

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

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**RESPONSE TO SGX’S QUERY**

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In response to the query from Singapore Exchange Securities Trading Limited (“SGX-ST”) in their email dated 14 October 2020, the Board of Directors of the Company wishes to provide the following information in respect of the Company’s announcement dated 14 October 2020 as set out below:

SGX-ST’s Query as follows:

We refer to the Company’s announcement dated 14 October 2020 (available here: <https://links.sgx.com/1.0.0/corporate-announcements/92TS8WYCS2SLGJFL/ca9f65c233ccf958888f445d47b684463a26f9bdefcc2fdb52ecc0c1725272d4>) concerning the resignation of Mr. Ling Chung Yee as the Lead Independent Director, Chairman of the Audit and Remuneration Committees and member of the Nominating Committee, effective from 13 October 2020. We seek your response to the following:

- (i) The “Detailed Reason(s) for cessation” is stated to be “Difference in opinion on the audit process”. Please elaborate on this reason.
- (ii) With regard to the question “Are there any unresolved differences in opinion on material matters between the person and the board of directors, including matters which would have a material impact on the group or its financial reporting? If Yes, Please provide full details”, the response given is “Difference in opinion on the audit process”.

With regard to the question “Is there any matter in relation to the cessation that needs to be brought to the attention of the shareholders of the listed issuer? If Yes, Please provide full details”, the response given is “Difference in opinion on the audit process”.

With regard to the question “Any other relevant information to be provided to shareholders of the listed issuer? If yes, Please provide full details”, the response given is “Difference in opinion on the audit process”.

- (a) Please provide details on what these unresolved differences on the audit process are.
  - (b) Please explain whether and how these issues would have a material impact on the group and/or its financial reporting.
  - (c) If the “Difference in opinion on the audit process” is a matter that needs to be brought to the attention of the Company’s shareholders, please elaborate further on its significance and/or bearing on shareholders’ assessment and decision-making on the Company.
- (iii) Please explain the circumstances leading to the resignation of Mr. Ling Chung Yee effective from 13 October 2020. It is noted that Mr. Ling Chung Yee was the Lead Independent Director, the Chairman of the Audit and Remuneration Committees, a

member of the Nominating Committee, and his date of appointment was on 24 December 2019.

- (iv) Please clarify whether the Company's audit for the financial year ended 31 December 2019 ("**FY2019**") is still ongoing. If yes:
  - (a) Please address the impact of Mr. Ling Chung Yee's resignation on the completion of the FY2019 audit, given that he served the role of the Chairman of the Audit Committee.
  - (b) Please address the impact of the aforesaid "Difference in opinion on the audit process" on the completion of the FY2019 audit.
  - (c) Please address the impact (if any) of Mr. Ling Chung Yee's resignation on the Company's audit for the current financial year ended 31 December 2020.
- (v) Please clarify what the current composition of the Audit Committee is, following the resignation of Mr. Ling Chung Yee as Chairman of the Audit Committee.
- (vi) Please provide the Board and the Nominating Committee's assessment as to whether the Audit Committee is able to adequately and effectively function following his resignation, with particular regard to the FY2019 audit, and the basis for their views.
- (vii) Listing Rule 704(8) states:

*"Any appointment or reappointment of a director to the audit committee. The issuer must state in the announcement whether the board considers the director to be independent. The issuer must also provide such additional disclosure as may be appropriate in the circumstances to enable its shareholders to assess the independence or otherwise of the appointed director. In the event of any retirement or resignation which renders the audit committee unable to meet the minimum number (not less than three) the issuer should endeavour to fill the vacancy within two months, but in any case not later than three months." (emphasis added)*

Please clarify what the Company's proposed action steps are in ensuring its compliance with Listing Rule 704(8).

- (viii) Please provide the current composition of the Board. How many directors of the Company are resident in Singapore? If there are none, please clarify how the Board would be able to discharge its duties effectively.

#### Company's Response to Query (i)

The Company understands that Mr. Ling Chung Yee ("**Mr. Ling**") resigned as an Independent Director effective due to a difference in opinion on the following matters, arising from an Audit Committee Meeting ("**AC Meeting**") held on 13 October 2020. Mr Ling is of the view as follows:

1. The Group needs to formalize a debt restructuring agreement with lenders;
2. The Group needs to prepare the 12 months cashflow forecasts and profit projection;
3. The Group needs to appoint a monitoring accountant for the collection of trade receivables and other receivables.

4. The Group needs to appoint a licensed valuer to (a) perform an impairment assessment of property, plant and equipment and non-current assets of the Group, and (b) determine the fair value of Exchangeable bonds and liability owing to preference share creditor.
5. The Group needs to provide any other information required by the auditors to obtain sufficient appropriate audit evidence.

#### **Elaboration**

1. Debt restructuring – As at 31 December 2019, the Group has outstanding amounts due to Soleado Holdings Pte. Ltd. (“Soleado”), Deutsche Investitions-und Entwicklungsgesellschaft (“DEG”), and certain bondholders. The details of these outstanding amounts have been set out in the Company’s announcements of 28 June 2017, 10 July 2017, 16 January 2019, 21 January 2019, 23 January 2019 and 7 February 2019, 30 December 2019, 5 August 2020, 12 September 2020, 14 September 2020.
2. Cashflow forecast and profit projections – In view of the Group’s working capital position (including trade and other receivables status) and liabilities to Soleado, DEG and certain bondholders, a 12 months cashflow forecasts and profit projection addressing these concerns should be prepared. The cashflow forecasts and profit projection should also address the effect of Covid-19, the management of working capital whether it is sufficient in the light of immediate repayment of liabilities, the outcome of fund raising to the sum of RMB 800 million from two financial institutions and management’ future plan based on available information at the time at which the critical judgement and significant estimates made.
3. Appointment of Monitoring Accountant - As at 31 December 2019, the Group’s trade receivables stood at RMB 1,315.3 million (2018 - RMB 1,584.7 million). Mr Ling was of the view that a monitoring accountant should be appointed to monitor the collections of the receivables to provide assurance on the recoverability of trade and other receivables.
4. Appointment of valuer - As at 31 December 2019, the carrying amount of the property, plant and equipment (including right-of-use assets and land use rights) as at 31 December 2019 was RMB 1,443.2 million and deposits paid for non-current assets of RMB 633.3 million. Due to amongst others the impact on production due to Covid-19 and the auditors not having sighted certain production machinery, a valuer should be appointed to value the property, plant and equipment. The valuation should also extend to valuation of the Exchangeable Bonds (which are bonds that are exchangeable into shares).

#### **Company’s Response to Query (ii)**

The differences in the opinion remain unresolved at the date of this announcement. The Company however wishes to provide the following updates in respect of the matters raised by Mr Ling:

1. Debt restructuring – The Company refers to its two announcements of 21 October 2020 on the waiver of a substantial part of the loan due to DEG and the status of its negotiations with Soleado Holdings Pte Ltd and the bondholders.
2. Appointment of Monitoring Accountant – The Company is considering to appoint a Monitoring Accountant.
3. Appointment of valuer – The Company is considering to appoint a valuer to value its principal assets and the bonds.

Except for the “Differences in the opinion on the audit process”, no other matter in relation to the cessation that needs to bring to the attention of the shareholders of the Company.

Except for the “Differences in the opinion on the audit process”, no other relevant information that needs to bring to the attention of the shareholders of the Company.

- (a) Please refers to the Response to the (i) above for the details.
- (b) The issues if remains unresolved will lead to a disclaimer of the audit opinion.
- (c) Please refers to the Response to the (i) above for the details.

#### Company's Response to Query (iii)

The resignation of Mr. Ling was due primarily to the differences in the opinion on the audit process as per the announcement made on 14 October 2020 after the Audit Committee Meeting held on 13 October 2020. Please refers to the Response (i) on the details of the differences in the opinion on the audit process.

#### Company's Response to Query (iv)

The Company's audit for the financial year ended 31 December 2019 is ongoing.

Upon completion of the audit, the audited financial statement shall be approved by the Audit Committee. The 2 remaining AC members, whom are both independent directors, are eligible to form a quorum to approve the audited financial statement.

The matters raised in the “Differences in opinion on the audit process” if unresolved will lead to a disclaimer of audit opinion.

#### Company's Response to Query (v)

Following the resignation of Mr Ling Chung Yee, the current composition of Audit Committee are as follows:

##### Audit Committee

Mr Lai Jingwei	(Member)
Mr Gong Shuli	(Member)

#### Company's Response to Query (vi)

Currently, the Audit Committee comprising of 2 members. Both the Audit Committee members are Independent Directors.

The Audit Committee members has full access to and co-operation of the management, external auditors and internal auditors. The Board has also allowed the AC to seek independent legal counsel if required. The external auditors have unrestricted access to the Audit Committee members to report all the matters of FY2019 audit. The members of Audit Committee are able to communicate by means of telephone conference or similar communication tools with all parties.

The Board and the Nominating Committee considered that the members of the Audit Committee are appropriately qualified to carry out their duties with regard to the FY2019 audit.

Company's Response to Query (vii)

The Company is currently sourcing for suitable candidate to fill up the vacancy within 3 months, but in any case, not later than 3 months.

Company's Response to Query (viii)

Current composition of the Board of Directors are as follows:

Board of Directors

Mr Huang Yupeng	(Chairman and CEO)
Ms Huang Yushan	(Executive Director)
Mr Zhu Jun	(Executive Director)
Mr Lai Jingwei	(Independent Director)
Mr Gong Shuli	(Independent Director)

All of the above Executive Directors and Independent Directors are not resident in Singapore.

The Company is currently sourcing for a suitable replacement Singapore resident independent director.

**By Order of the Board**

Huang Yupeng  
Chairman and CEO  
26 October 2020