

SINO GRANDNESS FOOD INDUSTRY GROUP LIMITED

(Incorporated in the Republic of Singapore)
(Company Registration Number: 200706801H)

**UPDATE ANNOUNCEMENT
IN RELATION TO
THE COMPANY'S ANNOUNCEMENT DATED 30 OCTOBER 2016**

*Where capitalised terms are used in this announcement and not otherwise defined, such capitalised terms shall bear the same meanings as ascribed to them in the Company's announcement dated 30 October 2016 ("**Announcement**").*

Further to the Announcement, the Board of Directors (the "**Board**") of Sino Grandness Food Industry Group Limited (the "**Company**") wishes to provide the following additional information and explanations to clarify matters in relation to the Announcement:

1. *The reason Company is going ahead with the Proposed Rights Issue even though the Group has cash and cash equivalent of RMB587.3m as at 30 June 2016*

The Group's cash and cash equivalent are intended to be used for working capital requirements, distribution and selling expenses and to meet current liabilities as they fall due. The Company reiterates that the Proposed Rights Issue exercise is separate and independent of the Proposed Listing of the Beverages Business and that the proceeds from the Proposed Rights Issue shall be used for capital expenditure for the Group's non-beverage business and distribution network expansion and general working capital. The Company wishes to highlight that our Group's non-beverage business segment has expanded to include canned fruits and snack foods. As a result, increased financial resources are needed for capital expenditure for the Group's non-beverage business and distribution network expansion and general working capital. The Company wishes to emphasise that the capital expenditures of the beverage and non-beverage business segments subsidiaries are independent of each other.

2. *The Audit Committee of the Company has reviewed the Announcement.*

The Board of Directors of the Company, including the Audit Committee, have reviewed the Announcement and the contents of the appendices thereto, and collectively and individually accepts responsibility for the accuracy of the Announcement.

3. *Additional information on the commencement timing of Grandness (Anhui) Food Co., Ltd.'s production facility in Anhui Province*

The Group has disclosed in the Announcement that phase one of this facility's construction works (which includes the building structure and basic infrastructure) has been completed and internal renovations are currently on-going. The Group wishes to clarify, that barring any unforeseen circumstances, the Company expects that Grandness (Anhui) Food Co., Ltd.'s production facility to commence production by the first half of 2017.

4. *Additional information on Shanxi Yongji Huaxin Food Co., Ltd's production facility in Shanxi Province*

The Company wishes to clarify that the original sole production facility of Shanxi Yongji Huaxin Food Co., Ltd ("**Shanxi Yongji**") was initially located at 山西省永济市南郊粮库 ("**Yongji Southern Suburb Grain Reserve**") which is also its registered address. In April 2011, Shanxi Yongji incorporated a branch located in Yuxiang town Yongji city, Shanxi Province

called 山西永济华鑫食品有限公司虞乡分公司 (Shanxi Yongji Huaxin Food Co., Ltd Yuxiang branch office) (“**Yuxiang Branch Office**”). In 2012, Yuxiang Branch Office commenced operations at a production facility located at 虞乡镇北梯村东 (Yuxiang Town Beiti Village East). The plant operated by Yuxiang Branch Office in Yuxiang Town is commonly known and referred to by the management of the Company as “Yuxiang plant” rather than “Beiti plant”. In the same year, Shanxi Yongji ceased operations at Yongji Southern Suburb Grain Reserve.

5. *The Company’s purchases from third party suppliers of canned products for sale to customers and seasonality of the Group’s business*

The Group’s business model whereby it also purchases from third party suppliers of canned products for sale to customers was already previously disclosed in the Company’s listing prospectus.

As disclosed in the Company’s listing prospectus on page 109: “*Our raw materials comprise asparagus, long beans and mushrooms and other fruits and vegetables, and packaging materials such as glass bottles and bottle caps. In addition, we also purchase canned products from third-party suppliers for sale to our customers.*”

The Group experiences seasonality in terms of its production of canned products and beverages, as well as in terms of its sales revenue. In terms of production seasonality in each quarter, the Group has disclosed in the Announcement that various canned fruits and vegetables will be processed in accordance to the harvesting seasons. For example, asparagus is usually processed between April and June each year. As a result, this would usually lead to higher inventories as well as higher sales in the second quarter and third quarter of each financial year when compared to the first quarter and fourth quarter.

On a full year basis, sales of overseas canned products, which comprise mainly canned vegetables such as asparagus, long beans and mushroom have been on a decline as reported in FY2014 where sales decreased by 7.9% and then in FY2015, declining by 9.4%. The decrease in sales of overseas canned products has been mitigated by the rise in sales of domestic canned products and beverage products. Over the past few years, the Group has actively expanded its product range in order to diversify its revenue source. Management has also increased sales and distribution costs to build its brand value and expanded its distribution network in the PRC market. As a result, sales of domestic canned products and beverage products recorded double digit growth in FY2014 and FY2015 respectively, leading to overall revenue growth of 24.7% in FY2014 and 17.5% in FY2015 for the Group.

The Company does not disclose its exact revenue contribution from self-production and outsourcing for both canned and beverage business per production facility, nor the Group’s outsourcing contractors’ names and corresponding products/revenue contribution, as these information constitute confidential proprietary information and/or trade secrets, and disclosing such detailed non-public information would be damaging and prejudicial to the Group’s business operations and interests as a whole, and would only serve to benefit the Group’s competitors. In any event, such detailed disclosures are also not required by the Listing Rules of the SGX-ST.

6. *Clarifications on the Group’s SAIC Filings*

The Group reiterates that merely looking at the sales or other figures of individual SAIC subsidiary’s figures will not provide a true and accurate assessment of the overall performance of the Group. The SAIC filings of Shenzhen Garden Fresh and Shenzhen Grandness (“**Shenzhen Entities**”) will show significantly higher sales when compared to other subsidiaries as Shenzhen Entities are the key trading subsidiaries of the Group.

The SAIC filing of financial figures of each entity in the Group reflects the operations of the respective entities. In the case of manufacturing subsidiaries, they will recognise sales when

they sell their products to the trading subsidiaries and record the cost of sales based on manufacturing costs incurred. As such, the manufacturing subsidiaries generate their own revenue through sales to the trading subsidiaries, as reported in their SAIC filings.

As for the trading subsidiaries (Shenzhen Grandness and Shenzhen Garden Fresh), in addition to purchases from the manufacturing subsidiaries, they also purchase from third parties and these products are then sold to third parties. The sales of the trading subsidiaries and the associated cost of purchasing (including purchases from the manufacturing subsidiaries and third parties) are reported in the individual SAIC filings of the trading subsidiaries.

The fact that the SAIC filings of certain manufacturing subsidiaries show a decline in revenue or net income does not mean that the overall revenue of the Group is also declining. This is because the decline in the sales of the manufacturing subsidiaries is more than offset by the increase in sales by the trading subsidiaries (through increase in purchases from third parties and sales).

In terms of the measurement of performance or revenue of the Group, inter-company sales are eliminated in order to arrive at the sales that are made to third parties. Therefore, the Company reiterates that assessing the performance of individual SAIC filing figures will not be meaningful in the context of the Group's overall performance. Please refer to the analysis on the revenue performance of the Group in Paragraph 5 of this announcement.

The Company understands from its PRC counsel which is confirmed through SAIC website that only basic corporate information such as company registration information, address and legal representative may be extracted by the public. But comprehensive information which includes financial information may only be officially extracted directly from SAIC by parties with authorisation letters from relevant departments or parties on official or court matters with valid documentations.

(source: http://www.saic.gov.cn/qyj/djfg/qt/200303/t20030313_59612.html).

The management of the Company have confirmed to the Board that the each of the Group's PRC subsidiaries have only made one SAIC filing each for FY2014 and FY2015 respectively. The Company further confirms that it has never authorised GeolInvesting to access the Group's SAIC file records.

The Company reiterates that based on PRC's lawyer confirmation (as referred to in the Announcement), that in accordance with the relevant PRC regulation, which came into effect from 1 October 2014, the annual filing with SAIC cannot be amended after 30 June each year. Given the relevant PRC regulation and without proper authorisation from the Company, the Company cannot verify the source of the SAIC information which was claimed to be procured by GeolInvesting. As such, the Company strongly refutes and rejects allegation by GeolInvesting that it has procured SAIC filings financial numbers in July 2016 and August 2016 which may have been amended.

7. Reassurance to shareholders of the Company

At this juncture, the Company wished to reassure its shareholders that:-

- A. The Group's financial statements and accounting policies strictly follow and adhere to the Singapore Financial Reporting Standards ("**SFRS**"), and its financial statements have been subject to annual audits by Foo Kon Tan LLP. The Company would like to reiterate that consistently, and with no exception, the independent auditor's reports issued are without qualifications whatsoever;
- B. The Group's financial statements have been subjected to stringent due diligence works performed by its bond holders; and
- C. The Group has sufficient liquidity to pursue its current business and also its future business plans.

The Directors collectively and individually have taken all reasonable care to ensure that the facts stated in this announcement are fair and accurate and that no material facts have been omitted from this announcement and the Directors jointly and severally accept full responsibility accordingly.

Shareholders are advised to exercise caution when dealing or trading in the shares of the Company. Shareholders should consult their stock brokers, bank managers, solicitors or other professional advisors if they have any doubt about the actions they should take.

By Order of the Board

Huang Yupeng
Chairman and CEO

2 November 2016