

ZHONGXIN FRUIT AND JUICE LIMITED

(Company Registration No. 200208395H)
(Incorporated in the Republic of Singapore)

DIFFERENCE IN OPINION BETWEEN THE COMPANY AND THE INTERNAL AUDITOR IN RELATION TO THE ADHERENCE TO IPT PROCEDURES UNDER THE EXISTING IPT MANDATE

The Board of Directors of the Zhongxin Fruit and Juice Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) refers to the general mandate (“**IPT Mandate**”) approved at the extraordinary general meeting of the Company held on 21 September 2012 to enable the Group to enter into interested person transactions with SDIC Zhonglu Fruit Juice Co., Ltd. (“**SDIC Zhonglu**”) and its associates (SDIC Zhonglu together with its associates, “**SDIC Interested Persons**”). The IPT Mandate has been renewed in each subsequent annual general meeting thereafter and was last renewed on 25 October 2018.

For the financial year ended 30 June 2019 (“**FY2019**”), the Company has appointed Virtus Assure Pte Ltd (the “**Internal Auditor**” or “**IA**”) to carry out internal audit on the adequacy and effectiveness of the Group's internal controls and the compliance of the Group's practices of the procedures as set out in the IPT Mandate (“**IPT Procedures**”) for FY2019. The Company has appointed the same IA since October 2012. In the IA's final report to the Audit Committee dated 5 September 2019 for FY2019 (“**IA Report**”), the IA has opined that the systems of internal controls in place were adequate and effective to achieve the internal control objectives except for the Group's practices of the IPT procedures for FY2019.

Under the IPT Mandate, there are 2 scenarios where the Group sells its products to SDIC Zhonglu Interested Persons:

- (a) to end customers introduced and distributed by SDIC Zhonglu Interested Persons where the sale price shall be based on market price to be agreed between the end customers and the Group (“**Scenario 1**”); or
- (b) to SDIC Zhonglu Interested Persons without an end customer where the sale price will be derived from the average (nett of any commission) of recent sales with similar quality and batch size by SDIC Zhonglu Interested Persons to their customers (“**Scenario 2**”).

The IA was unable to fully ascertain which scenarios the sales made by the Group to SDIC Zhonglu Interested Persons fall under as most sales made to SDIC Zhonglu Interested Persons have a corresponding sale between the relevant SDIC Zhonglu Interested Persons and its end customers. The management of the Group (“**Management**”) has confirmed that at the point of transactions, all the sales to SDIC Zhonglu Interested Persons in FY2019 were made without end customers or under Scenario 2. The Group intends to look into sales to specific end customers introduced by SDIC Zhonglu Interested Persons under Scenario 1 in the future but no sales transaction has been made under Scenario 1 in FY2019.

The IA further noted that if the sales were made under Scenario 2, there was a deviation in the Group's practice from the IPT Procedures since several sale prices were derived from prices of sales by SDIC Zhonglu Interested Persons to their customers which took place more than 6 to 12 months ago (“**Non-Recent Sale Prices**”) instead of “recent sales” as stated in the IPT Procedures – Scenario 2.

Management is of the view that there was no deviation from the IPT Procedures – Scenario 2. In determining the sales prices under the IPT Procedures – Scenario 2, the Group had used the prices of sales by SDIC Zhonglu Interested Persons to their customers where the terms, among others, similar quality and batch size are comparable. Most sales by SDIC Zhonglu Interested Persons to their customers were entered into 6 to 12 months before delivery as practice by other major competitors of SDIC Zhonglu Interested Persons who will also try to secure bulk order contracts from major customers 6 to 12 months before the production seasons start. Management is of the view that the Non-Recent Sale Price of these sale contracts can be used as the “recent sales” as there was

lack of other more recent sales with comparable terms. In this regard, Management and the IA have differing views on whether such sales could be considered “recent sales” as provided in the IPT Procedures – Scenario 2.

The audit committee of the Company (“**Audit Committee**”) has reviewed IA Report, the explanation from Management and the records maintained by the Group. The Audit Committee is of the view that there was no deviation to the IPT Procedures:

- (a) Due to seasonality and period of delivery of the products during the year, the price of the products may vary. Prices of products may also be subject to other factors. As such, the Group should not be using any price of sales by SDIC Zhonglu Interested Persons to their customers as the reference price for a particular sale by the Group to a SDIC Zhonglu Interested Person if (a) the delivery date of the sale by the Group is made at different time of the year in view of seasonality factors; (b) the product is not of comparable quality; (c) the sale is made on different terms or (d) the sale is made to different customer.
- (b) Based on the above approach, the Audit Committee is satisfied that the Non-Recent Sale Prices taken by Management are adequate in view of the lack of other more recent sales with comparable terms. Notwithstanding some reference prices were taken from sales by SDIC Zhonglu Interested Persons to their customers where the respective framework agreements were entered into 6 to 12 months, the Audit Committee is satisfied that these Non-Recent Sale Prices were entered into at arm’s length and on normal commercial terms.
- (c) As the Audit Committee understands, the prices of sale of products SDIC Zhonglu Interested Persons resell to their customers which were produced by the Group were the same as the prices of sales by the Group to SDIC Zhonglu Interested Persons, less the approved commission, logistic costs and other disbursements.
- (d) The Audit Committee is satisfied that the transactions under the IPT Mandate in FY2019 were entered into at an arm’s length basis and on normal commercial terms and were not prejudicial to the interests of the Company and its minority shareholders.

Notwithstanding the foregoing, the Audit Committee has noted the IA’s recommendation in the IA Report to ensure that IPT Procedures be consistent with those outlined in the IPT Mandate or consider amending the IPT Mandate to reflect the existing procedures with the Group’s practices. The Audit Committee has reviewed the IPT Procedures and has considered to implement further guidelines. The new guidelines will be incorporated into the renewal of the IPT Mandate (“**Revised IPT Mandate**”), and the renewal of the IPT Mandate will be subject to the approval of independent shareholders in the forthcoming annual general meeting. The Company has appointed an independent financial adviser (“**IFA**”), CEL Impetus Corporate Finance Pte. Ltd., to advise the non-interested Directors of the Company (namely Mr Tham Mun Chee and Ms Liu Xiuwen) on whether the methods or procedures for determining transaction prices pursuant to the Revised IPT Mandate are sufficient to ensure that the transactions covered under the Revised IPT Mandate will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority shareholders.

The IA has completed its work for FY2019 and the Company will be appointing an external professional party to carry out internal audit on the adequacy and effectiveness of the Group’s internal controls and the compliance of its Revised IPT Mandate procedures for the financial years ending 30 June 2020 and 30 June 2021.

By Order of the Board

Tham Mun Chee
Lead Independent Director

3 October 2019

This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor, PrimePartners Corporate Finance Pte. Ltd. (the "Sponsor") in accordance with Rules 226(2)(b) and 753(2) of the Singapore Exchange Securities Trading Limited (the "SGX-ST") Listing Manual Section B: Rules of Catalist.

This announcement has not been examined or approved by the SGX-ST. The SGX-ST assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.

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