



SUMOON FOOD COMPANY LIMITED

(Registration No. 198304656K)

SUSTAINABILITY REPORT FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020

TABLE OF CONTENTS

02	CEO'S STATEMENT ON SUSTAINABILITY
04	ORGANISATIONAL PROFILE
04	SUPPLY CHAIN
04	OUR PEOPLE
05	ETHICS AND INTEGRITY
05	STAKEHOLDER ENGAGEMENTS
07	REPORTING PRACTICE
07	GRI 201: ECONOMIC PERFORMANCE
08	GRI 204: PROCUREMENT PRACTICES
08	GRI 308: SUPPLIER ENVIRONMENTAL ASSESSMENT
09	GRI 401: EMPLOYMENT
10	GRI 404: TRAINING AND EDUCATION

CEO's Statement on Sustainability

On behalf of the Board of Directors ("**Board**"), I am pleased to present SunMoon Food Company Limited's ("**SunMoon**" or the "**Company**") Sustainability Report for the twelve (12) months ended 31 March 2020.

About the Sustainability Report

This report has been prepared with reference to the Global Reporting Initiative Standards ("**GRI**") and covers environmental, social and governance ("**ESG**") performance of all business divisions and subsidiaries which are under the Group's financial and operational control.

Information presented in the report has been extracted from our internal records and documents to ensure accuracy using internationally accepted measurement data units. Unless otherwise stated, the information represents that of the Group.

As SunMoon has always embedded sustainable practices in its activities, it welcomes the release of the sustainability reporting guidelines issued by the Singapore Exchange Securities Trading Limited ("**SGX-ST**") in July 2016. This initiative has provided us the platform to formalise our sustainability policies and procedures; consolidate our existing efforts; communicate to our stakeholders; and plan further for the future.

CEO Statement

On behalf of the Board of Directors, I hereby present SunMoon Food Company's (SunMoon) annual report for the financial year ended 31 March 2020 (FY19/20).

Although SunMoon has experienced ups and downs in the past 30 years, it is a respectable company that has kept up with its original aspirations and continues to persist. In fiscal year 2020 (FY19/20), SunMoon experienced more crisis – impacted by the economic downturn in China and rest of the world suffered in the first half of the fiscal year and the COVID-19 pandemic that ravaged the world since the end of third quarter of the fiscal year. During this difficult time, SunMoon has shown great perseverance, adhering to the management principles of Simplicity and Focus.

I am proud of our team. In the first half of the fiscal year 2020, SunMoon has formed a stronger and more stable operation team through organisational restructuring. Having to steer through the difficult situation arising from the COVID-19 pandemic has given us more confidence that the organisational restructuring we have executed is effective. Due to the changes in the economic environment, the adjustment of the organisational structure, and the outbreak of COVID-19, the sales volume of SunMoon dropped significantly in fiscal year 2020 (FY19/20) compared with the previous fiscal year. The total revenue in fiscal year 2020 (FY19/20) was \$18.00 million, down 75% from fiscal year 2019 (FY18/19). We needed time to respond to the changes brought about by the deterioration in the operating environment and adjust the organisational structure and sales strategy. At the same time, our supply chain has suffered an unprecedented blow due to COVID-19. In this situation, we were more cautious in our business operations than before.

The good thing, however, is that we are delighted to find that our operational capabilities and business performance have greatly improved compared with that in the past, and our business is gradually aligning with our strategy of focusing on businesses with positive margin. The gross profit margin of SunMoon in fiscal year 2020 (FY19/20) is 5.05%, compared with only 1.1% in fiscal year 2019 (FY18/19). Fixed costs reduced from \$2.56 million in fiscal year 2019 (FY18/19) to \$1.28 million in fiscal year 2020 (FY19/20).

After going through many twists and turns, I believe that SunMoon has passed the most difficult period. I have full confidence in the team and expect the growth of SunMoon under the operation of the current

team once the COVID-19 situation stabilises. With the completion of internal adjustments and when the conditions of the external environment improve, I believe that revenue will gradually return to more normal level. SunMoon will then be able to register a higher gross profit margin and enhance profitability. We will continue to build on our strengths and capabilities accumulated in the past in order to achieve a well-grounded development.

SunMoon Group will continue to operate by principle: Simplicity and Focus. We have to constantly strategise how best to leverage on our limited resources to increase our market share, and to drive the transformation of SunMoon from a traditional supply chain company to a value-adding supply chain company. Therefore, the word “Focus” is extremely important and we will continue to focus on China market and adhere to the following three development strategies in the new fiscal year:

1. Product category expansion: SunMoon has not only completed the adjustment of organisational structure in the past year, and more importantly, it has also expanded the strategic layout from selling fruits to include a wide range of products including fruit, meat and aquatic products. Through deep cultivation of global supplier resources, we aim to enhance our upstream product sourcing network based on these core categories.

2. Brand deepening: the current development strategy of SunMoon is to take categories of fresh produce, aquatics, animal proteins and other food related products as the core and gradually strengthens SunMoon channel brand through approaches like building its own brand and obtaining the exclusive distribution rights of upstream brands. As a result, it will strengthen relationship with existing suppliers and expand into more new sales channels.

3. Channel expansion: The Group has continued its efforts to establish the popularity of SunMoon brand in China’s retail and food service sectors in the past year. We have formed long-term stable cooperative relations with renowned retail and food service channels such as RT-Mart, Fresh Hippo, Suning Fresh, Burger King, etc.

In the new fiscal year, SunMoon will continue to develop steadily, focusing on core category development, brand building, and channel expansion to further strengthen its businesses in the Chinese market. Our longer-term strategic plan for SunMoon is to gradually expand and strengthen the value-added services beginning in the new fiscal year, including but not limited to customs declaration and inspection services, customized raw material processing services (OEM & ODM), and supply chain financial services.

As we move into a year filled with the uncertainty and risks brought about by the COVID-19 pandemic, we will devote ourselves to operating SunMoon in a more stable and pragmatic way. We will continue to cement our position and strengthen our fundamentals. All these would not have been possible without our valuable stakeholders. On behalf of the Board, I would like to thank our management and staff for their commitment and dedication towards the Group. I would also like to extend my appreciation to our Board of Directors for their insightful guidance. Last but not least, I would like to express my gratitude to our business partners, customers and shareholders for their unwavering trust and faith in us

Mr Zhang Ye

Chief Executive Officer



Organisational Profile

SunMoon is a global distributor and marketer of branded fresh produce, aquatics, animal proteins and other food related products, delivered to the health-conscious consumer in the most convenient way.

Started in 1983, SunMoon has grown and expanded its product offering which includes fresh fruits, vegetables, meat, seafood and French fries under its own brand.

With an extensive sales network of over 15,000 point of sales globally, SunMoon's offering of quality, premium products are distributed via supermarkets, convenience stores, online and wholesale channels, airlines, food services as well as SunMoon's franchise outlets in Singapore.

Since 2015, the Company has shifted towards an asset-light, consumer-centric and brand-focused business strategy by tapping on its strong brand equity and the Network x Geography x Product business model. Instead of owning farms and plantations, SunMoon sources for products from farmers.

SunMoon's products come with the SunMoon Quality Assurance label, which is backed by internationally recognised accreditations such as HACCP; Good Manufacturing Practice (GMP); AIB (Excellent), ISO 22000, Halal and Kosher Certification.

SunMoon was listed in 1997 on the Mainboard of the Singapore Stock Exchange and has since grown and expanded its product offerings to meet the discerning consumers of today.

Supply Chain (including cold chain processes)

SunMoon mainly engages packers and growers from countries which include but is not limited to, China and countries in the South East Asia, Europe, South America continents.

We have continued to build on the supply and sale of packaged, ready to drink whole young Thai coconuts in Singapore. fresh produce, aquatics, animal proteins and other food related products to China. .

All of our suppliers must also fulfil our "*SunMoon Quality Assurance*" standards, a strict checklist of freshness, quality and safety, and be accredited with various regulatory credentials.

Our People

Our employees are inspired to be the best they can be, where our team is as diverse as the markets we serve. We foster an open environment where creativity thrives and provides our people with the opportunities they need to develop their skills. As at 31 March 2020, the total number of employees in the Company is 13 and the gender breakdown is 5 Female, 8 Male. All of our Company's activities are performed by our employees. We do not have any collective bargaining agreements in place.



Ethics and Integrity

At SunMoon, we believe that nothing is more important than the health of our customers and their family. We understand that the food we eat have a direct impact on our constitution and overall well-being. Thus, we deliver from farm to fork quality nutritious, fresh produce, aquatics, animal proteins and other food related product in the best and most convenient way. Our promises are:-

- a) To source the best quality fresh produce, aquatics, animal proteins and other food related product from around the world
- b) To deliver you a product that is safe for consumption
- c) To provide great value in affordability of price
- d) To safeguard your interests at all times

Because of our good values, principles and standards, we have been a trusted brand in the industry since 1977 and customers return for our trusted products from time and time.

At the employee level, we have a code of business ethics that all employees are required to follow.

Stakeholder Engagements

Our stakeholders are identified and prioritised based on our relationship of reliance and impact on each other. Their needs and concerns are what drive our sustainability practices and measures. The following are stakeholders that we have engaged and identified:

- 1. Customers
- 2. Suppliers
- 3. Authorities/Agent
- 4. Shareholders
- 5. Employees

Customers

We engage our customers by carrying out adequate background checks including but not limited to whether they have healthy credit, the customer's capacity, annual turnover and total paid up capital. We may also have customer satisfaction surveys and/or feedback and our staff can assist our customers if the need arises. Generally, our customers want more stock and more varieties of products to fulfil end-consumers' demand.

Suppliers

The identification of suppliers is crucial and is an important part of SunMoon's business operations. SunMoon will carry out background checks on our suppliers to ensure that their products meet our "*SunMoon Quality Assurance*" stringent standards which include the types, quality, safety of the products they supply, past experiences and track records. It is also important to take note that if the selected suppliers do not meet our "*SunMoon Quality Assurance*" and/or delivery targets, SunMoon will not hesitate to look for replacement suppliers. Management will undertake due diligence checks by visiting the farms of the selected suppliers so as to assess and ensure that the suppliers are able to meet our "*SunMoon Quality Assurance*" and that their operations are sufficient to meet delivery targets.

As the industry is continuously developing, we are also in the process of developing sustainability and green standards for our suppliers to adhere to. In the course of the last FY19/20, we have engaged to ensure that our suppliers and/or products meet the "*Marine Stewardship Council*" accreditation. Our suppliers are concerned with the cost of business, speed of delivery and the quantity and quality of delivery.

Authorities/Agent

We may, as and when required, engage with the authorities/agents to assist them in the compliance of different regulatory, compliance and licensing/certification requirements across different borders. Effective engagement with the authorities/agents can reduce any delays or additional costs caused by licensing, importing or any other issues that may arise.

Shareholders

We understand that our investors are concerned with the economic performance of the Company. As such, SunMoon is committed to disclose relevant and material information to its shareholders, the investment community and the public in a timely, accurate and transparent manner, in accordance with the listing rules of the SGX-ST, and the Singapore Code of Corporate Governance (dated 6 August 2018). Our disclosures are made public through SGX-ST's SGXNet and on the Company's corporate website at www.sunmoonfood.com. We regularly communicate through our nominated spokespersons to ensure consistency in messaging, addressing concerns and queries as well as managing the expectations of shareholders and the investment community. We also regularly engage shareholders, and/or potential investors, and the media through the Annual General Meeting and Extraordinary General meeting, conference calls, analyst briefings, media interviews and luncheons, Annual Reports, Press Releases and announcements on SGXNet.

Employees

Our employees go through regular feedback and appraisals and have ample opportunity to develop their skills and competencies. They also have the opportunity to take on greater roles and responsibilities. Our employees would like better incentives and performance bonuses as well as better work life balance.

Reporting Practice

The extensive list of GRI topics were discussed between the Company’s senior management and they have shortlisted the top 5 most relevant topics. Following that, the top 5 material topics were presented to and approved by the board.

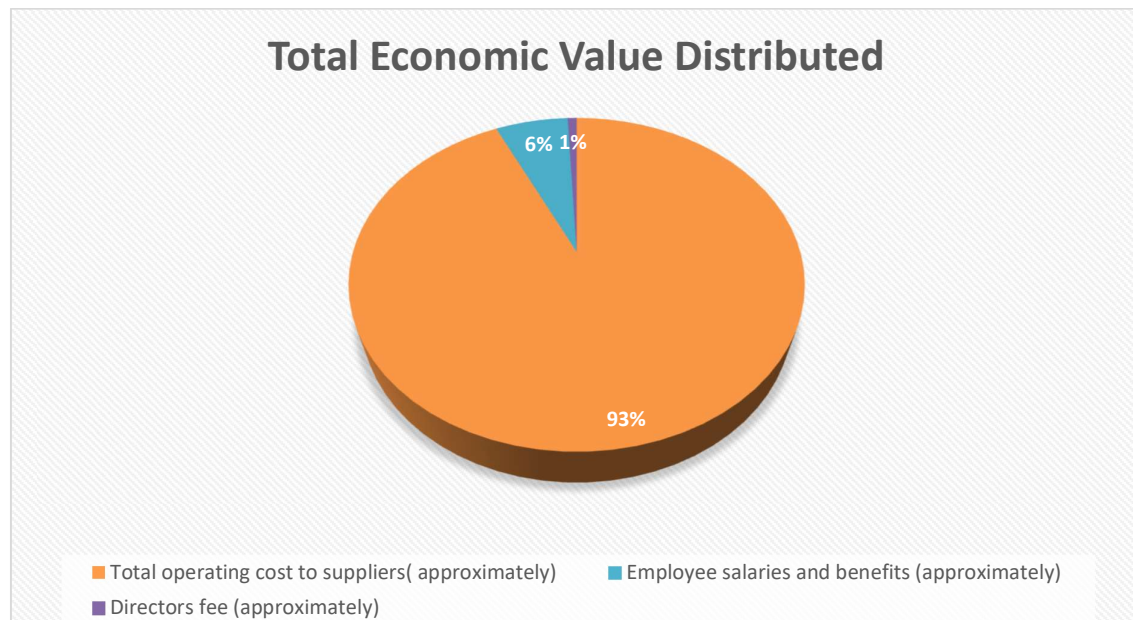
The topics that SunMoon will be covering are:-

1. GRI 201 Economic Performance;
2. GRI 204 Procurement Practices;
3. GRI 308 Supplier Environmental Assessment;
4. GRI 401 Employment; and
5. GRI 404 Training and Education.

The reporting period is from 1 April 2019 to 31 March 2020. This reporting period is in accordance with the SGX Guidelines Practice Note 7.6 and is the second Sustainability Report the Company has made. The reporting cycle will be prepared annually in respect to SGX-ST Listing Rules Practice Note 7.6. The contact point for any questions regarding the report or its contents can be sent to enquiry@sunmoonfood.com. There is no restatement of information for this Sustainability Report.

The report is based on the Global Reporting Initiative Standards. SunMoon has not engaged any external assurance for this Sustainability Report.

GRI 201: ECONOMIC PERFORMANCE



Due to the nature of SunMoon’s business, climate change and weather will invariably have a direct impact on our products. Bad weather conditions caused by climate change will have a negative impact on product quality and quantity. In view of the Covid-19 pandemic, workers were affected which had

resulted in the production volume being greatly reduced. Additionally, the Covid-19 pandemic had also changed the social norms, for example, end-consumers such as restaurants were forced to close and resulted in lower demand and stagnated prices. In 2019, bad weather conditions had also directly affected the quality and quantity of pear harvests, in particular, in the People's Republic of China. We recognise the impact of climate change on our revenues and so endeavour to involve all our partners to participate and engage in sustainability practices.

Given the changing nature and landscape of SunMoon's business, the Company's has been looking to increase its existing product offerings. In particular, the intent is to identify and source for products which are less susceptible to climate changes.

SunMoon has received Job Support Scheme grant from the Singapore Government. This has helped SunMoon in reduction of salary expenditure. In addition, SunMoon has also received property tax relief rebates as part of the Singapore Government's initiative as a result of the Covid pandemic, this has helped and reduced SunMoon's rental costs. These grants gave the Company support to improve our capabilities.

For detailed financial results, please refer to our financial statements as set out in the Annual Report 2019/20.

GRI 204: PROCUREMENT PRACTICES

SunMoon has implemented improved global procurement strategies, and manages a carefully controlled process based on the "SunMoon Quality Assurance" standard. Products from certified farms, plantations and processing factories are selected according to the "SunMoon Quality Assurance" standard, a critical checklist of freshness, quality, and safety as demanded by our discerning customers; a reputation also backed up by internationally recognised accreditations.

As fresh fruits, vegetables, meat, seafood and French fries are perishable goods, we do not keep large inventories and our operational model is mainly to work with our suppliers so as to undertake direct shipping of the fresh produce. Accordingly, our procurement budget is substantially spent on suppliers.

GRI 308: SUPPLIER ENVIRONMENTAL ASSESSMENT

All suppliers must be approved according to SunMoon's set of selection criteria to ensure product quality and branding. Complementing quality assurances and our brand, we at SunMoon believe strongly in protecting and caring for our environment. As such, we at SunMoon will make a conscientious effort in developing and, in due course, implement environmental assessment processes.

Target for subsequent reporting

SunMoon is committed to increase the existing number of suppliers, both internationally and locally in the People's Republic of China to meet both international and local demand.



GRI 401: EMPLOYMENT

There are 12 new employee hires during the reporting period with below 30 years of age and between 30 to 50 years of age. The makeup of the new hires comprises of 5 female and 7 male. The total number of employees⁽¹⁾ as at 31 March 2020 is 13 which comprises of 5 female and 8 male.

SunMoon also provides various benefits to full time employees such as free medical services at one of our panel clinics, dental and specialist medical benefits. Additionally, we are supportive of family life and work-life balance and offer various types of leave for our employees such as parental, marriage, maternity, paternity, childcare, examination, and compassionate leave. However, none of our employees utilised their parental leave during the reporting period.

Note:

(1) For SunMoon's, there were a total of 3 females and 2 males who were hired and resigned for FY19/20. there were a total of 12 females and 3 males who resigned during FY19/20.

GRI 404: TRAINING AND EDUCATION

As part of SunMoon’s policy of constant training and professional development for our employees, we send our employees to various training programs in order to upgrade their skills and competencies; this improves employee satisfaction and helps our staff performs even better at their jobs. For example, our finance team was sent to professional courses such as the “*Achieving Mastery and Success Through Growth Mindset*” conducted by the Singapore Management University. Additionally, we sent our employees to participate in large-scale exhibitions, such as, the Asia Fruits Logistic Exhibition, Shanghai Seafood Exhibition, Asia Seafood Exhibition, National Gift Exhibition and China Export and Import Exhibition in the People’s Republic of China. On an ongoing basis, the Company will seek to ensure that senior managements are considered for leadership training to ensure that their skills and knowledge remain relevant.

The average hour of training per year per employee amounted to 15 hours. All of our employees have annual performance reviews being carried out as part of our Company’s policy. They receive regular performance and career development reviews as feedback so that they can continue to improve.

Target for subsequent reporting

SunMoon targets to maintain our training hours for our employees and costs to be set aside in upgrading the skills of our staff for the upcoming financial year. In addition, we have not stopped efforts and will target to send all directors of SunMoon for training on the roles and responsibilities of a director of a listed issuer.



GRI Contents Index

GRI Reference and Disclosure Title	Page No.
ORGANISATIONAL PROFILE	
102-2 [Core] Activities, brands, products, and services	Page 4 of the Sustainability Report
102-4 [Core] Location of operations	Page 4 of the Sustainability Report
102-5 [Core] Ownership and legal	Page 4 of the Sustainability Report Page 97 of the Annual Report for the financial year ended 31 March 2020
102-6 [Core] Markets served	Page 4 of the Sustainability Report
102-7 [Core] Scale of the organisation	Page 9 of the Annual Report for the financial year ended 31 March 2020
102-8 [Core] Information on employees and other workers.	Pages 4 and 6 of the Sustainability Report
102-9 [Core] Supply Chain	Page 4 of the Sustainability Report
102-10 [Core] Significant changes to the organisation and its supply chain	Page 4 of the Sustainability Report
102-11 [Core] Precautionary Principle or approach	Page 4 of the Sustainability Report
102-12 [Core] External initiatives	Pages 5 and 6 of the Sustainability Report
102-13 [Core] Membership of associations	Page 5 of the Sustainability Report
STRATEGY	
102-14 [Core] Statement from senior decision maker	Page 2 of the Sustainability Report
ETHICS AND INTEGRITY	
102-16 [Core] Values, principles, standards, and norms of behaviour	Page 4 of the Sustainability Report
GOVERNANCE	
102-18 [Core] Governance structure	Page 4 of the Sustainability Report

SUMOON FOOD COMPANY LIMITED
SUSTAINABILITY REPORT FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020

STAKEHOLDER ENGAGEMENT	
102-40 [Core] List of stakeholder groups	Page 5 of the Sustainability Report
102-41 [Core] Collective bargaining agreements	Page 4 of the Sustainability Report
102-42 [Core] Identifying and selecting stakeholders	Page 5 of the Sustainability Report
102-43 [Core] Approach to stakeholder engagement	Page 5 of the Sustainability Report
102-44 [Core] Key Topics and concerns raised	Page 6 of the Sustainability Report
REPORTING PRACTICE	
102-45 [Core] Entities included in the consolidated financial statements	Page 2 of the Annual Report for the financial year ended 31 March 2020
102-46 [Core] Defining report content and topic Boundaries	Pages 6 and 7 of the Sustainability Report
102-47 [Core] List of material topics	Pages 6 and 7 of the Sustainability Report
102-48 [Core] Restatements of information	Pages 6 and 7 of the Sustainability Report
102-49 [Core] Changes in reporting	Pages 6 and 7 of the Sustainability Report
102-50 [Core] Reporting Period	Page 7 of the Sustainability Report
102-51 [Core] Date of most recent report	Page 7 of the Sustainability Report
102-52 [Core] Reporting cycle	Page 7 of the Sustainability Report
102-53 [Core] Contact point for questions regarding the report	Page 7 of the Sustainability Report
102-54 [Core] Claims of reporting in accordance with the GRI standards	Pages 6 and 7 of the Sustainability Report
102-55 [Core] GRI content Index	Pages 7 to 10 of the Sustainability Report

102-56 [Core] External assurance	Page 7 of the Sustainability Report
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TOPIC SPECIFIC DISCLOSURES

GRI Reference and Disclosure Title	Page No.
GRI 201 : ECONOMIC PERFORMANCE	
201-1 Direct Economic Value Generated and distributed	Page 7 of the Sustainability Report Page 36 of the Annual Report for the financial year ending 31 March 2020
201-2 Financial implications and other risks and opportunities	Page 7 of the Sustainability Report
201-3 Defined benefit plan obligations and other retirement plans	*SunMoon has no benefit plan obligation or other retirement plans
201-4 Financial assistance received from government	Page 8 of the Sustainability Report
GRI 204 : PROCUREMENT PRACTICES	
204-1 Proportion of spending on local suppliers	Page 8 of the Sustainability Report
GRI 308 : SUPPLIER ENVIRONMENTAL ASSESSMENT	
308-1 New suppliers that were screened using environmental criteria	Page 8 of the Sustainability Report
308-2 Negative environmental impacts in the supply chain and actions taken	Page 8 of the Sustainability Report
GRI 401 : EMPLOYMENT	
401-1 New employee hires and employee turnover	Page 9 of the Sustainability Report
401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	Page 9 of the Sustainability Report
401-3 Parental leave	Page 9 of the Sustainability Report
GRI 404 : TRAINING AND EDUCATION	
404-1 Average hours of training per year per employee	Page 10 of the Sustainability Report
404-2	Page 10 of the Sustainability Report

SUMOON FOOD COMPANY LIMITED
SUSTAINABILITY REPORT FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020

Programs for upgrading employee skills and transition assistance programs	
404-3 Percentage of employees receiving regular performance and career development reviews	Page 10 of the Sustainability Report