



For Immediate Release

SUNMOON: Mar 2016 Investor Update

Singapore, 14 March 2016 – SunMoon Food Company Limited (“SunMoon” or collectively known with its subsidiaries as the “Group”), a consumer-focused distributor and marketer of branded high-quality fruits, vegetables and products, would like to update both shareholders and investors on its business strategy for the FY2016¹ and beyond.

Background of the Company’s transition since 2008

The Company was embroiled in a lengthy debt restructuring from 2008 and it was only in October 2015 that the company saw numerous settlements that now enable it to focus on the actual business of the Group. Prior to the conclusion of the debt restructuring, SunMoon could only focus on keeping its business operations going, whilst improving its balance sheet with the removal of the S\$49.3 million debt since 2008 and negative equity of S\$19.7 million to its current total net equity of positive S\$11 million and S\$0.6 million bank loan.

SunMoon 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.

In FY2015², SunMoon made a strategic decision 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.

Focus on the Cash Conversion Cycle (“CCC”)

The shift in the business strategy is driven by largely management’s assessment of the Group’s cash conversion cycle, CCC. The CCC 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.

For the Produce division, which was driven mainly by the production of dehydrated products, the Group had its cash tied up in garlic inventories as a raw material. The actual production cycle of dehydrated garlic takes a year to complete, and this prolonged production phase resulted in the Group’s CCC for the Produce division often stretching beyond 12 to 14 months. While the business was performing well, there was little room for growth as its dehydrated garlic production facility was running at full capacity. Given its debt position, SunMoon had no ability to increase its production as it had no access to new bank lines and working capital.

With this in mind, SunMoon made a decision to focus on the fresh, rather than dehydrated, produce of garlic and onions and was able to streamline its produce operations under the Fresh Division. With

¹ Financial year ending 31 December 2016

² Financial year ending 31 December 2015



reduced inventory, and optimisation of the CCC, SunMoon believes that it will be able to generate greater value for the company.

Commenting on the shift in business strategy, **Mr Gary Loh, Executive Chairman and CEO of SunMoon Food Company Limited**, added, "Over the course of FY2015, we shifted our focus to the Fresh Division and introduced new consumer products to capitalise on our strong existing brand equity, and tap on its growth potential in new and existing markets.

Our renewed strategic focus for FY2016 and onwards, will centre on the concept of '**Network x Geography x Product**', and this will be our operational model for the future."

The SunMoon Network x Geography x Product model

Network – As SunMoon aims to be a key global player in the rise in consumer spending, specialising in fruit-related and fresh products, an expansion of the current network of wholesale and modern trade channels will be crucial to sustain the growth of SunMoon's customer base. Aside from brick-and-mortar stores, it is essential that SunMoon is able to tap on a rapidly expanding digital sales network.

Geography - SunMoon will look to bring their quality products to new countries and customers in small yet significant ways, securing the SunMoon brand within the mindshare of the new sophisticated consumer when it comes to health, freshness and natural goodness. SunMoon will also look to secure products which originate from countries in the Southern Hemisphere and experiencing reverse seasons.

Product – SunMoon has expanded from its traditional offerings of apples and garlic from China, to now include citrus fruits, pears, blueberries, avocados, young coconuts, mangos and other fruit related consumer products from other parts of the world. With a sizeable third-party network of physical stores and a growing online presence operated by SunMoon's customers (wholesalers, distributors, supermarkets, hypermarkets, convenience stores, online retailers, chain stores, fruit services, hotels and airlines), SunMoon will be able to introduce more quality products to existing markets and customers, and therefore build up a strong product base. SunMoon also continues to develop its product lines to appeal to various demographics, from children, to working adults, and senior citizens, who are becoming more health and diet conscious.

With a shift towards the implementation of the Network x Geography x Product business model, SunMoon has begun talks with various parties on the best way to capitalise on its strong brand equity and fuel growth in new and existing business markets.

As part of its new business model, SunMoon seeks to increase its product range, as well as sales network through means such as licensing partnerships, such as those that were signed with SLS Atelier Pte Ltd ("SLS Atelier") and GLOH Fresh Pte Ltd ("GLOH Fresh") respectively in May 2014, for a period of 3+3 years.

As announced on SGXNet on 29 February 2016, SLS Atelier Pte Ltd, a media company, and GLOH Fresh, a regional online e-commerce platform company of fresh produce are both companies owned by First Alverstone Partners Pte Ltd ("FAPL"), a Singapore-based private equity firm owned by Mr Gary Loh, and his wife Ms Selena Cheng.

Selling into the PRC, beginning with Harvest Season

SunMoon has been operating in the PRC for many years, but has traditionally focused on the business of buying rather than selling products. Identified by SunMoon as a fast-growth market, led by rising disposable incomes and increasing consumer focus on food quality, SunMoon set its sights on selling into the Chinese market.



SunMoon made inroads into the Chinese market via a commercial relationship with Tony Zhang's Group of Companies (collectively "Harvest Season"). Harvest Season is a fast-growing wholesale and retail fruit business with six retail stores in the PRC that are supplemented by an online sales channel, and the partnership with SunMoon was mutually beneficial to all extents. The initial relationship resulted in a proposed joint venture, which subsequently did not materialise.

Nonetheless, SunMoon maintained its commercial relationship with Harvest Season, and both parties sought to find other means of collaboration.

In February 2016, SunMoon entered into an acquisition agreement for a 12% stake in HSS, via a conversion of its outstanding accounts receivable amounting to S\$1.4 million, which was the first step towards maintaining and tapping into the goodwill and the brand presence that Harvest Season has created in the Chinese market. This acquisition is non-dilutive to SunMoon's shareholders as it is not financed through the issue of new shares.

This relationship with Harvest Season will give SunMoon

- (i) entry into the largest and fastest-growing market in Asia-Pacific;
- (ii) access to customers and suppliers in the PRC;
- (iii) invaluable experience in learning the preferences of Chinese consumers, and;
- (iv) product visibility and recognition.

As an investor and shareholder, SunMoon would be able to continue learning about the Chinese market and tap on Harvest Season's contacts to grow procurement and sales networks, and participate in Harvest Season's future growth, with the possibility of taking a larger stake in the future.

Mr Loh continued, "We believe that the PRC is a huge and difficult market to navigate for many businesses, and it would be a challenge to gain traction without an experienced partner. Through our initial partnership with Harvest Season, we were able to introduce more products, and got a good measure of the scale available to us in the Chinese market."

The acquisition will be subject to shareholders' approval at an extraordinary general meeting to be called by SunMoon. Before the meeting, SunMoon's shareholders will receive a circular in due course containing more information on the proposed transaction.

What's Next – building on the Network x Geography x Product model

With an estimated current sales network of about 13,000 points of sales across Asia and the Middle East, SunMoon will continue to leverage on its operational model and work towards establishing new sales and supplier channels, expanding our product range and entering new markets. In bringing quality products to its customers, SunMoon looks to build a ubiquitous brand that is recognised by consumers as a trusted and healthy lifestyle choice.

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Note: This press release is to be read in conjunction with the related announcements made by the Company on SGX-NET.

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About SunMoon

SunMoon Food Company Limited is a consumer-focused distributor and marketer of branded high-quality fruits, vegetables and products. SunMoon works collaboratively with a global network of suppliers to develop innovative, natural, sustainable and nutritious food products for increasingly health-conscious global consumers.

<http://www.sunmoonfood.com/>