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RESPONSE TO MINORITY SHAREHOLDERS' QUERIES FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON TUESDAY, 8 NOVEMBER 2016

On Tuesday, 8 November 2016, Mr David Gerald, Founder, President & CEO of Securities Investors Association (Singapore) or SIAS, emailed the Board of Directors of SunMoon Food Company Limited ("SunMoon"), and informed the Company that minority shareholders of SunMoon had approached SIAS to address issues concerning their investment in SunMoon. Below is the response from the SunMoon Board.

Cover Letter

The Board of Directors (the "Board") of SunMoon Food Company Limited (the "Company", and together with its subsidiaries, the "Group") refers to the letter from the Securities Investors Association (Singapore), or SIAS, dated 8 November 2016, which highlights issues raised by minority shareholders.

As a publicly-listed company, the Board advocates good corporate governance and transparency in managing issues and matters raised by the minority shareholders and all its stakeholders. The responses to the queries, as raised by SIAS on behalf of the minority shareholders, is addressed in the enclosed document with references to the announcements and disclosures made in accordance with SGX Listing Rules.

The Board wishes to thank SIAS for this opportunity to address the shareholders' concerns and we are happy to answer each question specifically but before we do that, we wish to make the following observations:

1. The Board has several platforms to address shareholders' concerns, such as the AGM, where these questions could have been satisfactorily answered.
2. In responding to the questions, the Board notes that the issues raised had made references to past events and matters that have been duly and formally addressed in the past, on the appropriate platforms such as at Shareholders' Meetings and announcements

to the SGX, for example, with regard to Harvest Season and the Dehydrated business. Nevertheless, the Board is happy to address these again in the answers to the specific questions submitted by SIAS.

3. Certain pieces of information submitted in support of the questions raised are out-dated and refer to past events. These pieces of information are no longer relevant and, as such, suggest that the questions are not pertinent. Again, the Board takes the spirit of this exercise seriously, and has endeavoured to answer these questions within the relevant context.

In order to appreciate the responses to the questions raised and for the benefit of all stakeholders, it is important for the Board to talk about the SunMoon journey, and the challenges the Company has overcome, to date, even as we focus on growing the company and deepening its roots.

Without belabouring the point, the Board wishes to point out that most of the issues raised – Harvest Season, sale of dehydrated business, China – all indicate that SunMoon is growing in the right direction: as an asset-light, customer-centric company, based on its Network x Geography x Products ("N x G x P") business model, first articulated on 14 March 2016.

In contrast, and as communicated with our shareholders in the Annual Report 2015, the Company was embroiled in a lengthy debt restructuring since 2008 and it was only in October 2015 that the Company saw numerous settlements that enabled us to focus on the new strategy to grow the Company and create long-term value for our stakeholders.

Mr Gary Loh, in his capacity as Executive Chairman and CEO, has led in the Company's debt restructuring efforts and as a result, SunMoon is now operating with a stronger balance sheet with positive equity and low debt.

The Board deeply appreciates what Mr Gary Loh has done for SunMoon in such a short time, and he has the Board's full support; beyond being an Executive of the Company, Mr Loh has skin in the game as a shareholder and investor. We recognise his commitment and unwavering contribution to the success of the Group.

To reiterate, SunMoon is on track with its renewed strategic focus, which centres on the N x G x P model, as follows:

Network – As the Group 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 the Group's customer base. Aside from brick-and-mortar stores, it is essential that the Group is able to tap on a rapidly expanding digital sales network.

Geography – The Group 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. The Group will also look to secure products which originate from countries in the Southern Hemisphere which experience reverse seasons.

Product – The Group has expanded from its traditional offerings of apples and garlic from the PRC, 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 the Group's customers (wholesalers, distributors, supermarkets, hypermarkets, convenience stores, online retailers, chain stores, fruit services, hotels and airlines), the Group will be able to introduce more quality products to existing markets and customers, and therefore build up a strong product base. The Group 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 'N x G x P' asset-light business model, the Group seeks to increase its geographic presence, product range, as well as sales network through means such as going into business ventures and licensing partnerships.

On this front, we are pleased that Mr Gary Loh, together with the Management Team, had been able to execute the strategy and pave the way for SunMoon to expand into new markets. The Company's commercial arrangement with the Harvest Season Group enabled SunMoon to enter the China market. While the Group has since made its foray into the China market, it also attracted the interest of China's leading fresh produce e-commerce player Shanghai YIGUO E-commerce Co. Ltd. ("Yiguo") and as announced, there are plans for new investments into the Group with a view to collaborate with Yiguo as a strategic and valuable business partner in China.

Before getting to the specific questions and answers, the Board would like to summarise its positions on key issues:

1. The Board is aware of the affairs of the Group.

2. The Board adheres to good corporate governance practices to ensure that the management acts in the best interest of the company.
3. The Board's remuneration committee ensures the appropriateness, transparency and accountability to shareholders on remuneration matters, including ensuring that remuneration packages of directors and key management personnel are adequately remunerated as compared to other comparable companies in the industry.
4. The Board is not able to respond on behalf of First Alverstone Capital Limited.
5. The rationale behind the acquisition of Harvest Season was to enable the Group to enter the China market. While the Group has since made its foray into the China market and attracted the interest of Yiguo, the Group continues to value Harvest Season as a strategic and valuable business partner in China. Investors can read more about the rationale in the circular to shareholders, which will be despatched in due course.
6. The sale of the dehydrated business is in line with the Group's move towards an asset-light, consumer-centric business model. We first articulated this strategic imperative in an Investor Update dated 14 March 2016.
7. The licensing agreements with GLOH Fresh and SLS Atelier are in line with the Group's strategy to target the e-commerce and children segments. The Board is of the view that the agreements were made in the best interest of shareholders given that the Group lacked the financial resources to build these channels and marketing tools on its own. The details on GLOH Fresh and SLS Atelier are provided in the announcement dated 29 February 2016.
8. The Board recognises the efforts of Mr Gary Loh, Executive Chairman and CEO, who has made significant contributions towards the debt restructuring of the Group, paring SunMoon's debt from S$49.3 million in 2008 to S$0.6 million in 2015, as well as rebuilding of the Company with a renewed strategic focus to centre on the concept of 'Network x Geography x Product' so as to shift to an asset-light, consumer-centric, and brand-focused business model.
9. As disclosed in the company announcement dated 7 September 2016, SunMoon had selected NetSuite for its ERP needs to power its asset-light, customer-centric strategy globally.
10. As disclosed in the company's announcement dated 7 October 2016, SunMoon signed a binding term sheet with respect to an intended investment by Shanghai YIGUO E-commerce Co. Ltd.

To be successful, SunMoon needs the support and help of every shareholder and stakeholder. In that spirit, the Board wishes to thank the group of shareholders who have written in to SIAS to raise their issues.

On behalf of the Board of SunMoon, we wish to record our appreciation and thank all our shareholders and various stakeholders, for their support throughout the years. While we have faced many challenges, we believe that the progress and development that the Company has made to date will pave the way for SunMoon to grow and create long-term sustainable shareholder value for all its stakeholders.

Any further questions can be addressed at the EGM and AGM.

For on behalf of the Board

GARY LOH HOCH CHUAN
EXECUTIVE CHAIRMAN
14 NOVEMBER 2016

Questions by SIAS

GENERAL OFFER

On 18 March 2013, SunMoon announced the restructuring of the existing convertible loan and the circular to shareholders containing the terms of the restructuring were despatched to shareholders in August 2013. A group of creditors ("Lenders") executed a Settlement Agreement with SunMoon to settle the amounts (principal of $24.4m plus interest of some $12m) owing by SunMoon to the Lenders. The Lenders and SunMoon agreed as follows:

1) *Lenders to waive interest of some $12m*
2) *SunMoon to pay $12.4m in cash to the Lenders*
3) *SunMoon to issue $6m in shares to the Lenders*
4) *Lenders to waive $6m and in return SunMoon would issue $6m in shares (60 million shares) to FACL, who would undertake to pay the Lenders S$6m in cash or 60 million shares at the end of one year.*

In 2014, Mr Gary Loh sold a substantial portion of his shares to a group of investors, making a substantial profit.

At the end of one year, FACL and Mr Gary Loh failed to perform their obligations to the Lenders. Mr Gary Loh did not pay the $6m nor deliver the 60 million shares. As a result, a Writ of Summons was filed by the Lenders against FACL and Mr Gary Loh (the "Suit").

On 17 June 2015, SunMoon announced it had entered into an agreement to acquire 51% interest in Harvest Season Singapore Pte Ltd ("Harvest Season") ("51% Acquisition"). Harvest Season operates 6 fruit stalls in China. As purchase consideration, SunMoon was to issue 60,000,000 new shares (18.82% of issued capital) to the vendor, resulting in the vendor becoming the single largest shareholder of SunMoon. The 51% Acquisition valued Harvest Season at about S$6.2 million. The 51% Acquisition, if completed would be dilutive to existing shareholders. The Directors and Controlling Shareholders also declared they have no interest in the 51% Acquisition. Coincidently, the purchase consideration, being 60,000,000 new shares, was the same number of shares Mr Gary Loh needed to deliver to the Lenders.

On 31 July 2015, after a lengthy delay, FACL transferred the 60 million shares to the Lenders and the transfer was announced on 31 Jul 2015 via SGXNet.

On 6 August 2015, certain Lenders who held shares in SunMoon sent a Requisition Notice to SunMoon to convene an EGM for the removal of Mr Gary Loh as director and for the appointment of 4 new directors.

On 14 September 2015, SunMoon announced the expiry of Long Stop Date in respect of the 51% Acquisition.

FACL and Mr Gary Loh offered to settle the Suit brought by the Lenders. FACL, Mr Gary Loh and the Lenders entered into a Settlement Agreement. The Settlement Agreement involved FACL acquiring 60 million shares from the Lenders.

On 21 September 2015, FACL announced:

1) *Disposal of 21 million shares (6.59% of issued capital) in two separate transactions, decreasing FACL's shareholdings from 17.8% to 10.89%. The total consideration was $1.1 million or $0.052 per share.*
2) *Acquisition of 60 million shares (18.82% of issued capital) increasing FACL's shareholdings from 10.89% to 29.71%. The announcement stated that the transaction was pursuant to a Settlement Agreement. The consideration was $6.55 million or $0.11 per share.*

On 10 November 2015, SunMoon announced that as a result of consultations between FACL and the Securities Industry Council ("SIC"), FACL will be effecting the sale of 14,000,000 shares.

<u>Questions</u>:

1. *Why did FACL dispose 21 million shares and immediately acquire 60 million shares on the same day?*

   Company's response:
   The Board is not able to respond on behalf of First Alverstone Capital Limited.

2. *The disposal of 21 million shares was executed in 2 transactions, each falling below the 5% substantial shareholding disclosure threshold. Who are the buyers of the shares and what is their relationship to FACL and the directors of SunMoon?*

   Company's response:
   The Board is not able to respond on behalf of First Alverstone Capital Limited.

3. *Why was the disposal price almost 50% discount to the acquisition price?*

   Company's response:
   The Board is not able to respond on behalf of First Alverstone Capital Limited.

4. *It appears that if the disposal of 21 million shares were not carried out, FACL would have an interest of some 36.3%, and FACL and its concert parties would be required to make a mandatory general offer. As a result of consultations with the SIC, FACL effected the sale of 14 million shares. Please provide more clarity on the queries by SIC and FACL's response to those queries.*

   Company's response:
   The Board had updated the shareholders that it was informed by Mr Gary Loh on behalf of First Alverstone Capital Limited ("FACL") that the Consultations with the Securities Industry Council ("SIC") in respect of certain issues under the Singapore Code of Takeovers and Mergers ("Code") sought by FACL have concluded and no further actions are required on the part of FACL arising from the Consultations relating to issues under the Code.

   The Board would like to refer to the Company's announcement dated 10 November 2015, where the Board had updated shareholders on the sale of shares by FACL.

   The disposal of 21 million shares was carried out and FACL's interest did not exceed 30% at any time.

5. *For transparency, can FACL declare that it is not acting in concert with any other parties?*

   Company's response:
   The Board is not able to respond on behalf First Alverstone Capital Limited.

   The Board had updated the shareholders that it was informed by Mr Gary Loh on behalf of FACL that the Consultations with the SIC in respect of certain issues under the Singapore Code of Takeovers and Mergers ("Code") sought by FACL have concluded and no further actions are required on the part of FACL arising from the Consultations relating to issues under the Code.

   The Board would like to refer to the Company's announcement dated 10 November 2015, where the Board had updated shareholders on the sale of shares by FACL.

HARVEST SEASON

On 17 June 2015, SunMoon announced it had entered into an agreement to acquire 51% interest in Harvest Season Singapore Pte Ltd ("Harvest Season") ("51% Acquisition"). Harvest Season operates 6 fruit stalls in China. As purchase consideration, SunMoon was to issue 60,000,000 new shares (18.82% of issued capital) to the vendor, resulting in the vendor becoming the single largest shareholder of SunMoon. The 51% Acquisition valued Harvest Season at about S$6.2 million. The 51% Acquisition, if completed would be dilutive to existing shareholders. The Directors and Controlling Shareholders also declared they have no interest in the 51% Acquisition.

On 14 September 2015, SunMoon announced expiry of Long Stop Date in respect of the 51% Acquisition.

On 10 February 2016, SunMoon announced an agreement to acquire 12% interest in Harvest Season ("12% Acquisition") from the vendor of Harvest Season, valuing Harvest Season at about S$11.6m. The purchase consideration is to be paid by the discharge of 2 China customers who owe US$1.03m to SunMoon. The vendor is also granted a call option to re-purchase the 12% Acquisition shares at 10% premium. If the 12% Acquisition is completed, SunMoon may stand to lose US$1.03m and gain up to 10% of US$1.03m.

On 19 February 2016, Mr Gary Loh informs that he and his wife are interested in the 12% Acquisition. They both are indirect owners of SLS Atelier and GLOH Fresh which have dealings with the Harvest Season vendor.

On 2 June 2016, SunMoon announced extension of Long Stop Date to 29 January 2017.

Questions:

The 2 China Customers

1. *Who introduced the 2 China customers to SunMoon?*

   Company's response:
   East China Marine Equipment Co., Limited ("**East China**") and Shanghai Chibin International Trading Co., Ltd ("**Shanghai Chibin**") (collectively, the "**2 China Customers**") were introduced to the SunMoon Food Company Limited (the "**Company**") by Tony to assist SunMoon Distribution & Trading Pte Ltd ("**SMDT**") with the importation, logistics, distribution and sale of fresh fruits and fruit-related products into the PRC.

2. *What credit review procedures were undertaken on the 2 China customers?*

Company's response:

As disclosed in the Company's financial statements, the Group had adopted the Financial Reporting Standards ("**FRS**"). Accordingly, the credit review procedures on the 2 China Customers were undertaken based on the FRS.

3. *When did the sale of inventory take place and what were the trade terms?*

Company's response:

The Company started selling and distributing fresh fruits and fruit-related products to Shanghai Chibin sometime in January 2015. In mid-2015, SMDT started selling fresh fruits and fruit-related products to East China, who was introduced by Tony to assist SMDT with the importation, logistics, distribution and sale of fresh fruits and fruit-related products into the PRC.

The trade terms (i.e. shipping terms, payment terms) of the sale of inventories to the 2 China Customers were determined commercially between SMDT and the 2 China Customers and, the terms of which, are similar to the trade terms provided to other customers.

4. *According to SunMoon's Annual Report the gross amount of the account receivable is $2.69m and were tested for impairment. Based on management's assessment, management believed no impairment was required. It appears that the account receivables were not doubtful as at 31 Dec 2015 but became doubtful just prior to the announcement of the 12% Acquisition on 10 February 2016. When did SunMoon realise that the accounts receivable was in doubt and what steps were taken to recover the accounts receivable?*

Company's response:

The total amount of receivables owed by the 2 China Customers to SMDT is approximately US$1,032,484 (approximately S$1,435,153 based on the exchange rate of US$1 to S$1.39 on 10 February 2016 (*Source: Bloomberg*)) ("**SM-HS Receivables**").

The Company believes that the 12% Acquisition provides the Company with an opportunity given by Tony, to *inter alia*, allow SDMT to invest a 12% shareholding interest in Harvest Season SG and gives the Company an opportunity to resolve the issue of the outstanding SM-HS Receivables.

The rationale behind the acquisition of Harvest Season was to enable the Group to enter the China market. While the Group has since made its foray into the China market and attracted the interest of Yiguo, the Group continues to value Harvest Season as a strategic and valuable business partner in China. Investors can read more about the rationale in the circular to shareholders, which will be despatched in due course.

5. *Are the 2 China customers related or connected with any director of SunMoon? If not, the director(s) should execute a statutory declaration.*

Company's response:
No, the 2 China Customers are not related to any directors of the Company. The directors of the Company are in full compliance with its disclosure requirements.

Harvest Season

6. *What is the background and track record of the vendor and Harvest Season?*

Company's response:
Tony ("**Vendor**") has about twenty years of experience in the logistics business in the PRC. The Vendor had through his business contacts in the PRC, helped to facilitate with the importation, logistics, distribution and sale of SunMoon's fresh fruits and fruit-related products into the PRC.

The Company understands that the 6 fruit stores ("**6 Stores**") operate under the brand name "***Harvest Season***" owned by the Harvest Season SG and its wholly-owned subsidiary, Harvest Season China (the "**Harvest Season Group**") which were established around mid-2014 to around early 2015 under the sole proprietorship of the Vendor. The 6 Stores sell fruits, juices and other foods in Zhenjiang and Nanjing in Jiangsu province, of which, the province is home to a population size of more than 70 million and is one of the fastest growing middle income regions in China.

7. *How are the 2 China customers and the vendor of Harvest Season related?*

Company's response:
The shareholders of Shanghai Chibin are Tony, Nicole Li Ping (who is Tony's wife) and Zhang Mianqing (who is Tony's father).

As described above, East China was introduced by Tony to assist SMDT with the importation, logistics, distribution and sale of fresh fruits and fruit-related products into the

PRC. Save as mentioned, the Company is not aware of any other relationship between the Vendor and East China.

8. *Has SunMoon carried out any due diligence on Harvest Season? What are the results of such due diligence?*

Company's response:
During the 51% Acquisition, the Company had conducted financial due diligence which was undertaken by the Company's auditors (RT LLP).

Further, the Company had (i) made reasonable enquiries (to the extent possible) between the Company and Tony and his representatives; (ii) made BizFile, insolvency and civil litigation searches in Singapore on Harvest Season SG and bankruptcy and civil litigation searches in Singapore on Tony and Patrick (which will be updated again as at the latest practicable date of the circular; and (iii) made internet due diligence checks, through (a) governmental websites in the PRC and Hong Kong (being Jiangsu Province Administration for Industry (江苏省工商行政管理局) (around 15 July 2016), Shanghai Administration for Industry & Commerce (上海市工商行政管理局) (around 15 July 2016), and Integrated Companies Registry Information System (ICRIS) (https://www.icris.cr.gov.hk/csci/) (around 15 July 2016)), and (b) web-based search engines (being Yahoo! Singapore (around 12 July 2016)), Google Singapore (around 12 July 2016) and Weibo, Baidu, and Tian Yan Chan (天眼查) around 18 July 2016), on Tony, Patrick, Harvest Season China, Shanghai Chibin and East China.

9. *Is the vendor of Harvest Season related or connected with any director of SunMoon? If not, the director(s) should execute a statutory declaration.*

Company's response:
Save as described below, the Vendor is not related to any directors of the Company. The directors of the Company are in full compliance with its disclosure requirements.

The Company refers to the announcement dated 29 February 2016 which provides information on SLS Atelier and GLOH Fresh Pte Ltd, both of which are owned by First Alverstone Partners Pte Ltd ("**FAPL**") whose shareholders are Mr Gary Loh and Ms Selena Cheng (Mr Gary Loh's wife).

Around the time when the management of the Company was introduced to Tony, GLOH Fresh and SLS Atelier were also introduced to Tony with a view to setting up the online e-commerce platform (through GLOH Fresh) and introducing "*SazzyPets*" into the PRC market. In Singapore, GLOH Fresh through the GLOH Licensee Agreement has licensing rights to use SunMoon for its online business under the brand "*SunMoonDirect*". The purpose of which is to create greater brand awareness for the Group without the accompanying set-up costs, logistical issues and additional labour costs that come with operating an online e-commerce business. With a view to utilising an online business to create greater brand awareness in the PRC as what was done in Singapore, GLOH Fresh stepped in to work with Tony to procure the necessary technical team/personnel to set up the GLOH Fresh platform in the PRC. In relation to "*SazzyPets*", the Company's rationale was to use a more cost-efficient licensed brand for its SunMoon branded products in the PRC. It was for the reasons stated above, that both GLOH Fresh and SLS Atelier were introduced to Tony.

Please note that Mr Gary Loh had regarded the interests in SLS Atelier and GLOH Fresh as part of the day-to-day operational matters.

Details of the above would be provided in the circular to shareholders, which will be despatched in due course.

10. *If the account receivable is impaired as a result of the 2 China customers (who are purportedly part of or related to the Harvest Season group) not being able to repay its debts, the equity value of Harvest Season is questionable. What is the commercial justification for entering into the 12% Acquisition?*

Company's response:
The Vendor is valued by the Company as a strategic and valuable business partner in the PRC given the Vendor's business experience and business connections in the PRC.

Through the Vendor's experience and business connections, Tony has helped the Group enter the PRC market. Tony has facilitated and assisted in relation to the import of the Group's products into the PRC market, in the crucial areas of logistics and warehousing capability, infrastructure, delivery networks and most importantly, custom clearance.

The Board believes that by continuing and developing the business relationship with the Vendor, it will continue to bring to the Group invaluable and intangible benefit that goes beyond the investment in Harvest Season SG, and such invaluable and intangible benefits includes being able to continue to effectively tap on Tony and his business contacts network as well as the logistical and warehousing infrastructure to maintain and expand the Group's presence in the PRC.

If the Group's ability to continue to tap on Tony and his business contacts network, relationships, logistical and warehousing infrastructure is affected or is terminated, the Group may have to incur time and/or cost to explore and re-establish alternative business contacts network and logistical and warehousing infrastructure so as to enable the Group to continue to enter the PRC market.

Further, if the Proposed HS Acquisition does not proceed and the Company resorts to legal proceedings to recover the SM-HS Receivables, the business relationship and connections which the Group has built up with the Vendor and the Harvest Season Group will likely be irreparably damaged. In that event, the Group's foray into the PRC and the business contacts built up with the help of the Vendor may also likely be adversely affected.

Details in relation to the rationale for the 12% Acquisition, will be provided in the circular to shareholders, which will be despatched in due course.

11. *It appears that the valuation of Harvest Season has increased from about S$6.2 million in June 2015 (where the 2 China customers were solvent) to about S$11.6 million in February 2016 (where the 2 China customers are insolvent). What has changed since the announcement on 17 June 2015?*

Company's response:
At the relevant time and in line with the Company's strategic focus, the Proposed HS Acquisition was the best option available given the circumstances at the relevant time. The directors of the Company had, *inter alia*, taken the following factors into consideration:

- Vendor is not prepared to re-offer to the Company the terms of the 51% Acquisition. The Company understands that Vendor takes the view that the *Harvest Season* brand since the abortion of the Initial Joint Venture had gained higher market awareness when compared with the market awareness of the *Harvest Season* brand at the time when the 51% Acquisition was entered into;

- the Vendor is and continues to be valued by the Company as a strategic and valuable business partner in the PRC given the Vendor's business experience and business connections in the PRC; and

- the Board believes that the continued business relationship with the Vendor brings to the Group invaluable and intangible benefit that goes beyond the investment in Harvest Season SG.

Details will be provided in the circular to shareholders, which will be despatched in due course.

12. *In respect of the 51% Acquisition, it is not clear why FACL would want to transfer control of SunMoon to the vendor of Harvest Season. Are FACL and the vendor of Harvest Season acting in concert?*

Company's response:
In respect of the 51% Acquisition, the Company had intended to acquire a majority stake of 51% in Harvest Season SG and in consideration for the purchase of the 51% stake in Harvest Season SG shall be an allotment and issuance to the Vendor of sixty million new ordinary shares in the capital of the Company (representing 18.82% of the issued share capital of the Company as at the date of 51% Acquisition announcement). Please refer to the announcement dated 17 June 2015 for the basis for the consideration. The agreement relating to the 51% Acquisition has since lapsed.

The Company had since entered into a new agreement for the 12% Acquisition and had made the relevant announcements on 10 February, 19 February, 29 February and 2 June 2016.

Save as described in the Company's response to question 9, and based on FACL's disclosure, FACL and the Vendor are not parties acting in concert.

13. *On 19 February 2016, Mr Gary Loh disclosed he is an interested party. Why was this not disclosed in SunMoon's announcement on 17 June 2015?*

Company's response:
Details of Mr Gary Loh's interests in SLS Atelier and GLOH Fresh will be addressed in the circular to shareholders, which will be despatched in due course.

14. *Will all of the above questions be dealt with in the Circular to shareholders?*

Company's response:

Yes, the responses above will be disclosed and addressed in the circular to shareholders, which will be despatched in due course.

15. *As FACL is an interested party, will it and its concert parties be abstaining from voting at the EGM?*

Company's response:
Save as described in the Company's response to question 9, and based on FACL's disclosure, FACL and the Vendor are not parties acting in concert.

Please note that Mr Gary Loh had regarded the interests in SLS Atelier and GLOH Fresh as part of the day-to-day operational matters and that it would not constitute interests in the 12% Acquisition.

Mr Gary Loh has volunteered to abstain from voting his holdings of the Company's shares (if any), and has also volunteered to ensure that his respective associates will abstain from voting their respective holdings of the Company's shares (if any) in relation to the 12% Acquisition.

LICENSING PARTNERSHIPS WITH SLS ATELIER AND GLOH FRESH

On 19 February 2016, Mr Gary Loh informs that he and his wife are interested in the transaction. They both are indirect owners of SLS Atelier and GLOH Fresh which have dealings with the Harvest Season vendor.

SLS Atelier is owned by First Alverstone Partners, whose owners are Mr Gary Loh and his wife. SLS is an intellectual property manager. They designed a cartoon called "SazzyPets". On 15 May 2014, a subsidiary of SunMoon, SunMoon Retail & Franchise, entered into a licensee agreement with SLS. In exchange for the right to use SazzyPets on SunMoon's products, SunMoon pays SLS S$2,000 a month for 3 years, with an option to renew for another 3 years.

GLOH Fresh is owned by First Alverstone Partners. It is an online e-commerce platform for fruits. On 15th May 2014, a SunMoon subsidiary, SunMoon Distribution and Trading Company, granted GLOH Fresh a master global license. The license permits GLOH Fresh:

i) To operate e-commerce under the name "SunMoonDirect" with licensing rights in Singapore, Indonesia and Korea
ii) The rights to manage SunMoon's vending machine operations globally
iii) The rights to use the name "SunMoon Fresh" for its retail and kiosk outlets in Singapore subject to franchise guidelines
iv) To work with SunMoon to expand its wholesale operation in Singapore

Under the license agreement, SunMoon will provide support to GLOH Fresh Design, Corporation Services and Equipment leases. GLOH Fresh will pay S$2,000 per month licensing fee for 3 years, with an option to renew for another 3 years.

Questions:

1. Have these related party transactions been disclosed before? If not, why?

Company's response:

On 15 May 2014, SunMoon Retail, a wholly-owned subsidiary of the Company entered into a licensee agreement ("**SLS Licence Agreement**") with SLS Atelier to give the Group the right to use SazzyPets on the Group's fruit cups, fruit crisps and fruit juices.

On 15th May 2014, SMDT, a wholly-owned subsidiary of the Company, granted GLOH Fresh a master global licence to *inter alia*, have commercial operation of the online e-commerce under the name of "*SunMoonDirect*" ("**GLOH Licence Agreement**").

The directors of the Company wish to state that Mr Gary Loh has duly disclosed his interests in SLS Atelier and GLOH Fresh prior to the Group entering into the SLS Licence Agreement and GLOH Licence Agreement.

Further, as the value of the transactions when aggregated, for each financial year since 2014, is less than S$100,000 in aggregate, no disclosure is required under Chapter 9 of the SGX-ST Main Board listing manual.

Details of the SLS Licence Agreement and GLOH Licence Agreement will be addressed in the circular to shareholders, which will be despatched in due course.

2. *In view of the substantial growth in e-commerce businesses globally, what was the commercial justification to allow GLOH Fresh to operate the e-commerce and vending machine business when SunMoon could have undertaken these businesses itself?*

Company's response:
The Company had taken the view that on 15 May 2014 that the business strategy of the Company then was to focus on the "Fresh Division" and the operations relating to an online and vending machine business was not something that the Group wants to undertake at that time.

The Board was of the view that the Group lacked the financial resources to build these channels on its own. The details on GLOH Fresh is provided in the announcement dated 29 February 2016.

The Board deliberated on considerations such as its current business strategy, the savings on set-up costs, the logistical issues and the additional labour costs. Hence, the Group entered into the GLOH Licence Agreement with GLOH Fresh so as to assist with creating brand awareness for "SunMoonDirect" and/or the SunMoon brand.

Accordingly, by granting GLOH Fresh the licence to operate commercially the online e-commerce "SunMoonDirect" platform, it creates brand awareness for the Group without the accompanying set-up costs, logistical issues and additional labour costs that come with operating an online e-commerce business.

Details on the above will be addressed in the circular to shareholders, which will be despatched in due course.

3. *Materiality should not apply in situations where there is a conflict of interest. How did SunMoon arrive at the pricing for the license agreements?*

   Company's response:
   The Company had considered, *inter alia*, the actual costs of developing the *SazzyPets* brand (which is higher than the licence fee of S$2,000 per month under the SLS Licence Agreement), the *SazzyPets* brand being a cost-efficient and effective marketing tool for the Company's products as well as the benefit of an online platform to create greater market awareness of the *SunMoon* brand without having to incur any costs in getting up and maintaining the online portal (which is higher than the licence fee of S$2,000 per month under the GLOH Licence Agreement).

   Details on the rationale will be will be addressed in the circular to shareholders, which will be despatched in due course.

4. *Have the license agreements been disclosed to the Board prior to 29 February 2016?*

   Company's response:
   Yes, the directors of the Company were aware and Mr Gary Loh had duly disclosed his interests in SLS Atelier and GLOH Fresh prior to the Group entering into the SLS Licence Agreement and GLOH Licence Agreement.

   As described above in question 1, as the value of the transactions when aggregated, for each financial year since 2014, is less than S$100,000 in aggregate, no disclosure is required under Chapter 9 of the SGX-ST Main Board listing manual.

DEHYDRATED BUSINESS

On 14 August 2015, SunMoon disclosed in their 2Q2015 results announcement that they have since in July 2015 shifted its focus from dehydrated business by leasing out its dehydrated factory in order to concentrate staffing and financial resources on the trading of fresh fruits and the development of processed fruits in order to achieve a stronger market share in these sectors.

On 29 February 2016, SunMoon released their 4Q2015 results. On their balance sheet, they classified S$3.5m of Property, Plant & Equipment (“PPE”) under operating lease. The lessee was disclosed as Taian Fei Hui Tong Kai. SunMoon also disclosed that it had entered into an agreement with the lessee to sell inventories worth S$5.9m, payable in 5 monthly instalments from 1 November 2015 to 1 March 2016.

<u>Questions</u>:

1. *The terms of the lease were not disclosed. What are the terms of the lease?*

Company’s response:

Taian Fuhua Tongkang Foods Co., Ltd (泰安富华同康食品有限公司) (“**SMF Taian**”), a wholly-owned subsidiary of the Company, entered into a lease contract with an unrelated third party, Taian Fenghui Tongkai Foods Co., Ltd (泰安丰辉同凯食品有限公司) (the “**Lessee**”) dated 20 June 2015 (“**Lease Contract**”) to lease to the Lessee a plant and production lines for vegetable dehydration (“**Leased Plant**”).

The Company sets out below a summary of the Lease Contract, which includes, *inter alia*, the following:

(i) the Lease Contract is for a duration of five (5) years, commencing on 1 July 2015;
(ii) SMF Taian will receive as consideration, rent amounting to RMB1,900,000 per annum (approximately S$408,120(1) per annum) of the Leased Plant;
(iii) SMF Taian shall provide the Lessee with the usage of all existing production line (i.e. equipment). For the avoidance of doubt, the Lease Contract does not contemplate any sale of equipment to the Lessee;
(iv) existing laboratories and equipment in the quality control department are shared and the Lessee will manage on behalf of SMF Taian;
(v) SMF Taian’s existing merchandise inventory and packing materials shall be sold by SMF Taian;
(vi) SMF Taian’s products in process and commodity stocks shall be allowed to be stored in a separate location and shall be sold out by 31 December 2015. In

relation to the remaining unsold products or stocks, SMF Taian to consider selling to the Lessee;

(vii) the Lessee will accept the remaining staff to continue in the performance of the existing employment contracts with SMF Taian; and

(viii) SMF Taian may assist the Lessee to complete the formalities for its business licence.

Note:

(1) This is based on the exchange rate of RMB 1 to SGD 0.2148 on 19 June 2015. *Source: Bloomberg*

2. *Who introduced the lessee to SunMoon? What is the background of the lessee, Taian Fei Hui Tong Kai? Is the lessee a related party?*

Company's response:

The board of directors agreed to the disposal of the factory in February 2015. Although, the Company was unsuccessful in its efforts to find a buyer for the next 2 months, there were enquiries to lease the production facilities. As the garlic harvest was drawing near, the Company decided to lease the production facilities, subject to the condition of re-employing all production employees so as to avoid any lay-off. The General Manager of SMF Taian, Mr Gao WY, managed to secure three interested parties. After reviewing, the management proposed and Mr Gary Loh approved, as the Executive Chairman of the Company, the award of the Lease Contract to the Lessee, who is not a related party.

3. *Is the former CEO of SunMoon currently involved in the dehydrated business/factory?*

Company's response:

The Company is not able to reply on behalf of the former CEO, who is no longer with the company.

4. *In SunMoon's Annual Report, it is disclosed "customer bases and contracts related to operations at the agricultural products segment were also transferred and sold to a third party group of companies". What price were the customer bases and contracts sold at and how was it valued?*

Company's response:

United Food Ingredients Pte Ltd (the "**UFI**") is a sister company of the Lessee.

The inventories (as mentioned in the Company's response to question 2 above) were sold to the United Food Ingredients Pte Ltd (the "**UFI**"). UFI is a sister company of the Lessee.

The sold inventories (to UFI) were the outstanding / balance unsold inventories after fulfilling existing contractual obligations (i.e. balance stock). The balance inventories were sold at a 9% mark-up to the actual book value.

The Company is of the view that the inventories sold were inventories which were produced to be sold in connection with the ordinary course of the Company's business (i.e. by the Produce Division). Accordingly, the Company took the view that it is a sale of inventories in the normal and ordinary course of business.

5. *It appears SunMoon has disposed the dehydrated assets/business. The PPE (dehydrated factory) under operating lease of S$3.5m and inventories of S$5.9m total some S$9.4m, which is 84% of net assets of SunMoon. Under the SGX Listing Rules, this represents a major transaction which requires shareholder approval. Why was shareholder approval not obtained for this transaction?*

Company's response:

As described in the Company's responses above, the Company had pursuant to a Lease Contract entered into a lease with the Lessee and accordingly, the Lease Contract does not contemplate a disposal or sale of assets (i.e. the Leased Plant and equipment) as the Company remains the legal and beneficial owner of the Leased Plant and the equipment.

Further to the above, the Company has made an announcement (dated 13 May 2016) on its intention to sell certain assets relating to the Discontinued Dehydrated Produce Business. A summary of the announcement (dated 13 May 2016) is set out below.

The Group had since late 2015 ceased the Dehydrated Produce Business. Subsequently, the Company had announced on 13 May 2016 that it intends to sell certain assets relating to the Discontinued Dehydrated Produce Business.

The rationale for the intention to sell certain assets is in line with the Group's current strategy of an asset-light consumer-centric, brand-focused business model. In addition, the sale of certain assets will also enable the Group to generate cash which can be used for the working capital requirements of the Group.

In connection with the intention to sell certain assets, the Board will take appropriate steps to materialise the intention to sell including, commissioning independent valuations of the assets identified for sale.

Shareholders are to note that the current intention to sell certain assets may not materialise as a successful disposal will be dependent on several factors, including the disposal price and terms of the disposal which are acceptable to the Board.

The Company will seek shareholders' approval when necessary and will keep the Shareholders informed of further developments and will make further announcements as and when appropriate.

SUNMOON'S TRACK RECORD

Based on the announcements, the profit and loss and the adjusted profit and loss after excluding non-recurring income/expenses and write-backs are summarized below:

($'000)	***2008***	***2009***	***2010***	***2011***	***2012***	***2013***	***2014***	***2015***
Profit / (Loss) after tax	*(49,800)*	*6,400*	*900*	*800*	*(2,500)*	*11,100*	*(2,100)*	*(4,200)*
Adjusted profit / (loss) after tax	***(27,500)***	***(4,300)***	***(1,100)***	***(2,000)***	***(5,300)***	***(700)***	***(1,100)***	***(2,500)***

The annual reports also state Mr Gary Loh's remuneration as follows:

Year	***Amount ($)***
2015	*502,000*
2014	*452,000*
2013	*414,000*
2012	*427,000*

<u>Questions</u>:

1. *If the non-recurring income/expenses and write-backs are excluded from FY2008 to FY2015, is it correct that SunMoon was operating at a loss from FY2008 to FY2015?*

   Company's response:

   No. We would have been EBITDA positive had it not been for interest expense related to the debt in relation to technical solvency.

   The EBITDA of the Group was already positive since FY2009 based on the operational changes made in 2007 and 2008, though the interest expense due to the Lenders from FY2009 through to the completion of the Debt Restructuring affected the net profit of the Group during that period.

   With regards to the past financial performance of the Company, reference should be made to the audited financial statements of the Company which have been announced. The Board also wishes to refer to the announcement made on 31 August 2015 and the Annual Report 2015 to provide further clarity.

   As communicated with our shareholders in the Annual Report 2015, the Company was embroiled in a lengthy debt restructuring from 2008 and it was only in October 2015 that SunMoon, via numerous settlements, was able to distance itself from its past and focus on the actual running of the business.

Prior to the Group completing its debt restructuring exercise during FY2013 ("Debt Restructuring"), the Company was in technical insolvency, with the Group having a negative net tangible asset of more than S$21.4 million. The key reason for the weak balance sheet of the Group then was the outstanding convertible loan of S$24.4 million in principal, and accrued interest on the convertible loan of approximately S$13.3 million, which was owed to the then lenders and which remained unconverted into shares of the Company. Interest continued to accrue at the rate of $1.95 million a year then.

Of the $60 million loan facility, approximately S$38.9 million was drawn down, and of this, First Alverstone Capital Limited ("FACL") (a company wholly owned by Gary Loh and his wife) and its associates injected approximately S$14.5 million. In 2008, FACL converted the S$14.5 million loan and outstanding interest of approximately S$1.0 million into the Company's shares, which improved the balance sheet of the Group correspondingly.

It is further noted that the Debt Restructuring was completed and was made possible by, inter alia, the injection of fresh convertible loans amounting to S$12.0 million by FACL (which was applied by the Company towards the settlement of the S$24.4 million loan owing to the lenders), and FACL procuring the Lenders to forgive S$6 million of the then outstanding debt, and in consideration thereof, the Company owed FACL a convertible loan amounting S$18 million.

Upon completion of the Debt Restructuring, to improve the balance sheet of the Group, FACL immediately converted all S$18 million of the convertible loan.

For completeness, the Debt Restructuring also involved the settlement of $6 million of the convertible loan owing to the lenders by way of issue of the Company's shares, and the forgiveness of the interest accrued amounting to approximately S$13.3 million.

Accordingly, through the course of the conversion of convertible loans and the Debt Restructuring, the balance sheet of the Group improved by an aggregate of approximately S$52.8 million between 2007 through to the completion of the Debt Restructuring. Net profit of the Group also improved by S$1.95 million a year for reason that there no longer was an interest expense payable to the Lenders after the Debt Restructuring.

The Board notes that without the fresh funds injection to complete the Debt Restructuring, the Company would likely have remained technically insolvent, if not already insolvent, with interest expense continuing to accrue at approximately S$1.95 million per year, payable to the lenders.

2. *In view of SunMoon operating at a loss and SunMoon having a full-time CEO, how was Mr Gary Loh's remuneration justified and determined?*

Company's response:

The Board's remuneration committee ensures the appropriateness, transparency and accountability to shareholders on remuneration matters, including ensuring that remuneration packages of directors and key management personnel are adequately remunerated as compared to other comparable companies in the industry.

As communicated with our shareholders in the Annual Report 2015, the Company was embroiled in a lengthy debt restructuring since 2008 and it was only in October 2015 that the Company saw numerous settlements that enabled us to focus on a new strategy to grow the Company and create long-term value for our stakeholders. Mr Gary Loh in his capacity as Executive Chairman and CEO has led in the following efforts:

- Without the debt restructuring, the Company would likely have remained technically insolvent, if not already insolvent, with interest expense continuing to accrue to the lenders
- From loss to EBITDA positive, now the Company has positive equity and low debt
- Shift to asset-light business model - sourcing fruits from accredited farmers and packers instead of ownership of assets
    - Offloaded plantation and packaging businesses
    - Sale of dehydrated business due to long cash conversion cycle where cash flow cycle of the business model limited the Company's cash flow for long periods and its growth potential
- Renewed the Company's strategic focus to centre on the concept of 'Network x Geography x Product' so as to shift to a consumer-centric, brand-focused business model
- Widening and deepening SunMoon's geographic presence, product range, as well as sales network through means such as going into business ventures and licensing partnerships
    - Deployment of NetSuite for its ERP needs to power its asset-light, customer-centric strategy globally
    - Expanding into PRC with Harvest Season and attracting potential investors such as Shanghai YIGUO E-commerce Co. Ltd.

3. *What is the breakdown of his remuneration, including salary, bonus and benefits?*

   Company's response:
   As disclosed in the Company's Annual Report 2015 under Disclosure on Remuneration, Mr Gary Loh's remuneration was S$502,000, comprising 87% for Salary and 13% for Bonus and Benefits in Kind.

4. *What other expenses or reimbursements (travel, entertainment, etc.) were incurred by Mr Gary Loh since he was involved in the Company? Does he travel Business Class or First Class?*

   Company's response:
   Mr Gary Loh is entitled to out of pocket expenses and to travel Business Class.

END