



SUNMOON FOOD COMPANY LIMITED

Registration No. 198304656K
(the "Company")

SIGNING OF BINDING TERM SHEET WITH SHANGHAI YIGUO E-COMMERCE CO., LTD

1. INTRODUCTION

1.1 The board of directors ("**Directors**") ("**Board**") of the Company is pleased to announce that it has today entered into a binding conditional term sheet ("**Term Sheet**") with Shanghai YIGUO E-Commerce Co., Ltd (also known as 易果生鲜) (the "**Placee**"). Pursuant to the Term Sheet, the Company proposes to allot and issue to the Placee:

- (a) 333,333,333 new ordinary shares of the Company ("**Placement Shares**") at the issue price of S\$0.045 for each Placement Share ("**Placement Price**"); and
- (b) 166,666,667 free unlisted warrants ("**Warrants**"), each carrying the right to subscribe for one (1) new ordinary share in the capital of the Company ("**Share**") (such new Shares issued pursuant to the exercise of the Warrants, the "**Warrant Shares**") at an exercise price of S\$0.054 for each Share ("**Exercise Price**"), which may be exercised by the Placee from time to time at the Placee's discretion, for a period of three (3) years from the date of issue of the Warrants,

(the "**Proposed Placement**").

The Placement Shares represent approximately 51.12 per cent of the enlarged issued share capital of the Company after completion of the Proposed Placement.

The Proposed Placement will be made pursuant to section 272B of the Securities and Futures Act (Chapter 289) of Singapore.

1.2 The Term Sheet sets out in broad terms the salient terms and conditions in respect of the Proposed Placement which will form the basis of the definitive agreements relating to the Proposed Placement (the "**Transaction Documents**"), including the placement agreement to be entered into between the Company and the Placee ("**Placement Agreement**") and the deed poll constituting the Warrants to be executed by the Company, which terms shall, *inter alia*, be consistent with that of the Term Sheet and contain additional terms and conditions that are customary for arrangements of this nature. The Company shall provide further updates on such Transaction Documents, and will disseminate any such information to shareholders of the Company ("**Shareholders**") in a timely manner.

2. INFORMATION ON THE PLACEE

2.1 The Placee is a company incorporated in Shanghai, the People's Republic of China ("**PRC**"). It is principally involved in the business of providing delivery of high quality fresh food to household and business consumers. It was established in 2005 as a pure online fruit retailer, and has since expanded its business to over 3,200 products in seven (7) categories of fresh food, namely, fruit, vegetable, seafood, meat, poultry and eggs, pantry and beverage, and dessert. The Placee has an extensive geographic presence within the PRC covering 18

provinces and 144 cities, with logistics centers in Shanghai, Beijing, Guangzhou, Wuhan, Chengdu, Ji'nan, Fuzhou and Hangzhou. In addition to households, its corporate customers include Fortune 500 companies and domestic institutions providing staff service to foreign employers. In addition, the Placee has entered into a strategic partnership with Alibaba, the largest e-commerce company in the PRC, since 2014.

- 2.2 As stated in the Company's announcement dated 21 April 2016 ("**21 April Announcement**"), SunMoon Distribution & Trading Pte Ltd, a wholly-owned subsidiary of the Company, had in April 2016 entered into several sales orders with the Placee in relation to the supply of certain fruits and vegetables products. The sales orders are in line with the Company's focus on the "*Network x Geography x Product*" model, and will introduce a range of fruits, fruit-related and vegetable products, such as frozen durians, young coconuts and oranges. This will enable the Company and its subsidiaries (the "**Group**") to tap on a rapidly expanding digital sales network and enable the Group to establish and secure the SunMoon brand within the mindshare of the new sophisticated consumer when it comes to health, freshness and natural goodness.
- 2.3 Prior to the 21 April Announcement, the Placee has been an existing customer of the Group since October 2015.
- 2.4 As at the date of this announcement, the Placee does not hold, directly or indirectly, any Shares. None of the Placee, its directors or its substantial shareholders has any connection with any Director or substantial shareholder of the Company.

3. TERMS OF THE TERM SHEET

3.1 Salient Terms of the Term Sheet

Under the terms and conditions of the Term Sheet, amongst others:

- (a) the Company will allot and issue to the Placee:
- (i) 333,333,333 Placement Shares at the Placement Price of S\$0.045 for each Placement Share; and
 - (ii) 166,666,667 Warrants, each carrying the right to subscribe for one (1) new Share at the Exercise Price of S\$0.054, which may be exercised by the Placee from time to time at the Placee's discretion, for a period of three (3) years from the date of issue of the Warrants;
- (b) the Placement Shares, the Warrant Shares and the Adjustment Shares (as defined below) (if any) will be issued free from all claims, pledges, mortgages, charges, liens and other encumbrances whatsoever and shall rank *pari passu* in all respects with and carry all rights similar to existing Share(s) except that they will not rank for any dividend, right, allotment or other distributions, the record date for which falls on or before (i) the relevant completion date of the Placement Agreement, or (ii) the relevant date of exercise of the Warrants;
- (c) the Company and the Placee will jointly apply to the Securities Industry Council ("**SIC**") for a waiver of the obligation by the Placee to make a general offer under Rule 14 of the Singapore Code on Take-overs and Mergers in connection with the Proposed Placement ("**Whitewash Waiver**");
- (d) the Placee will have the right to appoint up to three (3) non-independent Directors and two (2) independent Directors to the board of the Company, such that at

completion of the Proposed Placement, the board of the Company shall comprise six (6) Directors comprising three (3) non-independent directors, one (1) executive director and two (2) independent directors.

The Placement Price of S\$0.045 and the Exercise Price of S\$0.054 represent a premium of approximately 71.2% and 105.5%, respectively, to the latest announced unaudited net asset value of the Shares of S\$8.38 million as at 30 June 2016.

In the event the Company issues new Shares at an issue price lower than the Placement Price during the period commencing from the date of the Term Sheet until completion of the Proposed Placement, the Placement Price shall be adjusted to such lower price accordingly.

In the event the Company issues equity derivatives at an exercise price or conversion price lower than the Exercise Price of the Warrants, or the capital structure of the Company changes (other than as a result of the Proposed Placement) during the period commencing from the date of the Term Sheet until the expiry date of the Warrants, the number of Shares to be issued pursuant to the warrant exercise will be adjusted accordingly such that the Placee will not be worse off.

Upon the occurrence of certain events, the Company shall top-up the number of new Shares to be issued to the Placee (at an issue price of S\$0.045 per new Share):

- (i) in the event there are any losses arising for the Group from the ownership of and subsequent disposal of the Dormant Subsidiaries (as defined below) and the Dehydrated Produce Business (as defined in the Company's 13 May 2016 announcement) (other than the amounts fully provided for or written off as reflected in the available accounts of the Group), the number of top-up shares shall be adjusted accordingly to reflect such losses; or
- (ii) in the event the NAV of the Group as at 31 December 2016 falls 10% or more below S\$10 million, the number of top-up shares shall be adjusted accordingly to reflect such shortfall in the NAV of the Group.

Any new Shares to be issued to the Placee pursuant to the adjustments set out in this paragraph 3.1 shall be referred to as the "**Adjustment Shares**".

3.2 **Conditions Precedent**

The Proposed Placement is subject to the fulfilment of certain conditions precedent, including:

- (a) execution of the Transaction Documents by all parties thereto;
- (b) approvals of the Shareholders and the Directors of the Company, and in particular, approval by shareholders of the Company at an extraordinary general meeting to be convened approving (i) the issue and allotment of the Placement Shares, issuance of Warrants, the issue and allotment of the Warrant Shares and the issue and allotment of the Adjustment Shares, if any, (ii) the Whitewash Waiver, and (iii) interested person transactions between the Placees' group of companies and the Group;
- (c) the Whitewash Waiver from the SIC being obtained, on such terms as are reasonably acceptable to the Placee, and remaining in place;
- (d) the listing and quotation notice from the Singapore Exchange Securities Trading Limited ("**SGX-ST**") in relation to the Placement Shares, the Warrant Shares and the Adjustment Shares, if any, being obtained;

- (e) all authorisations, approvals, waivers or permits, if any, of any governmental authority or other person that are required in connection with the transactions contemplated by the Transaction Documents shall have been duly obtained and effective;
- (f) the Placee being satisfied at its sole discretion, with the outcome of the legal and financial due diligence of the Group;
- (g) no material adverse change shall have occurred subsequent to the date of the Transaction Documents;
- (h) a natural person or persons nominated by the Placee shall have been appointed to be a director or directors of each of the members of the Group, and the Company shall have executed and delivered to the Placee a director or directors indemnification agreement in favour of such Placee and the director or directors nominated by such Placee in a form reasonably satisfactory to the Placee;
- (i) each of the individuals/key employees identified by the Placee shall have entered into an employment, confidentiality and non-competition agreement, in form and substance satisfactory to the Placee;
- (j) at or before closing, the Company shall have obtained or renewed all trademarks and/or copyrights necessary for its business operations in each country where it has market presence;
- (k) at or before closing, the Group shall have obtained, renewed or completed all necessary permits, licences and filings required by applicable laws to conduct their respective business;
- (l) that the dormant subsidiaries, namely, (1) Weifang Xinan FHTK Fruits Co., Ltd, (2) Fook Huat Tong Kee (Xiamen) Foodstuffs Co., Ltd and (3) Shanghai Fook Huat Tong Kee Cold Storage Co., Ltd (collectively, the "**Dormant Subsidiaries**") are disposed of, at a nominal consideration or higher, and with no recourse by the purchaser(s) of such subsidiaries against any of the Group;
- (m) completion of the sale of the Dehydrated Produce Business (as announced by the Company on 13 May 2016), on terms satisfactory to the Placee, and with no recourse by the purchaser(s) of such business against any of the Group; and
- (n) such additional conditions as may be reasonably required by the Placee upon completion of the due diligence exercise.

3.3 Termination

The Term Sheet shall terminate upon the earlier occurrence of:

- (a) the execution of the Placement Agreement;
- (b) mutual agreement of the parties deciding not to proceed with the Proposed Placement; or
- (c) by 31 December 2016.

3.4 Costs and Expenses

Each party shall bear its own legal and professional fees incurred in connection with the Proposed Placement.

4. RATIONALE FOR THE PROPOSED PLACEMENT

4.1 The Company requires funds for its working capital. As announced on 11 August 2016, the Group is aiming to step up its marketing and sales efforts for its range of processed fruit products in Singapore, China and Indonesia, and as announced on 13 May 2016, the Company intends to sell property, plant and equipment relating to its now-discontinued dehydrated produce business, and make a strategic shift towards an asset-light consumer-centric, brand-focused business model. The proceeds from the Proposed Placement would thus provide the Company with sufficient working capital to ensure business continuity. In the longer term, the Proposed Placement is being carried out to enable the Company to augment its cash flow and improve working capital for expansion purposes.

4.2 The Placee has a well-established presence in the PRC (details of which are set out in paragraph 2.1 of this announcement). The Company believes that there is synergy between the business of the Company and the Placee, and that the Placee's investment in the Company will provide much-needed working capital for the Company's needs, and strengthen the strategic and mutually beneficial cooperation between the Company and the Placee.

As stated in the 21 April Announcement, the sales orders entered into between the Company and the Placee are in line with the Company's focus on its "Network x Geography x Product" model, which represents a shift in business strategy from previous years where the Company was embroiled in a lengthy debt restructuring since 2008 and could only focus on keeping its business operations going.

5. CAUTIONARY STATEMENT

5.1 Shareholders should note that the Proposed Placement is subject to the negotiation, execution and delivery of the Transaction Documents.

5.2 The Board would like to caution that there is no assurance that any transaction will materialise from the Term Sheet or that the Transaction Documents will be entered into in relation to the Proposed Placement. **Shareholders should consult their stock brokers, bank managers, solicitors or other professional advisers if they have any doubt about the actions they should take.**

6. INTERESTS OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

None of the Directors or substantial shareholders of the Company has any interest, direct or indirect, in the Proposed Placement (other than through their respective shareholdings in the Company, if any).

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 this 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 this announcement in its proper form and context.

BY ORDER OF THE BOARD

Gary Loh Hock Chuan
Executive Chairman
7 October 2016