms of the Placement Agreement**

4.3.1 Issue price

The issue price is S$0.032 per Subscription Share ("**Issue Price**"). The Issue Price represents a discount of approximately 20% to the volume-weighted average price of S$0.04 per Share, based on the trades done on the Singapore Exchange Securities Trading Limited ("**SGX-ST**") on 9 October 2020, being the last full market day which the shares of the Company ("**Shares**") were traded immediately preceding the date and up to the time the Placement Agreement was signed..

The Issue Price was commercially agreed between the Company and the Subscriber after arm's length negotiations and taking into account historical trading performance of the Company, the volume-weighted average prices of the Shares and prevailing market conditions.

4.3.2 Subscription Shares

The number of Subscription Shares will be determined at the relevant time when any one of the conditions set out in paragraphs 3.5.2(a) or (b) is met and the aggregate subscription consideration shall be the Converted Shanmai Loan (as defined below).

"**Converted Shanmai Loan**" is defined to be "*The amount of the Interest Free Loan already disbursed to SMF Shanmai and which remains outstanding at the relevant time shall be converted from RMB to S$ at the exchange rate quoted on Bloomberg based on the closing price on the date of the subscription event ("**reference date**") and if there is no exchange rate quoted on that day, then the reference date will be a prior date nearest to the subscription date obtained from Bloomberg.*"

The subscription of the Subscription Shares shall take place in three (3) tranches. The Company would also like to inform Shareholders that the Company will not be relying on the general share issue mandate granted by Shareholders to the Board at the last annual general meeting of the Company held on 29 September 2020 and intends to seek Shareholders' approval at an extraordinary general meeting ("**EGM**") to be convened for the Proposed Placement.

Further information on the Proposed Placement will be provided in a circular to be despatched to Shareholders in due course.

The Subscription Shares shall be issued free from all claims, charges, liens and other encumbrances whatsoever and shall rank *pari passu* in all respects with and carry all rights and entitlements similar to the existing Shares, except that the Subscription Shares will not rank for any dividends, rights, allotments or other distributions the record date for which falls on or before the date of the issue of the Subscription Shares.

4.3.3 Use of Proceeds

The net proceeds of the Proposed Placement (which will be received in three (3) tranches) will be used to repay the outstanding amount of the Interest Free Loan already disbursed to SMF Shanmai.

Where there is any material deviation from the stated use of the proceeds, the Company will announce the reasons for such deviation.

4.3.4 Whitewash waiver and Whitewash Resolution

As set out in the Placement Agreement, it is the Subscriber's responsibility to apply to the Securities Industry Council of Singapore to see a waiver from the obligation to make a general offer under Rule 14 of the Code (if required). If the SIC grants the waiver (if necessary), the Company will assist the Subscriber to prepare the circular to seek Shareholders' approval of the whitewash resolution.

4.3.5 Appointment of Director

Subject to the completion of the third tranche of the Proposed Placement, the Subscriber is entitled to nominate one (1) person as a director to the Board and to the Executive Committee.

4.3.6 Costs

The Company and the Subscriber shall bear their own costs and expenses in connection with the preparation of the Placement Agreement. The Company agrees to bear the costs of the allotment and issue of the Subscription Shares, as well as all fees, costs and expenses incurred or payable in connection with the allotment, issue and listing of the Subscription Shares on the Mainboard of the SGX-ST. The Company agrees to bear the cost of the application to SIC to seek a waiver from the obligation to make a general offer under Rule 14 of the Code, seeking shareholders' approval of the Whitewash Resolution including the cost of the independent financial advisor to be appointed to advise the independent shareholders.

4.3.7 Termination on repayment of Interest Free Loan

If the amount of outstanding Interest Free Loan is repaid in full at any time prior to the Completion of any tranche of the Proposed Placement, the Placement Agreement shall terminate. In the event of a termination of the Placement Agreement, neither the Subscriber nor the Company shall have any claim against the other for costs, expenses, damages, losses, compensation or otherwise in respect of the Placement Agreement, save for clauses in the Placement Agreement where it is expressly provided to survive termination.

4.4 Warranties to the Placement Agreement

Pursuant to the terms of the Placement Agreement, the Subscriber have represented, warranted and undertaken to the Company, *inter alia*, that each of the Directors (of the Company) and their

respective associates are not directly or indirectly interested in the Subscriber or its approved nominee (where applicable).

In addition, the Subscriber have also represented, warranted and undertaken to the Company that the Subscriber and its approved nominee (where applicable) are not and will not be acting in concert with or accustomed to taking instructions from persons as specified in Rule 812(1) of the SGX-ST Main Board Listing Manual, and, do not have any agreement or understanding (whether formal or informal) with the persons as specified in Rule 812(1), to cooperate, through the acquisition by any of them of the Shares (whether pursuant to the Placement Agreement or otherwise), to obtain or consolidate effective control of the Company.

4.5 The Company will apply to the SGX-ST at the appropriate time and will not be seeking Shareholders' approval at this stage. Accordingly, the Company will announce more details, including the financial effects of the Proposed Placement, when the Subscription Shares are determined (in accordance with the formula as set out in paragraph 4.3.2 above).

4.6 **Extraordinary General Meeting**

The Proposed Placement will be undertaken pursuant to Section 272B of the Securities and Futures Act (Chapter 289) of Singapore. As such, no prospectus or offer information statement will be lodged with the Monetary Authority of Singapore in connection with the Proposed Placement.

Circulars containing, *inter alia*, further information on the Placement Agreement (and the transactions contemplated thereunder) and the Whitewash Resolution, and the notices to convene the EGM will be despatched by the Company to Shareholders in due course.

4.7 **Directors' Responsibility Statement**

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this announcement and confirm after making all reasonable enquiries, that to the best of their knowledge and belief, this announcement constitutes full and true disclosure of all material facts about the Proposed Placement, the Company and its subsidiaries, and the Directors are not aware of any facts the omission of which would make any statement in this announcement misleading. Where information in the announcement has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in the announcement in its proper form and context.

5. Enforcement Order against Shanghai SunMoon Supply Chain Management Co., Ltd (上海膳麦供应链管理有限公司)

5.1 Separate and distinct from the bankruptcy reorganisation of the 3 YG Entities, the Board wishes to update Shareholders that the Executive Committee was made aware of, through a discovery exercise by the Company's Chinese Counsel, that an enforcement order (that is already resolved) was issued by Shanghai Changning Court on 9 October 2020, for an unfulfilled court certified settlement agreement in the amount of RMB 7.25 million (approximately S$1.46 million) against the Company's wholly-owned subsidiary, SMF Shanmai, which relates to certain owings by SMF Shanmai to Fu Rui (富睿网络科技（上海）有限公司) ("**Fu Rui**"), a supplier of SMF Shanmai.

5.2 In relation to the above matter, the Board had obtained a letter (说明) dated 17 October 2020 by Fu Rui which indicated that, *inter alia*, Fu Rui had agreed to withdraw the enforcement order application.

5.3 The Company had received the confirmation letter from the Shanghai Changning Court that the case is officially closed on 20 October 2020.

5.4 For the avoidance of doubt, the Company would like to clarify that the entity name is "*Shanghai SunMoon Supply Chain Management Co., Ltd (上海膳麦供应链管理有限公司)*" (previously known as *Shanghai Shanmai Supply Chain Management Co., Ltd*).

6. <u>Updates on the business operations</u>

6.1 As announced in the Company's announcement dated 17 October 2020, the Executive Committee had created and implemented a framework to ensure continuation of the business operations.

6.2 In relation to the Company's reporting and compliance matters, the Executive Committee is also looking to appoint an accounting firm to support the current management of the Company. As mentioned in paragraph 1.9, the Company has also appointed a Chinese legal counsel in China who will work with and assist the Company's legal counsel in Singapore.

6.3 The Board and Executive Committee intend to work on the action plan as set out in paragraph 2.3 above.

6.4 The Company will release update announcement(s) as and when appropriate.

Shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company. The Company will make the necessary announcements when there are material developments on this matter. Shareholders of the Company and potential investors are advised to read all announcements by the Company carefully and to consult their stockbrokers, bank managers, solicitors or other professional advisers if they have any doubt about the actions they should take.

BY ORDER OF THE BOARD
SUNMOON FOOD COMPANY LIMITED

James Prideaux
Chairman and Lead Independent Director

28 October 2020

Annex A