



SUNMOON FOOD COMPANY LIMITED

(Incorporated in the Republic of Singapore on 29 September 1983)
Registration No. 198304656K
(the "Company")

PROPOSED ACQUISITION OF ORDINARY SHARES REPRESENTING 12% OF THE TOTAL ISSUED SHARE CAPITAL OF HARVEST SEASON SINGAPORE PTE. LTD.

1. INTRODUCTION

- 1.1 The board of directors (the "**Board**") of SunMoon Food Company Limited (the "**Company**") refers to the Company's announcements dated 17 June 2015, 31 August 2015 and 14 September 2015 in relation to the proposed acquisition of 510,000 ordinary shares of Harvest Season Singapore Pte. Ltd. ("**Harvest Season SG**") representing 51% of the total issued share capital. As disclosed in the announcement of the Company dated 14 September 2015, the conditional sale and purchase agreement had lapsed.
- 1.2 The Board is pleased to announce that the Company has on 10 February 2016 entered into a conditional sale and purchase agreement ("**SPA**") with Mr. Zhang Jiang Quan ("**Vendor**" or "**Tony**") in relation to the acquisition of such number of ordinary shares in the share capital of Harvest Season SG constituting 12% of the issued and paid-up share capital of Harvest Season SG (the "**Sale Shares**") from the Vendor (the "**Proposed Acquisition**").
- 1.3 Completion of the Proposed Acquisition ("**Completion**") shall take place on the completion date ("**Completion Date**"), defined as the date falling three (3) business days after the fulfilment of conditions precedent referred to in paragraph 3.1 below (other than the conditions precedent set out in paragraph 3.1.1 (i), (ii), (iii) and (vi) below) or such other date as the parties to the SPA may agree. Please refer to paragraph 3 of this announcement for more details.

2. INFORMATION ON HARVEST SEASON SG

- 2.1 Harvest Season SG is a company incorporated in the Republic of Singapore currently owned by Mr. Ong Yaw Teh ("**Patrick**"). Harvest Season SG has an issued and paid up capital of S\$100 represented by 100 ordinary shares.
- 2.2 Tony operates 6 fruit stores ("**6 Stores**") under the "*Harvest Season Group*" ("**Harvest Season**") in and around Shanghai, People's Republic of China ("**PRC**"). Harvest Season is a fast expanding, premium-concept fruit retailer operating 6 Stores in Zhenjiang and Nanjing in the Jiangsu province. The province is home to a population size of more than 100 million and is one of the fastest growing middle income regions in China. Headquartered in Shanghai, Harvest Season operates complementary online and store-based delivery channels, thereby allowing it to reach out to a wider field of consumers who can benefit from both the convenience of delivery and immediate purchase of fresh, quality fruits from its physical stores. The fresh, stylish and upbeat concept for its stores which sell a combination of imported and domestic fruits, juices and convenience foods attracts all age groups.
- 2.3 Tony and Patrick have agreed to enter into the Tony purchase agreement ("**Tony SPA**") whereby Tony will purchase such number of ordinary shares in the capital of the Harvest Season SG from Patrick such that following completion of the Tony SPA, the percentage shareholding interests of Tony and Patrick in Harvest Season Singapore will be 75%:25%.

3. DETAILS OF THE PROPOSED ACQUISITION

3.1 Conditions Precedent of the Proposed Acquisition

3.1.1 Pursuant to the SPA, completion of the Proposed Acquisition is conditional upon the occurrence of the following:-

- (i) the results of the Company's due diligence exercise of Harvest Season SG, the online business carried on by Tony in connection with retail and wholesale of fruits and fruits related products in the PRC ("**Online Business**"), and the 6 Stores being satisfactory to the Company;
- (ii) each of the Vendor's warranties in the SPA remaining true and not misleading in all material respects at Completion, as if repeated at Completion and at all times between the date of the SPA and Completion;
- (iii) execution and delivery to the Company of a declaration of trust executed by Mr. Zhang declaring that the rights, benefits, assets, profit and loss, burdens and liabilities in the 6 Stores and the Online Business are held on trust for Harvest Season SG to the extent permitted by applicable laws and regulations ("**Declaration of Trust**");
- (iv) all necessary approvals in connection with the Proposed Acquisition including approval of the shareholders of the Company ("**Shareholders**") having been obtained;
- (v) completion of the Tony SPA such that Tony is the legal and beneficial owner of such number of shares in Harvest Season SG such that the percentage shareholding ratio between Tony and Patrick is 75%:25%; and
- (vi) the delivery to the Company of, *inter alia*, the unaudited balance sheet and profit and loss statements of the 6 Stores.

(the "**Conditions Precedent**")

3.1.2 If any of the Conditions Precedent above is not satisfied (or waived with respect to certain conditions precedent) by 27 May 2016 or such other date as the parties to the SPA may agree in writing the SPA will cease and terminate without prejudice to any rights in respect of any prior breach under the SPA.

The SPA further provides that Tony shall procure the consent of Patrick for the transfer of the Sale Shares to the Company.

Post-completion covenants

3.1.3 The Vendor covenants with the Company that after Completion the Vendor shall:-

- (a) operate, develop and expand the wholesale and retail business of fruits and fruits related products and the Online Business ("**Business**") in the PRC through the Harvest Season SG and its subsidiaries (the "**Harvest Season Group**");
- (b) no later than 30 June 2016 or such other date as the Parties may agree ("**6 Stores Deadline**") transfer the legal and beneficial interest of all assets in the 6 Stores free from any and all encumbrances to the Harvest Season Group;
- (c) ensure that an appropriate company in the Harvest Season Group ("**Relevant Group Company**") enters into legally binding and enforceable leases with a residual lease term of at least 12 months so that the Relevant Group Company takes over the leases and the operations of the 6 Stores by the 6 Stores Deadline;
- (d) account to the Harvest Season Group the rights, benefits, assets and liabilities of the 6 Stores and the Online Business from and on the date of the Declaration of Trust up to

and including the date on which the Relevant Group Company commences operations of the 6 Stores and the Online Business for its own account;

- (e) to the extent permitted by the relevant PRC laws, regulations and bye-laws, transfer to the Relevant Group Company the legal and beneficial interest in the intellectual property free from any and all encumbrances by the 6 Stores Deadline. If the transfer is not permitted or restricted by applicable PRC laws, regulations and bye-laws, the Vendor shall procure the irrevocable grant of a royalty-free, perpetual, sole and exclusive use of the intellectual property to the Harvest Season Group by the 6 Stores Deadline. If the applicable PRC laws, regulations and bye-laws subsequently permit the transfer of the intellectual property, the Vendor shall, without delay and promptly procure the transfer to the Relevant Group Company, the legal and beneficial interest in the intellectual property free from any and all encumbrances as soon as practicable;
- (f) transfers to the Relevant Group Company the legal and beneficial interest to the Online Business free from encumbrances by the 6 Stores Deadline.

Call Option

3.1.4 As provided in the SPA, the Vendor shall have the option to call Option Shares (as defined below). For the purposes of this paragraph 3.1.4,

“Call Option” means the right for the Vendor to purchase from the Company on the terms and subject to the conditions contained in this paragraph 3.1.4, the Option Shares, at a consideration of the Option Price for each Option Share.

“Call Option Notice” means the Call Option notice substantially in the form as set out in Schedule 1 of the SPA.

“Option Completion” means completion of an exercise of a Call Option pursuant to this paragraph 3.1.4 on the Option Completion Date.

“Option Completion Date” means the date falling five (5) business days after the service of a Call Option Notice.

“Option Period” means a period of two years commencing after the Completion Date unless the initial two year period is extended by the Company in its sole discretion pursuant to a written request from the Vendor.

“Option Price” = $\frac{\text{US\$1,135,732.53}}{A}$

where:

A = the actual number of Sale Shares purchased by the Company from the Vendor under the SPA at Completion

“Option Shares” means such number of shares not exceeding the total number of Sale Shares purchased by the Company from the Vendor under the SPA legally and beneficially owned by the Company at the time of the exercise of the Call Option.

- (a) Call Option

The Company hereby irrevocably grants to the Vendor during the Option Period, the Call Option to require the Company to sell to the Vendor on the Option Completion Date, the Option Shares, at a consideration of the Option Price for each Option Share.

The Call Option may be exercised by the Vendor at any time in respect of all and not some of the Option Shares during the Option Period, by serving on the Company the Call Option Notice.

The Call Option relates to only a one time right exercisable under the terms in this paragraph 3.1.4.

- (b) If the Company receives an offer from a buyer(s) to purchase some or all of its Sale Shares ("**Sale Proposal**"), the Company shall serve on the Vendor a written notice informing the Vendor of the Sale Proposal and of the Company's intention to sell to the buyer(s) in the Sale Proposal ("**Disposal Notice**"). If a Call Option Notice is not served on the Company within ten (10) business days after service of the Disposal Notice, the Company may sell some or all of the Sale Shares to the buyer(s) in the Sale Proposal.

3.2 Consideration

- 3.2.1 The Company through its wholly-owned subsidiary, SunMoon Distribution & Trading Pte Ltd ("**SMDT**") is a supplier of, *inter alia*, fresh fruits, frozen fruits, processed fruit cups and processed sweet corn and distributes them through various distributors in the PRC. SMDT's distribution network in the PRC includes East China Marine Equipment Co., Ltd ("**East China**") and Shanghai Chibin International Trading Co., Ltd ("**Shanghai Chibin**").

The total amount of receivables owed by East China and Shanghai Chibin to SMDT is US\$1,032,484.12 (approximately S\$1,435,152.93 based on the exchange rate of US\$1 to S\$1.39) ("**SM Receivables**").

- 3.2.2 The consideration for the Sale Shares ("**Purchase Consideration**") is the discharge by SMDT of the payment obligations by East China and Shanghai Chibin in respect of the SM Receivables. For the avoidance of doubt, the Company has no other payment obligation in respect of the purchase of the Sale Shares other than as described above.

3.3 Basis for the Consideration

- 3.3.1 The Purchase Consideration was arrived at pursuant to arms' length negotiations between the Company and the Vendor on a willing-buyer willing-seller basis, after taking into account the following factors:

- (a) the potential growth and market of the fruit wholesale and retail business in PRC;
- (b) the Purchase Consideration represents US\$1,032,484.12 (approximately S\$1,435,152.93 based on the exchange rate of US\$1 to S\$1.39). Upon completion of the Proposed Acquisition and the transfer of the legal and beneficial interest of all assets in the 6 Stores to the Harvest Season Group (as provided in paragraph 3.1.3(b) above), the net tangible assets of Harvest Season SG is estimated to be about S\$600,000 (which is the investment cost of the 6 Stores). The Sale Shares represent a stake of 12% of Harvest Season SG, and the net tangible assets attributable to the Sale Shares is approximately S\$72,000. The Purchase Consideration paid by the Company in excess of the net tangible assets attributable to the Sale Shares (approximately S\$1,363,152.93) represents the goodwill associated with the strong growth potential in this sector in the foreseeable future;
- (c) the Proposed Acquisition provides an excellent investment opportunity for the Company. The Option Price for the Option Shares (assuming that the Vendor purchases from the Company all the Sale Shares) is US\$1,135,732.53 (approximately S\$1,578,668.22 based on the exchange rate of US\$1 to S\$1.39) which will represent a 10% gain on the Purchase Consideration; and
- (d) the rationale as elaborated in paragraph 3.4 below.

3.4 Rationale for the Proposed Acquisition

- 3.4.1 The Company believes that it can tap on and benefit from this growing consumption in PRC of fruit staples in retail and online delivery channels by acquiring a stake in Harvest Season SG.
- 3.4.2 This Proposed Acquisition is also aligned with the Group's plans to further expand its own brand into the PRC. The Group's vision is thus aligned with Harvest Season Group's vision. Harvest Season Group has been focusing to build its own brand as well as focusing on the expansion of trading operations in the PRC. At present, the Harvest Season brand also has its own range of fruits being apples, coconuts, pineapples, dried fruits and strawberries. The Proposed Acquisition gives the Group the opportunity to take progressive steps which allows the Group the opportunity to strengthen its competitive advantage and solidify its positioning as a global supplier of wholesale and retail business of fruits and fruits related products. The Company believes that the Proposed Acquisition will eventually allow the Group to gain access to new contracts, customers and business opportunities, especially in the PRC.
- 3.4.3 Since the lapsing of the previous conditional sale and purchase agreement entered into between the Company and Fresh Fresh Pte. Ltd., Tony and Patrick as announced by the Company on 14 September 2015, the Company has seen the Harvest Season Group progressively growing its network of suppliers and distributors. The Company believes therefore, that the Proposed Acquisition will provide the Group the opportunity to increase the Group's core competency in its fruit trading, distribution network and supplier base as both the principal activities of the Harvest Season Group and the Group are complementary and synergistic.
- 3.4.4 The Directors are also of the view that such potential growth will allow the Group to strengthen the Group's asset value and profitability could be enhanced and this will be to the benefit of the Shareholders.

3.5 Relative Figures under Rule 1006 of the Listing Manual

- 3.5.1 For the purposes of Chapter 10 of the Listing Manual and based on the latest announced consolidated financial statement for the Company and its subsidiaries (the "Group"), the relative figures for the Proposed Acquisition computed on the bases set out in Rule 1006(a) to (e) of the Listing Manual with reference to the Proposed Acquisition are as follows:-

Rule 1006	Basis	Relative Figures
Rule 1006(a)	Net asset value of the assets to be disposed of, compared with the Group's net asset value	Not applicable as this is an acquisition
Rule 1006(b)	Net loss attributable to the Proposed Acquisition compared with the Group's net loss	(4.69)% ⁽¹⁾
Rule 1006(c)	Aggregate value of the consideration given for the Proposed Acquisition, compared with the market capitalisation of the Company	10.98% ⁽²⁾ ⁽³⁾
Rule 1006(d)	Number of equity securities issued by the Company as consideration for the Proposed Acquisition, compared with the number of equity securities previously in issue	Not applicable
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) *The unaudited net loss before income tax, minority interest and extraordinary items of the 6 Stores attributable to the Sale Shares for the nine months ended 30 September 2015 is approximately*

S\$75,595, based on the exchange rate of RMB1 to S\$0.21. The unaudited net loss before income tax, minority interest and extraordinary items of the Group for the nine months ended 30 September 2015 is S\$1,612,000. The SPA was executed on 10 February 2016. Hence, the latest announced consolidated results at the date of execution of the SPA will be the financial statements for the financial period from 1 January 2015 to 30 September 2015 announced on 5 November 2015.

- (2) The Company weighted average share price of S\$0.041 as at 10 February 2016 being the market day preceding the date of the SPA. (Source: Bloomberg) The total number of ordinary shares issued by the Company was 318,784,382. The market capitalisation of the Company is S\$13,070,159.66.
- (3) The Purchase Consideration for the Sale Shares amounts to US\$1,032,484.12 (approximately S\$1,435,152.93).

3.5.2 Based on the above, the relative figure pursuant to Rule 1006(b) is negative. Rule 1007 provides that Chapter 10 of the Listing Manual may still be applicable at the Exchange's discretion. In this regard, the Company will be seeking Shareholders' approval in respect of the Proposed Acquisition.

3.5.3 Based on the unaudited accounts of Harvest Season SG and the 6 Stores as at 30 September 2015, the book value and the net tangible assets attributable to the Sale Shares is S\$600,000. The net loss attributable to the Sales Shares being acquired based on the unaudited accounts of Harvest Season SG and the 6 Stores as at 30 September 2015 is S\$75,595.

3.6 Financial Effects of the Proposed Acquisition

For purposes of illustration, the financial effects of the Proposed Acquisition are based on, *inter alia*, the following assumptions:-

- (a) the financial effects of the Proposed Acquisition are purely for illustrative purposes and should not be taken as an indication of the actual financial performance or position of the Group following the Proposed Acquisition nor a projection of the future financial performance or position of the Group after Completion;
- (b) pursuant to Rule 1010(9) of the Listing Manual, for the purpose of computing the financial effects of the Proposed Acquisition on the earnings of the Group, the Proposed Acquisition is assumed to have been effected on 1 January 2014 (for the financial year 2014);
- (c) pursuant to Rule 1010(8) of the Listing Manual, for the purpose of computing the financial effects of the Proposed Acquisition on the NTA of the Group, the Proposed Acquisition is assumed to have been effected on 31 December 2014 (for the financial year 2014);
- (d) the financial effects of the Proposed Acquisition are based on the Group's audited financial statements for the financial period ended 31 December 2014; and
- (e) in respect of Harvest Season SG, the financial information is based on the audited financial statements of Harvest Season SG for the financial period of 1 January 2014 to 31 December 2014 and the unaudited financial information of the 6 Stores for the financial period of 1 June 2014 (date of commencement of operations of first of the 6 Stores) to 31 December 2014.

Net Tangible Assets ("NTA")

As at 31 December 2014

Before the Proposed Acquisition	After the Proposed Acquisition
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NTA	S\$13,201,000	S\$13,201,000
No. of shares	318,784,382	318,784,382
NTA per share (Singapore cents)	4.141	4.141

Note:

The Proposed Acquisition of a minority interest has no impact on the NTA of the Company. As disclosed at paragraph 3.5.3 above, the net tangible assets attributable to the Sale Shares is S\$600,000.

Loss per Share ("LPS")

For financial year ended 31 December 2014

	Before the Proposed Acquisition⁽¹⁾	After the Proposed Acquisition
Net loss attributable to Shareholders	S\$(2,106,000)	S\$(2,106,000)
Weighted average number of shares used	318,784,382	318,784,382
Basic LPS (Singapore cents)	(0.66)	(0.66)

Note:

The Proposed Acquisition of a minority interest has no impact on the net profit or loss of the Company. As disclosed at paragraph 3.5.3 above, the net loss attributable to the Sales Shares being acquired based on the unaudited accounts of Harvest Season SG and the 6 Stores as at 30 September 2015 is S\$75,595.

4 INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS

Other than through their respective shareholdings in the Company, 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 Acquisition.

5 SERVICE AGREEMENT(S)

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

6 DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the SPA 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.

7 SHAREHOLDERS' APPROVAL

As mentioned at paragraph 3.5.2 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 Acquisition. A circular setting out, *inter alia*, the details of and other relevant information pertaining to the Proposed Acquisition, together with the notice of EGM, will be despatched to the Shareholders in due course.

8 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 Acquisition.

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

10 February 2016