



SUNMOON FOOD COMPANY LIMITED

(Incorporated in the Republic of Singapore on 29 September 1983)

Registration No. 198304656K

(the "**Company**")

SIGNING OF BINDING TERMSHEET WITH GLOBAL FOOD INGREDIENTS PTE LTD

1. INTRODUCTION

*Reference is made to the SunMoon Food Company Limited's (the "**Company**") and together with its subsidiaries, the "**Group**") announcement dated 13 May 2016 on the intention to sell certain assets relating to the discontinued dehydrated produce business.*

- 1.1 The board of directors (the "**Directors**" or collectively, the "**Board**") of Company is pleased to announce to shareholders of the Company ("**Shareholders**") that the Company has on 11 November 2016, entered into a binding conditional termsheet ("**Taian Termsheet**") with Global Food Ingredients Pte Ltd ("**GFI**") pursuant to which the Company has agreed to sell, *inter alia*, (i) two (2) shares ("**Sale Shares**") in United Agro Produce Pte Ltd ("**UAPL**"), representing 100% of the total number of issued shares in the share capital of UAPL (UAPL and its subsidiaries shall be referred to as the "**UAPL Group**"); and (ii) the dehydrated business in the Group (the "**Proposed Disposal**") at a purchase consideration which will be based on S\$4,100,000 (subject to adjustments) ("**Consideration**").

The details of which, are provided in paragraph 4 below. Following completion of the Proposed Disposal, UAPL will cease to be a wholly-owned subsidiary of the Company.

Background information of the Group's transition

- 1.2 The Group was a fully integrated fresh fruit and dehydrated produce company, with two business divisions, "*Fresh*" and "*Produce*". The '*Fresh Division*' operates in fruit trading, wholesale distribution and retail & franchising while the '*Produce Division*' operated in the processing and distribution of dehydrated produce. Dehydrated produce refers to dehydrated garlic and onion powder.
- 1.3 The business under the Produce Division (which was carried on in the UAPL Group and the Dehydrated Business) is made up of primarily the production and sale of dehydrated products (such as dehydrated garlic and onion). The production facilities are located in the Tai'an in Shangdong Province, People's Republic of China. The dehydrated products are mainly sold to, *inter alia*, Newly Weds Foods, Unilever and Givaudan who are based in the United States of America (collectively, "**US Customers**").
- 1.4 Based on the management's assessment of, *inter alia*, (a) the efficiency of the Group's cash conversion cycle⁽¹⁾ and in view of the debt position, the Company had no access to new bank lines and working capital; and (b) the risk on relying primarily on the US Customers for Produce

Division, the Company made a strategic decision sometime in year 2015 to shift towards an asset-light consumer-centric, brand-focused business model, and began channelling resources from slow growth areas towards the new asset-light business model.

Note:

The cash conversion cycle is an efficiency ratio that measures the number of days, which a company's cash is tied up in inventories and accounts receivables, and is aimed at assessing how effective a company is at managing its working capital. In simple terms, it is how quickly a dollar paid to a supplier is converted into a dollar (or more) received from a customer.

- 1.5 In line with the new focus as described above, the Company decided to focus on the Fresh Division so as to streamline produce operations under the Fresh Division to generate greater value for the Company and its Shareholders. Accordingly, the Company had discontinued the sale of dehydrated garlic and onions and the remaining agricultural products (for example, fresh garlic and onions) in Produce Division, which the Group will continue to procure and sell, will be streamlined into the Fresh Division. For the avoidance of doubt, the Company continues to sell fresh garlic and fresh onions.

In short, the Group shifted to its current business strategy for a consumer-centric, brand-focused and asset-light business model in year 2015.

For more information, Shareholders should refer to the Company's investor update announcement dated 14 March 2016 and in respect of the plans and decision to focus on the Fresh Division, please refer to the annual report of the Company for the financial year 31 December 2015

2. INFORMATION ON THE PURCHASER

Global Food Ingredients Pte Ltd (“GFI”) company registration number (201525757C), a company incorporated in Singapore, is primarily in the business of supplying food ingredients. The shareholder of GFI is Quintegra Ventures Inc. (“GFI Shareholder”). The Purchaser and the GFI Shareholder are independent third parties and are not related to the Company, the directors, controlling shareholders and substantial shareholders of the Company.

Taian Fenghui Tongkai Foods Co., Ltd (泰安丰辉同凯食品有限公司) (the “Lessee”), leased from Taian FHTK Foodstuffs Co., Ltd (泰安富华同康食品有限公司), a wholly owned subsidiary of the Company the plant and production lines for vegetable dehydration located at Fanzhen Xinxing Industrial Park, Tai'an City, Shangdong Province (山东省泰安市范镇新兴工业园甲乙方院内). The Lessee is a wholly-owned subsidiary of GFI.

3. RATIONALE AND USE OF PROCEEDS FOR THE PROPOSED DISPOSAL

The rationale for the Proposed Disposal is as set out below:

3.1 Fulfilling current business strategy

The Group's business model is to focus on “network”, “geography” and “product”. The Proposed Disposal is in line with the Group's current business strategy to focus its resources on the Fresh Division. The Proposed Disposal is also consistent with the business strategy of the Company to

streamline its business activities and to shift into an asset-light consumer-centric and brand-focused business model.

Please refer to paragraphs 1.2 to 1.5 above and the Company's investor update announcement dated 14 March 2016 for more details on the Company's business strategy.

3.2 Improve financial position for business continuity

The proceeds from the Proposed Disposal will improve cash flow, provide additional working capital and/or funding for other business ventures.

3.3 Realise value of the shares and assets of UAPL

The Proposed Disposal will also enable the Group to realise the value of its assets (in the UAPL Group). There shall be no impact on the business operations as the Company had discontinued the sale of dehydrated garlic and onions and the remaining agricultural products.

3.4 **Use of Proceeds**

Accordingly, the Group intends to use the proceeds from the Proposed Disposal for general working capital purposes or other business opportunities as and when they arise and/or reduction of borrowings.

4. **TERMS OF THE PROPOSED DISPOSAL**

4.1 The salient terms of the Proposed Disposal are set out in the table below:

Divestment Description : The Proposed Disposal shall consist of the following:

1. 100% of the share capital in United Agro Produce Pte Ltd ("**UAPL**"), which comprises:-

(a) 100% of the share capital in the subsidiary of UAPL, i.e. Taian FHTK Foodstuffs Co., Ltd. ("**TAIANFHTK**"), the latter holding the tangible assets of: (a) property ("**New Taian Property**"), Plant & Equipment, and (b) Land Use Rights of the New Taian Property and the business activities of TAIANFHTK;

(b) 100% of the share capital in the subsidiary of UAPL, i.e. Fook Yong Pte Ltd ("**FYPL**") which includes 100% of the share capital in the subsidiary of FYPL, i.e. Taian Fook Huat Tong Kee Foodstuffs Co., Ltd. ("**Old Taian**") the latter holding the tangible assets of a) property ("**Old Taian Property**"), Plant & Equipment and b) Land Use Rights of the Old Taian Property; and

2. The Dehydrated Business in Group (“**Dehydrated Business**”).

Divestment Objective : As the Company has already exited the dehydrated business, to dispose Taian factory, land, land use rights, associated equipment and business in the UAPL Group in China to raise cash for the Company to fund its other business ventures.

Condition Precedent : Completion is conditional upon the obtaining the Shareholders’ approval at an extraordinary general meeting to be convened (“**SMFL Shareholders Approval**”).

If SMFL Shareholders Approval is not obtained by 30 June 2017 or such other date as the parties may agree (“**Long Stop Date**”), this term sheet shall terminate and neither party shall have any further obligations under this term sheet.

Purchasing Terms : The purchase consideration which will become payable on completion, will be paid in three tranches of equal instalments. Completion shall occur on the first instalment payment date which shall occur 15 days after the SMFL Shareholders Approval or 31 January 2017, whichever is later (“**Completion Date**”).

The second and third payments will be on 28 February 2017 and 31 March 2017 if Completion Date occurs on 31 January 2017. If Completion Date occurs on a later date, then the second payment will be adjusted to occur 30 days after the Completion Date and the third payment adjusted to occur 30 days after the second payment date.

If there are any new liabilities of UAPL and/or TAIANFHTK incurred by the Company in between the installment payments, it will be deducted from the remaining payments.

Proposed Purchase Consideration : The purchase consideration is based on the mutually agreed market price of \$4.1 million Singapore Dollars (“**Pre-Adjusted Consideration**”).

Market price determination to be aided by independent valuer of, *inter alia*, the New Taian Property and factory on the New Taian Property in China net of all, payables and all other liabilities (financial and others) of UAPL and TAIANFHTK including the bank debts and trade payables in TAIANFHTK (“**Agreed Liabilities**”).

GFI can assume current bank debts and trade payables of TAIANFHTK.

The Agreed Liabilities will be fixed as at the Completion Date.

The Company and GFI agree that the valuation of FYPL and Old Taian is fixed at S\$2.00 and therefore the liabilities and payables of FYPL and Old Taian as at the Completion Date will not be netted off the Pre-Adjusted Consideration.

Transfer of Title : Transfer of title of the 100% issued shares of UAPL will take place on Completion Date against payment of the first instalment tranche.

GFI to provide a corporate guarantee for the remaining second and third payments.

Due Diligence and other provisions : GFI may undertake due diligence in the period prior to Completion Date. Completion will occur on Completion Date if there is no material breach of any representations and warranties by the Company.

All inter-company loans, payables, receivables, guarantees and obligations, financial or otherwise, between TAIANFHTK / UAPL (excluding FYPL and Old Taian) and the Group (i.e. the Company and its subsidiaries other than the UAPL group i.e. UAPL and its subsidiaries) should be fully settled before the Completion Date.

Representations and Warranties and Limitations of Liability : The Company will provide the usual representations and warranties for the transaction and the liability of the Company in respect of the breach of representations and warranties shall be subject as follows:-

- (a) a disclosure letter setting out exceptions to the representations and warranties; and
- (b) the usual limitations of liability provisions.

5. VALUATION AND BASIS FOR CONSIDERATION

Valuation

- 5.1 As disclosed in the Company's announcement dated 13 May 2016, the Board has indicated that it will take the appropriate steps to materialise the intention to sell including, commissioning independent valuations of the assets identified for sale.
- 5.2 Accordingly, the Company commissioned Ardent Business Advisory Pte Ltd as the independent valuer in respect of the shares and assets of the UAPL Group and the Dehydrated Business in the Group.

In respect of the valuation report dated 2 November 2016 (“**Valuation Report**”), the fair market value placed on UAPL, TAIANFHTK and the Dehydrated Business is between S\$3,500,000 and S\$4,700,000 with a mid-point of S\$4,100,000 as at 30 June 2016. The valuation is conducted based on the discounted cash flow method.

Basis of Consideration

- 5.3 The Consideration is based on the agreement between the Company (as the vendor) and GFI (as the purchaser) of S\$4,100,000 (“**Pre-Adjusted Consideration**”). The Company and GFI had agreed that the Pre-Adjusted Consideration is attributable only to UAPL, TAIANFHTK and the Dehydrated Business. The parties had attributed only S\$2.00 to FYPL and Old Taian. The Agreed Purchase Price will be subjected to adjustments, net of all, payables and all other liabilities (financial and others) of UAPL and TAIANFHTK (as defined in paragraph 4 above) including the bank debts and trade payables in TAIANFHTK (“**Agreed Liabilities**”). The payables and liabilities of FYPL and Old Taian will not adjust the Pre-Adjusted Consideration.
- 5.4 The Consideration was arrived at after arm’s length negotiations, on a willing-seller and willing-buyer basis, and was determined after taking into account:
- (i) Valuation Report; and
 - (ii) the rationale as elaborated in paragraph 3 above.

The Valuation Report will be made available for inspection during normal business hours at the Company’s registered office at 1 Scotts Road, #21-07/08, Singapore 228208, for a period of three (3) months from the date of this announcement.

6. RELATIVE FIGURES UNDER RULE 1006 OF THE LISTING MANUAL

- 6.1 For the purposes of Chapter 10 of the Main Board Listing Manual (“**Listing Manual**”) of the Singapore Exchange Securities Limited (“**SGX-ST**”) and based on the latest announced consolidated financial statement for the Group for the financial period ended 30 September 2016, the relative figures for the Proposed Disposal computed on the bases set out in Rule 1006(a) to (e) of the Listing Manual with reference to the Proposed Disposal are as follows:-

Rule 1006	Basis	Relative Figures⁽²⁾
Rule 1006(a)	Net asset value of the assets to be disposed of, compared with the Group’s net asset value	31.99% ⁽³⁾
Rule 1006(b)	Net loss attributable to the Proposed Disposal compared with the Group’s net loss	30.12%
Rule 1006(c)	Aggregate value of the consideration ⁽¹⁾ given for the Proposed Disposal, compared with the market capitalisation ⁽²⁾ of the Company	5.91%
Rule 1006(d)	Number of equity securities issued by the Company as consideration for the Proposed	Not applicable

Disposal, compared with the number of equity securities previously in issue

Rule 1006(e) Aggregate volume of proved and probable reserves to be disposed of compared with the Group's probable and proved reserves Not applicable

Notes:

- (1) For purposes of computing the relative figure under Rule 1006(c), the Company have assumed the Consideration being S\$2.017 million ("**Assumed Consideration**"), which is derived based on a downward adjustment of S\$2.083 million (representing the bank debts as at 30 September 2016 and accrued interest for the period of 1 October to 31 January 2017 in TAIANFHTK) to the Pre-Adjusted Consideration (of S\$4,100,000).

Shareholders to note that there are potentially other liabilities and payables of UAPL and TAIANFHTK that will reduce the Pre-Adjusted Consideration of S\$4,100,000. However this has been disregarded for the purposes of this announcement as the Company has to undertake certain adjustments and restructuring in consultation with the relevant professionals before such numbers can be ascertained and verified.

- (2) The Company's weighted average share price of S\$0.107 as at 11 November 2016 being the market day preceding the date of the Taian Termsheet (**Source:** Bloomberg). The total number of ordinary shares issued by the Company was 318,784,382. The market capitalisation of the Company is approximately S\$34.11 million.
- (3) The net asset value of the Group as at 30 September 2016 is S\$6,895,936. The net asset value of the UAPL Group is S\$2,206,000 as at 30 September 2016.

6.2 Based on the above, as each of the relative figures pursuant to Rule 1006(a) and (b) is more than 20%, the Proposed Disposal is considered a major transaction under Chapter 10 of the Listing Manual, and is therefore subject to Shareholders' approval.

7. FINANCIAL INFORMATION

7.1 Financial effects of the Proposed Disposal

- 7.1.1 The financial effects of the Proposed Disposal, based on the audited consolidated financial statements of the Group for the financial year ended 31 December 2015 ("**FY2015**"), are set out below. The financial effects are only presented for illustration purposes, and are not intended to reflect the actual future financial situation of the Company or the Group after completion of the Proposed Disposal.
- 7.1.2 For the purposes of computing the net tangible assets ("**NTA**"), it is assumed that the Proposed Disposal occurred as at 31 December 2015. For the purposes of computing the loss per share ("**LPS**"), it is assumed that the Proposed Disposal occurred on 1 January 2015.

Net Tangible Assets ("**NTA**")

As at 31 December 2015	
Before the Proposed Disposal	After the Proposed Disposal

NTA	S\$11,194,000 ⁽²⁾	S\$6,132,000 ⁽¹⁾⁽²⁾
No. of shares	318,784,382	318,784,382
NTA per share (Singapore cents)	3.511	1.923

Notes:

(1) Under Rule 1010(8) of the Listing Manual, the financial effects is to be based on the most recently completed financial year which in the Company's case is 31 December 2015. The bank debts in the UAPL Group disclosed under Section 6.1, Footnote (1) (see above) were not incurred as at 31 December 2015. As such, the Company has computed the above NTA based on the balance sheet of the Group as at 31 December 2015 which did not take into account the bank debts and accrued interest of S\$2.083 million which were not incurred then. The Consideration is assumed to be S\$4.1 million being the Pre- Adjusted Consideration in this computation.

(2) The NTA of the UAPL Group as at 31 December 2015 is S\$9,162,000.

Loss per Share ("LPS")

	For financial year ended 31 December 2015	
	Before the Proposed Disposal	After the Proposed Disposal
Net loss attributable to shareholders	S\$2,101,000	S\$4,474,000
Weighted average number of shares used	318,784,382	318,784,382
Basic LPS (Singapore cents)	0.659	1.403

7.2 Based on the unaudited accounts of UAPL as at 30 September 2016, the book value and the net tangible assets attributable to UAPL is S\$2,206,000.

Based on the Pre-adjusted Consideration of S\$4,100, 000 and S\$2,206,000, being the book value attributable to UAPL, the amount gain on disposal is S\$1,894,000.

7.3 The Proposed Disposal is not expected to have any material impact on the consolidated net tangible assets per share and earnings per share of the Company for the current financial year.

8. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS

Other than through their respective shareholdings in the Company and save as disclosed in paragraph 2 above, none of the Directors or controlling shareholders of the Company has any interest, direct or indirect (other than through their shareholdings in the Company) in the Proposed Disposal.

9. SERVICE AGREEMENT

No person is proposed to be appointed to the Board in connection with the Proposed Disposal and accordingly, no service contract in relation thereto will be entered into between the Company and any such person.

10. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the Taian Termsheet and the Valuation Report will be made available for inspection during normal business hours at the Company's registered office at 1 Scotts Road, #21-07/08, Singapore 228208 for a period of three (3) months commencing from the date of this announcement.

11. SHAREHOLDERS' APPROVAL

As mentioned at paragraph 6.2 above, the Company will be seeking the approval of the Shareholders at an extraordinary general meeting ("**EGM**") to be convened with regard to the Proposed Disposal. A circular setting out, *inter alia*, the details of and other relevant information pertaining to the Proposed Disposal, together with the notice of EGM, will be despatched to the Shareholders in due course.

12. FOLLOW UP ANNOUNCEMENT / FURTHER INFORMATION

The Company will make the necessary follow-up announcement(s) as and when required and/or material developments arise in respect of the Proposed Disposal.

In the meantime, the Board wishes to advise shareholders of the Company and potential investors to exercise caution in their dealings in shares of the Company, and where in doubt as to the action they should take, they should consult their financial, tax and other advisers.

BY ORDER OF THE BOARD

Mr Gary Loh Hock Chuan
Executive Chairman

14 November 2016