

**SINO GRANDNESS FOOD INDUSTRY GROUP LIMITED**  
(Company Registration No. 200706801H)  
(Incorporated in Singapore)  
(the “Company”)

---

**MATERIAL UNCERTAINTY RELATED TO GOING CONCERN ON THE AUDITED  
FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

---

Pursuant to Rule 704(5) of the Listing Manual of the Singapore Exchange Securities Trading Limited (“SGX-ST”), the Board of Directors of Sino Grandness Food Industry Group Limited (the “Company”) wishes to announce that the Company’s Independent Auditors, Foo Kon Tan LLP, have included a disclaimer of opinion in the Independent Auditors’ Report on the consolidated financial statements of the Group for the financial year ended 31 December 2018 (the “FY2018 Financial Statements”).

The Independent Auditors’ Report and the Audited Financial Statements will form part of the Company’s Annual Report for financial year ended 31 December 2018 (the “FY2018 Annual Report”) which will be despatched to the shareholders of the Company in due course. Shareholders are advised to read the Audited Financial Statements which will be despatched in due course as part of FY2018 Annual Report.

Relevant sections from the FY2018 Annual Report are set out below:-

**Material Uncertainty Related to Going Concern**

We draw attention to:

- Note 2(a) and Note 21 to the financial statements which indicate that the Company’s current liabilities have exceeded current assets by RMB 264.0 million as at 31 December 2018 and has defaulted on the repayment of debt owing to a related party, Soleado Holdings Pte. Ltd. of US\$ 21.2 million (RMB 145.5 million) with interest thereon which was due on 6 January 2019. The initial due date was 16 May 2018, the Company has been served letters of demand on 8 January 2019 and 23 January 2019;
- Note 2(a) and Note 20 to the financial statements which state that a subsidiary has defaulted on the second instalment repayment to a financial institution, Deutsche Investitions und Entwicklungsgesellschaft mbH (“DEG”) of US\$ 2.5 million (RMB 17.2 million) which was due on 15 October 2018. Arising from the default, DEG is entitled to demand immediate repayment of the entire outstanding loan of US\$22.9 million (RMB 157.2 million) and accrued interest thereof. DEG has issued an Acceleration Notice dated 20 December 2018 to the borrower, Garden Fresh (Hubei) Fruit & Vegetable Beverage Co., Limited (“GF Hubei”) and the Company. The financial institution also called upon payment guarantees from the Company on 22 January 2019 and two subsidiaries, Garden Fresh (Shenzhen) Fruit & Vegetable Beverage Co., Limited on 21 January 2019 and Garden Fresh Group Holding Co., Ltd on 21 January 2019. The said loan has been registered with the State Administration of Foreign Exchange (“SAFE”) regulator when the loan was disbursed by DEG to GF Hubei; and

- As at the date of this report, the application with SAFE in respect of the repatriation of dividend to be used for the aforesaid loans is still pending approval for which the outcome is still uncertain.

These conditions, along with other matters as set forth in Note 2(a), indicate that a material uncertainty exists that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. Notwithstanding the aforesaid paragraphs, the financial statements have been prepared on a going concern basis, the validity of which is premised on:

- the Company's and the Group's ability to fulfil the conditions as set out in the investment agreement referred in Note 2(a) to the financial statements for the subscription of shares in a wholly-owned subsidiary, Garden Fresh (HK) Food & Beverage Co., Limited, for an aggregate consideration of US\$30 million (equivalent to RMB 200.0 million);
- the successful completion of the issue and allotment of the remaining placement shares of 85,000,000 of the Company for an aggregate proceeds of S\$3,350,000; and
- funds expected to be received from pre-IPO investors in the region of US\$ 30.0 million by end 2019.

If for any reason the above assumptions do not materialise, which may result in the Company and the Group not being able to continue as a going concern, it could have an impact on the classification of assets and liabilities, and the ability to realise assets at their recognised values and to extinguish liabilities in the normal course of business at the amounts stated in the financial statements. Our opinion is not modified in respect of this matter.

### **Note 2(a)**

#### **2(a) Going concern basis**

As at 31 December 2018, the Company's current liabilities exceeded its current assets by RMB 264.0 million (2017 - RMB 224.8 million) and the Group reported net current assets of RMB 1,241.1 million (2017 - RMB 1,274.1 million) and has net positive operating cash flows of RMB 389.3 million (2017 - RMB 634.2 million).

However, the Company has defaulted on the repayment of debt owing to a related party, Soleado Holdings Pte. Ltd. ("Soleado") of US\$ 21.2 million (RMB 145.5 million) which was due on 6 January 2019. The initial due date was 16 May 2018.

In addition, a subsidiary, Garden Fresh (Hubei) Fruit & Vegetable Beverage Co., Limited ("GF Hubei"), has defaulted on the repayment of the principal sum for the second instalment of US\$ 2.5 million (RMB 17.2 million) owing to a financial institution, Deutsche Investitions und Entwicklungsgesellschaft mbH ("DEG") which was due on 15 October 2018 but not paid. The said loan has been registered with the State Administration of Foreign Exchange ("SAFE") regulator when the loan was disbursed by DEG to GF Hubei.

The circumstances arising from the Company's and the Group's fundamental uncertainties relating to the going concern basis are as follows:

- (a) The Company has been served with a letter of demand dated 7 January 2019 by Soleado for the principal sum of US\$ 20.0 million (equivalent to RMB 137.3 million) and interest under the Repayment Framework Agreement dated 20 July 2018 to the loan agreement dated 13 April 2016. As of 7 January 2019, the interest reported to be owing by the Company to Soleado was US\$ 1.2 million (equivalent to RMB 8.2 million) and other

charges of S\$ 30,000 being costs and expenses for legal and professional fees. The second letter of demand was served on 23 January 2019. As at the date of this report, a sum of S\$2.0 million (US\$1.5 million; RMB 10.0 million) has been repaid on 19 June 2019 and remaining balance of US\$ 19.7 million and interest thereon remains outstanding.

- (b) The second principal instalment of US\$ 2.5 million (RMB 17.2 million) due to DEG together with interest thereon was due on 15 October 2018. Only the interest on the DEG loan was repaid in October 2018 by the borrower, GF Hubei. Under the terms of the DEG loan agreement, the failure to repay any amounts due constitutes an event of default whereby DEG is entitled to demand immediate repayment of all the loans and any accrued interest due by the Group and to terminate the loan agreement with immediate effect. DEG has issued an Acceleration Notice dated 20 December 2018 to GF Hubei and the Company for the immediate repayment of US\$ 22.9 million (RMB 157.2 million) together with the default interest.

DEG has also issued letters of payment guarantees to the Company on 22 January 2019 whereas Garden Fresh (Shenzhen) Fruit & Vegetable Beverage Co., Limited and Garden Fresh Group Holding Co., Ltd have been issued on 21 January 2019 for the immediate repayment of the sum of US\$ 22.9 million (RMB 157.2 million). As at the date of this report, a sum of US\$ 0.5 million was repaid on 28 June 2019 and the remaining balance of US\$ 22.4 million and interest thereon remains outstanding.

- (c) Arising from the defaults mentioned herein, in so far as the Amended and Restated 2018 Restructuring Agreement (“RRA”) in relation to the exchangeable bonds signed on 14 January 2019 as announced by the Company on 17 January 2019, there were certain conditions stipulated in the convertible loan agreement signed on 13 April 2016 which must be observed.

In so far as exchangeable bonds are concerned, based on the RRA, all these exchangeable bonds are to be converted into preference shares upon full redemption of straight bonds. There are two features identified in relation to the exchangeable bonds:

- i. The redemption to the sum in aggregate of RMB 50,312,500 for the 2011 SB2 Bonds and RMB 128,250,000 for the 2012 SB2 Bonds together with the interest thereon where the bonds are repayable on the completion date (13 January 2020) or early redemption on certain circumstances; and
  - ii. The circumstances are spelt out under the convertible bond instruments for the 2012 Bonds and 2011 Bonds dated 1 March 2016. Amongst others are,
    - where there is a breach of any terms or obligations under the bond instrument; and
    - where there is a cross-default which would refer to any non-payment of any financial indebtedness being due and repayable.
- (d) Subject to completion and continue compliance with certain provisions under the RRA, the redemption obligation may however be subject to a standstill if there not having occurred any event of default. The standstill period is when the bondholders will forebear to take action to claim or enforce the obligations of Garden Fresh (HK) Fruit & Vegetable Beverage Co., Limited, Garden Fresh Group Holding Co., Ltd or the Company for the amounts due and payable under the bonds.

To the best of the knowledge of the directors of the Company, there is no communication from the bondholders whether, in writing or otherwise, that there is any action taken to claim or to enforce the obligations in respect of the aforesaid bonds. The completion date

or the redemption date is assumed to be 13 January 2020, the latest date. The early redemption period if happened can be any time from the date of this report.

As at 31 December 2018, the liabilities owing to the bondholders is RMB 719.0 million.

Notwithstanding the above, the directors of the Company are of the opinion that the preparation of the financial statements of the Company and of the Group on a going concern basis remains appropriate given that certain measures have been taken by the Company and certain subsidiaries to mitigate the existence of material uncertainties on going concern and to meet its obligations falling due within the next twelve (12) months from the date of the financial statements.

**Steps taken to address the material uncertainty related to going concern include:**

- the Group is preparing to repatriate funds of RMB 150.0 million back from the People's Republic of China by way of dividend which require the relevant approval from the People's Republic of China's regulatory bodies. The letter of application to the SAFE regulator was dated 26 February 2019. The approval is still pending at the date of this financial statements;
- on 25 March 2019, the Company announced that it has entered into a placement agreement with JW Capital Group Limited on 22 March 2019 where the Company agrees to allot and issue and JW Capital Group Limited agrees to subscribe for 170,000,000 new shares ("Placement shares") at an issue price of S\$0.04 per share at an aggregate consideration of S\$6,800,000. 60% of the proceeds shall be used to repay loan owing to Soleado Holdings Pte. Ltd. and the remaining 40% of the proceeds shall be applied to the Group's general working capital use. The proposed placement is subject to certain conditions, including amongst others, the in-principle approval to be obtained from the SGX-ST. On 3 May 2019, the Company announced that the SGX-ST has on that day, granted the in-principle approval for the listing and quotation of 170,000,000 Placement shares.

As at the date of this financial statements, the Company has partially completed the issue and allotment of 85,000,000 Placement shares ("Tranche 1") for an aggregate proceeds of S\$3,350,000 (net of estimated placement expenses of approximately S\$50,000) on 13 June 2019. As at the date of this report, a sum of S\$2.0 million (US\$ 1.5 million; RMB 10.0 million) has been used to pay the loan in part to Soleado and another sum of US\$ 0.5 million has been used to pay the loan interest to DEG;

- the management of the Company reiterates that the wholly-owned subsidiary, Garden Fresh Group Holding Co., Ltd. ("GF Cayman") is continuing efforts to seek listing in the New York Stock Exchange ("NYSE"). The proposed listing is in progress as at the date of the financial statements. As announced by the Company on 25 June 2019, an investment agreement has been entered into by and amongst others, the Company, Garden Fresh (HK) Fruit & Vegetable Beverage Co. Limited ("GF Hong Kong"), and the Investor, Baoao Equity Investment Partnership (LLP) (广东宝傲股权投资合伙企业(有限合伙)) on that day for the subscription of 4.65% of the enlarged share capital in GF Hong Kong by the Investor for an aggregate consideration of US\$ 30.0 million (equivalent to approximately RMB 200.0 million), subject to the fulfillment of certain conditions by 30 July 2019 as set out in the said announcement.

As at the date of this report, the directors of the Company are not aware of any conditions as stipulated in the said investment agreement that have not been complied with. The

final date is set to be 30 July 2019 and the fund is expected to be remitted to GF HK within 45 days from the final date;

- on 12 July 2019, DEG has agreed to a standstill where it is mutually and in good faith that DEG shall forebear from exercising the rights and remedies under the loan agreement entered on 8 January 2016 (and as amended on 11 March 2016 and 23 June 2016) to repay the amounts due and payable to DEG, including all accrued and unpaid interests, for a period up to and including 31 December 2019;

**Steps taken to address the material uncertainty related to going concern include (Cont'd):**

- similarly, regarding the repayment of loan to Soleado, the Company has received a letter dated 9 July 2019 from Soleado where the lender agreed to a standstill and shall forebear from taking any actions to claim or enforce the obligations of the Company or guarantors to repay the amount due and payable to Soleado for a period up to and including 31 December 2019, subject to the following conditions:
  - funds of approximately S\$3,400,000 relating to the remaining 85,000,000 Placement shares of the Company to be received from JW Capital Group Limited and be deposited into the bank account of the Company by 12 July 2019; and
  - payment of S\$2.0 million (equivalent to approximately US\$1.5 million) to Soleado by 31 August 2019.

The Company has received the full sum of S\$3,400,000 from JW Capital Group Limited on 10 July 2019.

- the Company has prepared a twelve-month projected cashflows forecast from the date of this report to review the appropriateness of the going concern; and
  - there is sufficient monthly working capital for the Group to continue the operating business for the next twelve months and that the Group is able to continue to obtain support from its existing customers and suppliers;
  - funds expected to be received from pre-IPO investors in the region of US\$ 30.0 million by end 2019; and
  - the circumstances leading to the event of realisation of assets are very unlikely and remote.

The management is confident that the successful conclusion of the events mentioned above would enable the Company and the Group to continue operations for the foreseeable future. Accordingly, the management considers that the use of going concern basis of preparing financial statements remains appropriate.

**Note 20 Bank borrowings (extract)**

20 Bank borrowings

- (e) On 8 January 2016, the term loan of US\$ 25.0 million (RMB 171.6 million) (31 December 2017 - RMB 162.8 million; 1 January 2017 - RMB 173.4 million) was granted to a wholly-owned subsidiary, Garden Fresh (Hubei) Food & Beverage Co., Limited ["GF (Hubei)"] by DEG and the loan was disbursed on 21 July 2016. The term loan is repayable over 10 instalments semi-annually commencing from 15 April 2018 with a fixed principal payment of US\$ 2.5 million plus any applicable interest.

The loan is secured by, inter-alia:

- first ranking mortgage in the amount of US\$ 25.0 million (RMB 157.2 million) (31 December 2017 - RMB 162.8 million; 1 January 2017 - RMB 173.4 million) on the land use rights, factory and warehouse premises belonging to a subsidiary, GF (Hubei) with the carrying amount of RMB 39.6 million (31 December 2017 - RMB 40.5 million; 1 January 2017 - RMB 51.5 million) (Note 4) and RMB 214.9 million (31 December 2017 - RMB 204.4 million; 1 January 2017 - RMB 215.1 million) [Note 5(c)] respectively;
- a pledge of deposit of non-current asset with a carrying amount of RMB 38.9 million (31 December 2017 - RMB 38.9 million; 1 January 2017 - RMB 118.0 million) (Note 10) belonging to a subsidiary, Garden Fresh (Hubei) Food & Beverage Co., Limited;
- a pledge of plant and machinery with a carrying amount of RMB 173.9 million (31 December 2017 - RMB 285.9 million; 1 January 2017 - RMB 169.7 million) [Note 5(c)] belonging to a subsidiary, GF (Hubei);
- corporate guarantees provided by wholly-owned subsidiaries, Garden Fresh (Shenzhen) Fruit & Vegetable Beverage Co., Limited and Garden Fresh Group Holding Co., Ltd; and
- a corporate guarantee provided by the Company.

Interest is charged at 6-month London Inter-Bank Offer Rate (“LIBOR”) plus 3.80% per annum. As at the end of the reporting period, the applicable floating interest rate stood at 3.80% (2017 - 3.80%; 1 January 2017 - 3.80%) per annum over the applicable 6-month LIBOR.

The effective interest rate of the term loan ranges from 5.00% to 6.00% (2017- 5.14% to 5.57%; 1 January 2017 - 4.50% to 5.06%) per annum.

#### **Default of loan repayment**

GF (Hubei) had defaulted on the repayment of the principal sum for the second instalment of US\$ 2.5 million (RMB 17.2 million) owing to DEG which was due on 15 October 2018 but not paid.

The interest on the DEG loan up till October 2018 was repaid by GF (Hubei) in October 2018. Arising from the default of loan repayment, DEG has effected the acceleration of loan repayment of US\$ 22.9 million (RMB 157.2 million) and default interest of 2% per annum is chargeable in accordance to the terms of the loan agreement.

DEG has issued letters of payment guarantees to the Company on 22 January 2019, Garden Fresh (Shenzhen) Fruit & Vegetable Beverage Co., Limited on 21 January 2019 and Garden Fresh Group Holding Co., Ltd on 21 January 2019 for the immediate repayment of the sum of US\$ 22.9 million (equivalent to RMB 157.2 million). Arising from the default of the loan repayment, the entire said loan is classified as current liabilities as at 31 December 2018.

On 28 June 2019, the Company has repaid loan interest of US\$ 0.5 million. On 12 July 2019, DEG has agreed to a standstill where it is mutually and in good faith that DEG shall forbear from exercising the rights and remedies under the loan agreement entered on 8 January 2016 (and as amended on 11 March 2016 and 23 June 2016) to repay the amounts due and payable to DEG, including all accrued and unpaid interests, for a period up to and including 31 December 2019.

The said loan has been registered with the SAFE.

***Note 21 Convertible loan / Loan from a related party (extract)***

**Default of loan repayment**

Subsequent to the reporting period, the Company has been served with a letter of demand dated 8 January 2019 by Soleado for the principal sum of US\$ 20 million (equivalent to RMB 137.3 million) and interest under the Repayment Framework Agreement dated 20 July 2018 to the loan agreement dated 13 April 2016. As of 8 January 2019, the interest reported to be owing by the Company to Soleado was US\$ 1.2 million (equivalent to RMB 8.2 million) and other charges of S\$30,000 being costs and expenses for legal and professional fees.

A second letter of demand was served on 23 January 2019.

On 19 June 2019, the Company paid a sum of S\$2.0 million (US\$1.5 million; RMB 10.0 million) as part payment to Soleado. On 9 July 2019, the Company has received a letter from Soleado where the lender agreed to a standstill and shall forebear from taking any actions to claim or enforce the obligations of the Company or guarantors to repay the amount due and payable to Soleado for a period up to and including 31 December 2019, subject to the following conditions:

- funds of approximately S\$3,400,000 relating to Tranche 2 placement of the Company to be received from JW Capital Group Limited and be deposited into the bank account of the Company by 12 July 2019; and
- payment of S\$2.0 million (equivalent to approximately US\$1.5 million) to Soleado by 31 August 2019.

As at the date of this financial statements, the Company has received the full sum of S\$3,400,000 from JW Capital Limited on 10 July 2019.

As at the date of this report, the debt of US\$ 19.7 million (RMB 135.2 million) remains outstanding.

**By Order of the Board**

Huang Yupeng  
Chairman and CEO  
22 July 2019