

SINO GRANDNESS FOOD INDUSTRY GROUP LIMITED

(Company Registration No. 200706801H)

(Incorporated in Singapore)

(the "Company")

**MATERIAL VARIANCES BETWEEN AUDITED FINANCIAL STATEMENTS AND THE
UNAUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31
DECEMBER 2018**

The Board of Directors of Sino Grandness Food Industry Group Limited (the "Company") and together with its subsidiaries (the "Group") refers to the results announcement for the financial year ended 31 December 2018 ("FY2018") released by the Company on 1 March 2019 and its audited financial statements.

Pursuant to Rule 704(6) of the Listing Manual of the SGX-ST, the Company would like to announce the differences arising from the finalisation of the audit. The details and explanations for the material differences between the audited financial statements and unaudited financial statements are set out below: -

1. Consolidated Statement of Profit or Loss and Other Comprehensive Income

Group	Audited FY2018 RMB'000	Unaudited FY2018 RMB'000	Variance FY2018 RMB'000	Explanation
Revenue	3,531,113	3,507,354	23,759	Promotional salary expenses reclassified to distribution expenses
Cost of sales	(2,318,762)	(2,514,374)	(195,612)	Freight charges reclassified to distribution expenses
Gross profit	1,212,351	992,980	219,371	Promotional salary expenses in revenue and freight charges in cost of sales reclassified to distribution expenses
Other operating income	38,164	49,469	(11,305)	Exchange gain, rental income and scrap sales
Distribution expenses	(495,648)	(279,772)	215,876	Promotional salary reclassified from revenue and freight charges reclassified from cost of sales
Administrative expenses	(146,972)	(161,146)	(14,174)	Depreciation and amortisation expenses
Cessation of internal production	(227,341)	-	(227,341)	Impairment due to cessation of internal production
Impairment loss on plant and equipment	-	(47,991)	179,350	Impairment of Shanxi's building and Shanxian's property, plant and equipment due to

				cessation of internal production
Other operating expenses	(48,671)	(19,502)	29,172	Patents and trade debts written off and provision for expected credit loss on trade receivables
Profit before income tax, gain on extinguishment of debt and changes in fair values of the derivatives in relation to convertible loan, and exchangeable bonds including derivatives	274,646	476,087	(201,441)	Increase gross profit, partially offset by cessation of internal production, a decrease in other operating income and increase in distribution expenses, impairment loss on plant and equipment and other operating expenses
Gain on extinguishment of debt	55,017	-	55,017	Extinguishment of convertible loan
Fair value loss on derivative on convertible loan	(44,105)	-	(44,105)	Fair value loss on derivative on convertible loan
Profit before taxation	322,215	509,304	(187,089)	Increase gross profit, partially offset by cessation of internal production, a decrease in other operating income and increase in distribution expenses, impairment loss on plant and equipment, other operating expenses, gain from extinguishment of convertible loan, fair value loss on derivative on convertible loan and change in fair value of exchangeable bonds
Profit for the year and representing total comprehensive income	153,762	344,746	(190,984)	Increase gross profit, partially offset by cessation of internal production, a decrease in other operating income and increase in distribution expenses, impairment loss on plant and equipment, other operating expenses, gain from extinguishment of convertible loan, fair value loss on derivative on convertible loan and change in fair value of exchangeable bonds

2. Statements of Financial Position

Group	Audited 31 Dec 2018 RMB'000	Unaudited 31 Dec 2018 RMB'000	Variance 31 Dec 2018 RMB'000	Explanation
Non-current assets				
Property, plant and equipment	1,353,360	1,489,846	(136,486)	Impairment of Shanxi's building and Shanxian's property, plant and equipment due to cessation of internal production
Current assets				
Trade receivables	1,584,684	1,614,780	(30,096)	Trade debts written off and provision for expected credit loss on trade receivables
Other receivables	340,650	352,789	(12,139)	VAT receivable written off
Current liabilities				
Bank borrowings	200,897	95,243	105,654	Bank borrowing reclassified from non-current liabilities
Loan from a related party	144,819	-	144,819	Extinguishment of convertible loan and recognition of loan from a related party at fair value
Convertible loan	-	148,148	(148,148)	Extinguishment of convertible loan and recognition of loan from a related party at fair value
Non-current liabilities				
Bank borrowings	-	96,166	(96,166)	Bank borrowing reclassified to current liabilities
Net assets	3,254,536	3,440,384	(185,848)	Impairment and written off property, plant and equipment due to cessation of internal production and increased in other operating expenses

Company	Audited 31 Dec 2018 RMB'000	Unaudited 31 Dec 2018 RMB'000	Variance 31 Dec 2018 RMB'000	Explanation
Non-current assets				
Subsidiaries	329,604	106,282	223,322	Net investment in subsidiary reclassified from amount owing by subsidiaries

Amount owing by subsidiaries	542,592	792,365	(249,773)	Net investment in subsidiary reclassified to subsidiaries and amount due by Shanxi subsidiary written off
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3. Consolidated Statement of Cash Flows

Group	Audited FY2018 RMB'000	Unaudited FY2018 RMB'000	Variance FY2018 RMB'000	Explanation
Profit before taxation	322,215	509,304	(187,089)	Cessation of internal production, increase in other operating expenses and net gain from extinguishment of debts
Operating cash flows before working capital	721,397	696,597	24,800	Decrease in profit before taxation partially offset by fair value on derivative on convertible loan, depreciation on PPE, PPE written off and impairment loss on PPE
Net cash generated from operating activities	389,346	286,955	102,391	Increase in operating cash flows before working capital, increase in deposit pledged with bank and interest paid
Net cash used in investing activities	385,322	359,951	25,371	Increase in deposit paid for non-current assets partially offset by decrease in acquisition of plant and equipment
Net cash used in financing activities	47,940	5,325	42,615	Increase in bank loans, finance leases and interest repayment
Net decrease in cash and cash equivalents	43,916	78,321	34,405	Increase in cash generated from operating activities, partially offset by increase in net cash used in investing activities and cash used in financing activities

By Order of the Board

Huang Yupeng
Chairman and CEO
22 July 2019