



SUNMOON FOOD COMPANY LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration No. 198304656K)

RESPONSE TO SGX-ST QUERIES

The Board of Directors (the “Board”) of SunMoon Food Company Limited (the “Company” and its subsidiaries, the “Group”) would like to respond to the queries from the Singapore Exchange Securities Trading Limited (the “SGX-ST”) dated 4 August 2020 (“SGX Queries”) in relation to announcement dated 28 July 2020 on the Company’s unaudited full year results for the financial year ended 31 March 2020. The Company sets out below its responses to the queries of the SGX-ST:

SGX Queries	Company responses
<p>Question 1:</p> <p>It is stated on page 10 of the announced financial results:- “Allowance for impairment on trade receivables amounted to \$1.62 million in FY19/20 as compared to \$0.86 million in FY18/19. This increase in allowance was due to the deterioration in the aging of trade receivables.”. It is also stated on page 11 of the announced financial results:- “Decrease in trade receivables was mainly due to the decrease in sales, collection from customers and allowance for impairment made for expected credit loss.” (emphasis added)</p> <p>In this regard, please clarify:-</p>	
<p>a. What is the amount of “allowance for impairment made for expected credit loss” as disclosed on page 11 of the announced financial results?</p>	<p>a. The amount of allowance for impairment made for expected credit loss is S\$1,617,000 as disclosed on page 1 of the full year financial statements announcement for the financial year ended 31 March 2020 (“FY2019/20”) as announced on SGX-NET dated 28 July 2020 (“28 July Announcement”). Of this, an amount of S\$1,438,000 pertains to Shanghai YIGUO E-Commerce Co., Ltd. (“Yiguo” and its subsidiaries, the “Yiguo Group”) due to deterioration in aging of trade receivables.</p>

<p>b. The Company's plans to recover the trade receivables;</p>	<p>b. For the period from 1 April 2020 to 31 July 2020, trade receivables from third parties of S\$2.0 million have been fully recovered and trade receivables from Yiguo Group of S\$2.5 million have been recovered. The remaining outstanding amount from Yiguo Group is approximately S\$4.1 million. The management is working with the Yiguo Group to settle the remaining trade receivables via instalment payment plan. The management is in the midst of negotiating with Yiguo and expects the instalment payment to commence from August/September 2020.</p>
<p>c. Whether they are major customer(s) and whether the Company continues to transact with these customer(s);</p>	<p>c. In relation to the trade receivables from Yiguo Group referred to in Company's response above, these are subsidiaries belonging to Yiguo Group and constitute as major customers of the SunMoon Food Company Limited (the "Company" and its subsidiaries, the "Group"). The Group continues to leverage on Yiguo Group's network of customers and vendors and expects to continue to transact with these related companies belonging to the Yiguo Group.</p>
<p>d. How long are the debts outstanding and when were the sales reported;</p>	<p>d. As at 31 March 2020, the Group's gross trade receivables due from Yiguo Group of S\$2.7 million are aged more than 365 days, and the related sales were reported in financial year ended 31 March 2019 ("FY2018/19").</p> <p>Remaining S\$3.9 million was aged less than 365 days and corresponded to sales reported in FY2019/20.</p>
<p>e. What were the actions taken to recover the trade receivables; and</p>	<p>e. As disclosed in response to (b) above, the Company is currently in discussion with Yiguo Group to reach an instalment payment plan.</p>
<p>f. The Board's opinion on the reasonableness of the methodologies used to determine the value of the allowance for impairment.</p>	<p>f. The Board is of the opinion that the methodologies used to determine the value of the allowance for impairment is reasonable after considering parameters such as aging statistics and historical repayment pattern.</p>
<p>Question2:</p> <p>It is noted that the Group's "Other receivables and advances" financial statement line item increased from approximately \$422,000 as at 31 March 2019, to \$5,192,000 as at 31 March 2020. It is also stated on page 11 of the announced financial results:- "Increase in other receivables</p>	

<p>and advances was mainly due to advance payments to Yiguo Group for purchases of goods.” In this regard:-</p>															
<p>a. Please provide a breakdown of the “Other receivables and advances” financial statement line item.</p>	<p>a. The breakdown of other receivables and advances is as follows:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: right;">‘S\$000</td> </tr> <tr> <td></td> <td style="text-align: right;"><i>approximately</i></td> </tr> <tr> <td>GST/VAT receivables and others</td> <td style="text-align: right;">763</td> </tr> <tr> <td>Advance payment to Yiguo Related Parties for purchases of goods</td> <td style="text-align: right;">4,429</td> </tr> <tr> <td>Total</td> <td style="text-align: right; border-top: 1px solid black;">5,192</td> </tr> </table>		‘S\$000		<i>approximately</i>	GST/VAT receivables and others	763	Advance payment to Yiguo Related Parties for purchases of goods	4,429	Total	5,192				
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<p>b. Please clarify the reason(s) why the Company has made advance payments to Yiguo Group for purchases of goods? What are these goods and what is their usage? Noting also, that the Group’s inventories has increased from approximately \$5,000 as at 31 March 2019 to \$2,755,000 as at 31 March 2020 and the reason for this on page 11 of the announced financial results is “mainly due to procurement towards year end.” In addition, for the inventories, please clarify the reason(s) for procurement towards year end.</p>	<p>b. Advances to Yiguo Group Since August 2019, the SunMoon Group has been expanding its product range in China to include products other than fresh fruits such as seafood, meat, vegetables and other food-related products. The Group has leveraged on Yiguo’s network to obtain the supply of some of these products. The Group has made advance payments to Yiguo Group in respect of the following products:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: right;">‘S\$000</td> </tr> <tr> <td></td> <td style="text-align: right;"><i>approximately</i></td> </tr> <tr> <td>Little lobsters⁽¹⁾</td> <td style="text-align: right;">2,062</td> </tr> <tr> <td>Packaging⁽¹⁾</td> <td style="text-align: right;">542</td> </tr> <tr> <td>French Fries and seafood⁽²⁾</td> <td style="text-align: right;">1,740</td> </tr> <tr> <td>Seafood and meat⁽²⁾</td> <td style="text-align: right;">84</td> </tr> <tr> <td>Total</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">4,428</td> </tr> </table> <p>Notes: (1) Shanghai Supply Chain Management Co. Ltd (“ShanMai”), an indirect wholly-owned subsidiary of the Company, ordered little lobsters (“Lobster Orders”) from Yiguo. Yiguo has helped to procure the Lobster Orders from a local supplier in Wuhan, the People’s Republic of China, being the region with one of the richest supply of little lobsters. In addition, ShanMai had also ordered packaging materials (“Packaging Orders”) from Shanghai Exfresh Logistic Co. Ltd (“Exfresh”), a wholly-owned subsidiary of Yiguo.</p> <p>Due to the Covid-19 outbreak, the price of little lobsters had fallen. If ShanMai were to take delivery of the Lobster Orders as scheduled, ShanMai would suffer a huge financial loss. As such, Yiguo negotiated with the supplier to assist in delaying the delivery of the Lobster Orders by freezing the little lobsters and allow ShanMai to take delivery when market price of the little lobsters stabilises. This was a commercial decision taken by the</p>		‘S\$000		<i>approximately</i>	Little lobsters ⁽¹⁾	2,062	Packaging ⁽¹⁾	542	French Fries and seafood ⁽²⁾	1,740	Seafood and meat ⁽²⁾	84	Total	4,428
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	<p>management as management is of the view that when the COVID-19 situation improves, the price of little lobster will recover towards the end of the 4th quarter of calendar year 2020.</p> <p>For the avoidance of doubt, this Lobsters Orders and Packaging Orders only commenced in FY2019/20.</p> <p>(2) ShanMai had also purchased French Fries and seafood (collectively, “Seafood Orders”) from Shanghai Winchain Supply Chain Management Co. Ltd (“WinChain (Shanghai)”).</p> <p>In relation to the purchase of Seafood Orders, ShanMai has provided advance payments of S\$1.74 million to WinChain (Shanghai) and approximately S\$84k to Shanghai Yiguo Food Technology (Yiguo Food Technology) (“Yiguo Food Technology”). WinChain (Shanghai) and Yiguo Food Technology had utilised the advance payments to procure the Seafood Orders from its local suppliers in China. The Seafood Orders had since been delivered to ShanMai.</p> <p>For the avoidance of doubt, this Seafood Orders only commenced in FY2019/20.</p> <p>Inventories balance of S\$2,755,000</p> <p>The inventories as of 31 March 2020 were mainly purchases for fulfilment of customers’ orders and had been delivered as of July 2020.</p>
<p>c. Please clarify the identity of Yiguo Group and whether this is considered an interested person transaction?</p>	<p>c. The entities of the Yiguo Group that the Group has transactions with are as follows:</p> <ul style="list-style-type: none"> -Shanghai Yiguo E-commerce Co Ltd - Shanghai Winchain Supply chain management Co. Ltd - Shanghai Winchain Business management Co. Ltd -Shanghai Winchain future food and beverage Co.Ltd -Shanghai Yiguo food Technology Co.Ltd -Shanghai Exfresh logistic Co. Ltd - Nanjing Exfresh logistic Co.Ltd -My kitchen Shanghai Technology Co.Ltd -Winchain Agribusiness Holding Co.Ltd -Winchain (Hongkong) Co. Ltd <p>The transactions with the abovementioned companies are interested party transactions.</p>
<p>Question 3:</p> <p>In relation to the “Other payables and accruals” financial statement line item amounting</p>	

to approximately \$1,095,000 as at 31 March 20:-															
a. Please provide the breakdown of the “Other payables and accruals” financial statement line item;	<p>a. Other payables and accrual breakdown:</p> <table style="margin-left: auto; margin-right: auto;"> <tr> <td></td> <td style="text-align: right;">‘S\$000</td> </tr> <tr> <td></td> <td style="text-align: right;"><i>approximately</i></td> </tr> <tr> <td>Deferred grant income</td> <td style="text-align: right;">23</td> </tr> <tr> <td>Other payables</td> <td style="text-align: right;">256</td> </tr> <tr> <td>Accrued operating expenses</td> <td style="text-align: right;">393</td> </tr> <tr> <td>Advances from related parties</td> <td style="text-align: right;">423</td> </tr> <tr> <td>Total</td> <td style="text-align: right;"><u>1,095</u></td> </tr> </table>		‘S\$000		<i>approximately</i>	Deferred grant income	23	Other payables	256	Accrued operating expenses	393	Advances from related parties	423	Total	<u>1,095</u>
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b. It is also stated on page 11 of the announced financial results:- “Decrease in other payables and accruals was mainly due to the repayment of Directors' fees, arrangement to offset other payables from related party with receivables from related parties, and the write back of other payables.”															
i. Please elaborate on the “arrangement to offset other payables from related party with receivables from related parties”, including the amounts involved and whether these are considered interested person transactions?	<p>i. As of 31 March 2019, there was a balance of S\$548,000 being advance payment received from a related party of the Yiguo Group for fresh fruit orders which was cancelled. This was recorded as “other payable – related party” in Note 18 of Annual Report FY2018/19.</p> <p>During FY2019/20, there were sales to Yiguo Group aggregating S\$3.9 million as disclosed in the 28 July Announcement item 13 entitled “Interested Persons Transactions”.</p> <p>The said other payable amount of S\$548,000 has been utilised to offset with trade receivables from Yiguo Group. This offsetting thus accounted for decrease of S\$548,000 in other payables and accruals.</p> <p>Overall, other payables and accruals decreased from S\$1,897,000 to S\$1,095,000 or an aggregate decrease of S\$802,000.</p> <p>The sales transactions with Yiguo Group entities are considered as interested party transactions.</p>														
ii. Please clarify the reason(s) for the “write back of other payables” and the nature of these payables.	<p>ii. Other payables of S\$139,000 was due to one supplier who was also a customer. The Group has long outstanding trade receivables from this customer and allowance for impairment had been made in previous financial year. The Group has stopped transactions and settled all balances with this customer and as the</p>														

	<p>payables are no longer required, they have been written off during the FY2019/20.</p>												
<p>Question 4:</p> <p>We note that the Group has a loss after tax of approximately \$4,272,000 for the 12 months ended 31/03/2020. The Group also has net cash used in operating activities of approximately \$6,821,000 for the 12 months ended 31/03/2020.</p> <p>In this regard, please provide the Board's opinion and the basis for its views on the following:</p>	<p>The Board noted that the Group's net operating cash outflows for FY2019/20 amounted to S\$6,821,000 and cash and equivalents balance as at 31 March 2020 was S\$1,539,000.</p> <p>The Board would like to highlight that, as disclosed on page 10 item 8, footnote 9 of the 28 July Announcement, the Group's adjusted loss after taking into account key non-cash items was:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 70%;"></td> <td style="text-align: right; vertical-align: bottom;"> <i>'S\$000 approximately</i> </td> </tr> <tr> <td>Loss for the year</td> <td style="text-align: right;">(4,272)</td> </tr> <tr> <td>Impairment/expected credit loss</td> <td style="text-align: right; border: 1px solid black;">1,617</td> </tr> <tr> <td>Fair value changes on financial liability arising from contingent issue of shares</td> <td style="text-align: right; border: 1px solid black;">1,623</td> </tr> <tr> <td>Sub-total non-cash loss</td> <td style="text-align: right; border-top: 1px solid black;">3,240</td> </tr> <tr> <td>Adjusted operation loss for the year</td> <td style="text-align: right; border-top: 1px solid black;">(1,032)</td> </tr> </table>		<i>'S\$000 approximately</i>	Loss for the year	(4,272)	Impairment/expected credit loss	1,617	Fair value changes on financial liability arising from contingent issue of shares	1,623	Sub-total non-cash loss	3,240	Adjusted operation loss for the year	(1,032)
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<p>a. The ability of the Company and the Group in meeting its short term debt obligations as and when they fall due?</p>	<p>a. The Board is currently working with the management to assess the ability of the Company and the Group in meeting its short term debt obligations as and when they fall due.</p>												
<p>b. The ability of the Company and the Group to operate as going concerns.</p>	<p>b. The Board is currently working with the management to assess the ability of the Company and the Group to operate as going concern.</p>												
	<p>The Board's opinion on the above matters will be finalised and disclosed in the upcoming annual report for FY2019/20.</p>												

**BY ORDER OF THE BOARD
SUNMOON FOOD COMPANY LIMITED**

Mr. Zhang Ye

Executive Director and Chief Executive Officer
11 August 2020