

**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 4 September 2020, the Board of Directors of the Company wishes to provide the following information in respect of the Company’s announcement dated 15 May 2020, 3 June 2020, 8 June 2020, 20 July 2020 and 5 August 2020 as set out below:

We refer to the following:

- (i) The Company’s announcement dated 15 May 2020 titled “Response to SGX Queries” in respect of its unaudited financial statements for the financial year ended 31 December 2019 (“**FY2019**”).
- (ii) The Company’s announcement dated 3 June 2020 titled “Response to SGX Queries” in respect of its unaudited financial statements for FY2019.
- (iii) The Company’s announcement dated 8 June 2020 titled “Update on the Group’s Operations in the PRC and Impact due to COVID-19”.
- (iv) The Company’s announcement dated 20 July 2020 titled “Profit Warning in relation to the Financial Results for Three Month Period ended 31 March 2020”.
- (v) The Company’s announcement dated 5 August 2020 titled “Response to SGX Queries” concerning the Company’s default of its repayment of loans from Soleado Holdings Pte Ltd (“**Soledao**”) and Deutsche Investitions und Entwicklungsgesellschaft mbH (“**DEG**”), as well as the 2012 SB2 Bonds and 2011 SB2 Bonds.

SGX Query as follows: -

We seek the Company’s response to the following:

- (i) In its announcement of **15 May 2020**, the Company provided the breakdown of “*Other receivables*” and disclosed that the advances paid to third parties, vendors and suppliers amounted to RMB 743,928,000.

The Company further explained that the “*increase in other receivables was mainly due to an increase in advance paid to contract manufacturing suppliers of beverage products by 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.*”

In its announcement of **3 June 2020**, the Company disclosed that “*Approximately 31% advance paid to the contract manufacturing suppliers as at 31 December 2019 have*

*been utilised through supply of material in the first quarter of FY2020” and that “Approximately RMB 203 million raw material supplied has actually been used to fulfill sales orders.”*

Please provide an update as to whether the raw material to be supplied pursuant to the remaining 69% of advances paid to contract manufacturing suppliers have since been delivered and utilised to fulfill sales orders.

- (ii) The Company disclosed in its announcement dated **8 June 2020** that *“two of the Company’s key wholly-owned subsidiaries, namely Grandness (Hubei) Foods Co., Ltd and Garden Fresh (Hubei) Food & Beverage Co., Limited, located at Hubei, the epicentre of the COVID-19 outbreak have each received their approval from the relevant authority to resume operations on 8 June 2020.”*

In its announcement dated **20 July 2020**, the Company disclosed that:

*“The Group is expected to report a loss for 1Q2020 as compared with a profit for the corresponding period in 2019 due primarily to **the negative impact of COVID-19 on the Company’s operating regions** as highlighted in the Company’s update on the Group’s operations in the People’s Republic of China (“PRC”) and impact due to COVID-19 published via the SGXNet on 20 February 2020, 28 February 2020 and 8 June 2020. Moreover, **the restrictions on transportation and movements within the PRC has limited the Group’s ability to provide products for its customers.** Notwithstanding the above, the Management of the Company believes that the Group’s working capital position remains healthy (Unaudited cash and bank balance of the Group as at 31 March 2020 amounted to approximately RMB 600 million).”* (emphasis added)

- (a) Please clarify whether the operations of the Company’s subsidiaries, including Grandness (Hubei) Foods Co., Ltd and Garden Fresh (Hubei) Food & Beverage Co., Limited, have also been affected by the recent flooding incidents in the People’s Republic of China (“PRC”) occurring since June 2020.
- (b) Please clarify whether the recent flooding incidents and the said transportation and movement restrictions within the PRC has any impact on the Company’s advances paid to contract manufacturing suppliers, as well as the ability to fulfill sales orders using the raw materials supplied. Please elaborate.
- (iii) The Company disclosed in its announcement dated **5 August 2020** that the *“Total outstanding principal loan sum and accrued interest owing under the convertible loan agreement with Soleado amounted to USD21.1million (unaudited) as at 31 December 2019”* and the *“Total outstanding principal loan sum and accrued interest owing under loan agreement with DEG amounted to RMB165.8 million (unaudited) as at 31 December 2019”*.

In response to SGX’s queries on the current status of the discussions with Soleado and DEG to repay the principal sum and interest of the loans from SOleado and DEG, and its proposed steps to repay the outstanding loan sums, the Company disclosed that:

***“The Group is currently in discussion with the third party lenders to extend the relevant loans tenure and to derive a repayment plan.”** The Group’s CEO and Chairman, Mr Huang Yupeng, was in charge of these discussions and will continue to lead the debt restructuring going forward. Mr Huang will update shareholders of any*

*material developments on the debt restructuring in a timely manner.” (emphasis added).*

In response to SGX’s queries on whether Soleado and DEG had taken any action to enforce the respective loan agreements with the Company, the Company disclosed the following:

*“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**.” (emphasis added).*

*“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**.” (emphasis added).*

What is the current status of the Company’s discussion with Soleado and DEG “to extend the relevant loan tenures and to derive a repayment plan”? How long has the Group been in discussion and what is the progress of the discussion? Has the Company reached an agreement with Soleado and DEG on when the loan tenures will be extended until? If yes, please provide details. If no, please clarify the reason(s) why not.

- (iv) It is noted that Soleado and DEG have both agreed to a standstill up till 31 December 2019. In view that the standstill was up till 31 December 2019, what action(s) have the Company taken since then and what is the current status?
- (v) The Company disclosed in the announcement dated **5 August 2020** that:

*“(iii) The Company agreed in principle with the bondholders where the lender allow 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 bondholders for a period up to and including 31 August 2020**. The Group’s CEO and Chairman, Mr Huang Yupeng, was in charge of these discussions with the bondholders and will continue to lead the debt restructuring with the bondholders going forward. Mr Huang will update shareholders of any material developments on the debt restructuring with the bondholders in a timely manner. The Company has been in active verbal negotiation with the bondholders to explore the possibility of loans extension and to consider a repayment plan which should be principally agreeable with the bondholders.” (emphasis added)*

*“(iv) The Group and the third party lenders have not signed a formal standstill letter to extend the relevant loans tenure. However, the Group and the third party lenders have agreed in-principle that **the third party lenders will continue to extend the relevant loans up to 31 August 2020**. The Group is in process of discussing with bondholders to derive a repayment plan” (emphasis added).*

Please provide a status update in view that 31 August 2020 has passed. Has the Company repaid the relevant bondholders? If no, what is the status of these bonds now and are there be any breaches of financial covenants? Please elaborate. What are the Company’s proposed plans to repay these bondholders?

- (vi) On page 142 of the Company's annual report for the financial year ended 31 December 2018, under Note 22 regarding Exchangeable Bonds, it is stated:-

*"The key terms in the 2017 Restructuring Agreement as mentioned above remain the same under the RRA, save to the extent the salient terms amended under the RRA as set out below:*

- (a) the 2011 SB2 Bonds and 2012 SB2 Bonds shall be repaid and fully redeemed on the New Completion Date (which is 13 January 2020);*
- (b) the substitution of the 2011 bonds to 2011 preference shares and the 2012 bonds to 2012 preference shares on the New Completion Date; and..."*

Please provide a status update in view that 13 January 2020 has passed.

- (vii) What is the total outstanding principal and accrued interest amount owing to all the bondholders of the Company? Please provide a table in this regard.
- (viii) The Company disclosed in its announcement dated 5 August 2020 that:-

*"(v) The Group has prepared to repatriate funds of RMB150.0 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. As at the date of this reply, 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.*

*(vi) No specific reasons were given by SAFE on why there is a delay in obtaining approval from SAFE till date. The management of the Company believes that it is due, in part, to the foreign exchange control restrictions by mainland China. The Company will provide an update immediately once it receives the same from SAFE on this matter. Concurrently, the Company is also evaluating other options for the repayment of the loans."*

- (a) It is noted in the Company's response as provided above, that:- *"The letter of application to the SAFE regulator was dated 26 February 2019."* Noting that it is now September 2020, please clarify whether and if so how the Company intends to follow-up on its application to SAFE.
  - (b) It is noted in the Company's response as provided above, that:- *"The management of the Company believes that it is due, in part, to the foreign exchange control restrictions by mainland China."* Please elaborate on this, as well as what the other reasons are.
  - (c) It is noted in the Company's response that it is:- *"evaluating other options for the repayment of the loans"*. Please provide an update on this matter.
- (ix) Please provide the Board's opinion and basis for its views on the ability of the Company and the Group in meeting its short-term debt obligations as and when they fall due.

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

In the second quarter of FY2020, approximately RMB215 million of advances paid to contract manufacturing suppliers have since been delivered and utilised to fulfill sales orders and RMB35 million was refund from supplier. As at 30 June 2020, approximately RMB418 million of advances paid to contract manufacturing suppliers have since been delivered and utilised to fulfill sales orders and RMB35 million was refund from supplier, balance of advances paid to contract manufacturing suppliers remained at approximately RMB180 million in the book.

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

The recent flooding incidents in the People's Republic of China ("**PRC**") occurring since June 2020 was affecting our inbound and outbound logistics of our business where goods take additional few days to reach the destination. The management foresee that minimum impact on the advances paid to contract manufacturing suppliers and the financial performance of the Company's subsidiaries, including Grandness (Hubei) Foods Co., Ltd and Garden Fresh (Hubei) Food & Beverage Co., Limited for the financial year ending 31 December 2020.

The stoppage of productions of Grandness (Hubei) Foods Co., Ltd and Garden Fresh (Hubei) Food & Beverage Co., Limited which located at the epicenter of the Covid-19 outbreak since February 2020 to early June 2020 was significantly impacted the financial performance of the Company due to no production activities and restrictions on transportation and movements within PRC for the periods as stated.

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

The negotiation with DEG on the extension of the loan tenures and to derive a repayment plan after the standstill expiry on 31 December 2019 is actively on-going with DEG. The Company is expected to have a tele-conference meeting with DEG on the week of 14 September 2020 to agree on the repayment plan. The Group CEO and Chairman, Mr Huang Yupeng, is leading the negotiations. Mr Huang will update the Company to make the necessary announcement(s) as and when there is any material development.

The negotiation with Soleado on the extension of the loan tenures and to derive a repayment plan after the standstill expiry on 31 December 2019 is actively on-going with Soleado. There is no agreement have been reached with the Soleado. The Company will continue to engage with Soleado for an agreed repayment plan. The Group CEO and Chairman, Mr Huang Yupeng, is leading the negotiations. Mr Huang will update the Company to make the necessary announcement(s) as and when there is any material development.

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

Please see response to Query (iii).

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

The most recent email communication with the bondholders was that the Company should provide an extension proposal before 30 September 2020 for the bondholders to consider. The Group CEO and Chairman, Mr Huang Yupeng, is leading the negotiations. Mr Huang will update the Company to make the necessary announcement(s) as and when there is any material development.

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

Please see response to Query (v).

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

The unaudited outstanding amount of Straight Bond 2 and Exchangeable Bonds as at 30 June 2020 are RMB269.97 million and RMB485.00 million respectively.

The details are as follows:

	Principal			Interest		Carrying
	CB 2011	CB 2012	Total	CB 2011	CB 2012	Amount
	RMB	RMB	RMB	RMB'000	RMB'000	RMB'000
Straight Bond 2	50,312,500.00	128,250,000.00	178,562,500.00	76,066,845.47	193,899,586.22	269,966,431.69
	Principal			Carrying		
	CB 2011	CB 2012	Total	Amount		
	RMB	RMB	RMB	RMB'000		
Exchangeable bonds	48,300,000.00	162,000,000.00	210,300,000.00	485,004,268.55		

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

In view of the "no-respond" of funds repatriate for repayment of debts in the application with SAFE, the Company is considering another route where the Company is making a foreign exchange application through Bank of Communications, Shenzhen Branch. The management of the Company has submitted the application via Bank of Communications in July 2020 for such application.

As announced previously that the management of the Company believes that it is due, in part, to the foreign exchange control restrictions by mainland China and as a result the Group's subsidiaries in the PRC were not able to repatriate fund to the Company to allow the Company to pay off its debts as the repatriation of funds, if approved, is only towards declaring dividends in the Company and it cannot be used for any other purposed.

As an alternate measure, the Company is in discussion with two financial institutions in PRC / Hong Kong for fund-raising of approximately RMB800 million for the purpose of repayment of borrowings.

The Group CEO and Chairman, Mr Huang Yupeng, is leading these discussions. Mr Huang will update the Company to make the necessary announcement(s) as and when there is any material development.

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

The Company is in discussion with two financial institutions in China / Hong Kong for fund-raising of approximately RMB800 million for the purpose of repayment of borrowings. The potential investors are currently undergoing a due diligence process which is expected to be completed by October 2020.

No agreement has been reached with the financial institutions to-date. The Group CEO and Chairman, Mr Huang Yupeng, is leading these discussions. Mr Huang will update the Company to make the necessary announcement(s) as and when there is any material development.

Shareholders are advised to exercise caution as there is no certainty or assurance as at the date of this announcement that the proposed fund raising discussions will be agreed on or that the proposed fund raising 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.

#### **By Order of the Board**

Huang Yupeng  
Chairman and CEO  
12 September 2020