

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

RESPONSE TO SGX’S QUERY

In response to the query from Singapore Exchange Securities Trading Limited (“SGX-ST”) in their email dated 5 May 2020, the Board of Directors of the Company wishes to provide the following information in respect of the unaudited financial statements for the year ended 31 December 2019 as set out below:

Query 1

Please explain the reason(s) for the increase in the “Other receivables” financial statement line item, from approximately RMB 340,650,000 as at 31 December 2018 to RMB 939,370,000 as at 31 December 2019?

Page 12 of the announced financial results states: “Other receivables increased by approximately RMB598.7 million from RMB340.7 million in FY2018 to RMB939.4 million in FY2019. Other receivables comprised VAT receivables, export tax refund and prepayments for advertisement expenses. Increase in other receivables mainly due to an increase in advance paid to contract manufacturing suppliers of beverage products.”

Please also provide us with a breakdown of the “Other receivables” financial statement line item and the reason(s) for the increase in advance paid to contract manufacturing suppliers of beverage products.

Company’s Response to Query 1

The Breakdown of the other receivables is as below:

Other Receivables	As at 31 December 2019 RMB’000
Advance paid to third parties, vendors and suppliers	743,928
VAT receivables	101,364
Export tax refund	68,605
Prepayment for advertisement and promotion	4,514
Rental deposit	3,722
Prepaid other operating expenses	3,133
Other receivables	14,104
	<u>939,370</u>

The increase in other receivables was mainly due to an increase in advance paid to contract manufacturing suppliers of beverage products by approximately RMB633 million. It was the management’s business decision to place more purchase orders by advance payment to suppliers to secure the supply of raw materials and material price to fulfill sales orders and avoid potential losses from rising raw material prices, in response to material fluctuations in

raw material price the Company came across at end of 2019. The majority of the advance paid to the contract manufacturing suppliers have been utilised through supply of material and hence recognised as cost of sales in the first quarter of FY2020.

Query 2

The "Trade receivables" financial statement line item of RMB 1,316,320,000 amounted to approximately 43.72% of the Group's revenue for FY2019 or RMB 3,010,874,000. In this regard:

- (a) Please provide an aging analysis for the "Trade receivables" financial statement line item.
- (b) Please provide the Board of Director's assessment of the recoverability of the trade receivables.

Company's Response to Query 2

- (a) The aging analysis of trade receivables is as follows:

	31 December 2019 RMB'000
The Group	
Current - neither past due nor impaired	955,360
Past due 0 to 3 months	360,960
Past due 3 to 6 months	-
Past due over 6 months	-
	<u><u>1,316,320</u></u>

The Group's trade receivables are due within 120 days.

- (b) Based on the Board's assessment, the trade receivables as at 31 December 2019 are recoverable taking into consideration the factors below;
 - (i) no impairment is necessary in respect of trade receivables not past due or past due but not impaired as these receivables are mainly arising from customers that have good credit records with the Group;
 - (ii) the days past due from the majority of the Group's customers as at 31 December 2019 were not more than 30 days. The management considers this reasonable in the current PRC business environment;
 - (iii) each of the customers has a good repayment history based on historical default rates;
 - (iv) although there are slower repayments from the customers due to the COVID-19 outbreak in the 1st Quarter of 2020, the Group expects such events to be temporary in nature and will not permanently affect the customers' business and ability to make repayment once normal conditions resume; and
 - (v) the Group is still in close contact with its customers and they have made partial repayments to the Group. As at 31 March 2020, repayments of approximately RMB200 million has been received.

Query 3

Please provide the reason(s) for the decrease in the “Trade payables” financial statement line item, from approximately RMB 102,729,000 as at 31 December 2018 to RMB 4,152,000 as at 31 December 2019.

Company’s Response to Query 3

The significant decrease in the Trade payables was due to the significant increase in advance paid to the contract manufacturing suppliers of beverage products. As explained in the Company’s response to Query 1, it was the management’s business decision to place more purchase orders by advance payment to suppliers instead of credit purchase. As a result, the trade payables balance decreased correspondingly as at 31 December 2019.

Query 4

Please provide the reason(s) for the increase as well as the breakdown of the “Other payables” financial statement line item, from approximately RMB 114,312,000 as at 31 December 2018 to RMB 141,759,000 as at 31 December 2019.

Company’s Response to Query 4

The Breakdown of the other payables is as below:

Other Payables	As at 31 Dec 2019 RMB’000
Amount owing to contractors and third parties	35,326
VAT, withholding and other taxes payable	20,130
Employees benefit cost	8,969
Accrual of directors’ fees	473
Promotion expenses	8,653
Director of the Company	57,636
Others	10,572
	<u>141,759</u>

The increase in other payables was mainly due to the increase in service fee payable to a product distributor, unpaid employees benefit cost, promotion expenses, and amount due to the director of the Company.

Query 5

We note the Company’s update at page 13 with regard to its proposed listing of Garden Fresh, and that it “continues in its effort towards the proposed listing of its beverage business”.

We further note that the Company had disclosed in its SGXNet announcement of 25 June 2019 titled, “Entry into an investment agreement with Guangdong Baoao Equity Investment Partnership (LLP)”, that Guangdong Baoao Equity Investment Partnership (LLP) (“Investor”) may request for the Company or Garden Fresh (HK) Fruit & Vegetable Beverage Co. Ltd (“GF Hong Kong”) to buy back its shares in GF Hongkong, if (i) GF Hong Kong or Garden Fresh Group Holding Co., Ltd (“GF Cayman”)(“Proposed Listing Entity”) fails to submit the listing

application of GY Cayman and its subsidiaries with a recognized stock exchange approved by the Investor (the “**Recognized Stock Exchange**”) on or before 30 June 2020; or (ii) the consolidated audited net profit after tax of GF Hong Kong or Proposed Listing Entity for the financial year 2018 is less than RMB 377 million with 10% variance allowed.

The 25 June 2019 SGXNet announcement also states that the consideration for buying back the Investor’s shares in GF Hong Kong shall be the subscription consideration of USD 30 million, equivalent to RMB 200 million plus 10% annual interest. Also, should any of the above repurchase event occur, GF Hong Kong or the Company is to make payment to repurchase the Investor’s shares on or before 31 October 2020, failing which, an annual interest charge of 10% shall be applied on the outstanding sum.

In this regard please clarify the following:

- (a) What is the status of the Company’s proposed listing of GF Cayman and its subsidiaries, taking into consideration the timeline of submitting a listing application with a Recognized Stock Exchange on or before 30 June 2020, per the investment agreement announced via SGXNet by the Company on 25 June 2019?
- (b) Whether the consolidated audited net profit after tax of GF Hong Kong or the Proposed Listing Entity for the financial year 2018 is less than RMB 377 million with 10% variance allowed, taking into consideration the terms of the investment agreement announced via SGXNet by the Company on 25 June 2019?
- (c) Should any of the repurchase events in the investment agreement announced via SGXNet by the Company on 25 June 2019 occur, please provide the Board’s assessment as to whether the Company has the funds to buyback the shares from the Investor at the subscription consideration with 10% annual interest, pursuant to its investment agreement?

Company’s Response to Query 5

- (a) As of the date of this announcement, the Company has yet to receive the Subscription Consideration of USD30 million from the Investor pursuant to the Investment Agreement, and hence the Proposed Issue of the shares in GF Hong Kong is not completed. The Investor has been in discussion with the Company to extend the timeline of the subscription of shares of GF Hong Kong and the fulfillment of submitting a listing application with a recognised stock exchange. Taking into consideration the COVID-19 pandemic, the Company and the Investor have verbally agreed to extend the long stop date by one year from 25 June 2020 to 25 June 2021 while applicability of the salient terms in the original Investment Agreement is still pending for further negotiation.

As part of the extension negotiations, the Audit Committee has also requested for the Investor to open an escrow account and to place the placement amount in the escrow account to secure the funds. The Group CEO and Chairman, Mr Huang Yupeng, was in charge of discussions in relation to the original investment agreement, and will continue to lead the negotiations with the Investor for the extension. Accordingly, Mr Huang will update the Group and shareholders of any material developments in this matter.

The Company is assessing with various parties for listing of its beverage business in either Hong Kong or PRC, namely the Stock Exchange of Hong Kong (SEHK), Shanghai Stock Exchange (SSE) and the Shenzhen Stock Exchange (SZSE). As of today, there is no material development of the proposed listing.

Notwithstanding the verbal agreement with the Investor to extend the long-stop date by one year, shareholders are advised to exercise caution as there is no certainty or assurance as at the date of this announcement that the proposed extension with the Investor will be agreed on or that the Proposed Listing will be completed at all. Shareholders are advised to read this announcement and any further announcements by the Company carefully and where in doubt as to the action they should take, they should consult their stock brokers, bank managers, solicitors or other professional advisors.

- (b) The term of profit guarantee in the Investment Agreement is not applicable as the Investment Agreement has not been performed by the Investor.
- (c) The repurchase events in the Investment Agreement is not applicable as the Investment Agreement has not been performed by the Investor.

By Order of the Board

Huang Yupeng
Chairman and CEO
15 May 2020