

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 27 May 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 (the “Earlier Announcement”) and the unaudited financial statements for the year ended 31 December 2019 as set out below:

Query 1 - On the Company’s response to Query 1 in the Earlier Announcement

- a. In the Company’s breakdown of “Other receivables”, it provided that the advances paid to third parties, vendors and suppliers amounted to RMB743,928,000.

The Company 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.”

- (i) Based on the advances paid to third parties, vendors and suppliers amounting to RMB743,928,000, how much of this amount has been recognised as cost of sales in the first quarter of FY2020?
- (ii) Please specify what is meant by “majority of the advance paid to the contract manufacturing suppliers have been utilised through supply of material” by providing a percentage figure.
- (iii) How much of the raw material supplied has actually been used to fulfill sales orders?

Company’s Response to Query 1

- a.
- (i) Approximately RMB 231 million has been recognised as cost of sales in the first quarter of FY2020.
- (ii) As disclosed in the Company’s announcements dated 20 February 2020 and 28 February 2020, the Group’s entire operations were not in full scale operations due to the epicentre of the COVID-19 outbreak. 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. However, the Company

anticipate that the advance payment made will be fully consumed in anticipation of (i) the gradual market recovery in 2Q or 3Q FY2020 due to the easing of movement restriction measures; (ii) the expected demand patterns for the Group's products for the remaining year in view that the current inventory levels for raw materials are minimal for the reasons of freshness; and (iii) sales are generally low in the first quarter of each year due to the seasonal nature of the business.

- (iii) Approximately RMB 203 million raw material supplied has actually been used to fulfill sales orders.

Query 2 - On the Company's response to Query 4 in the Earlier Announcement

- a. The Company provided in its breakdown of "Other payables" that it has payables owing to a director of the Company of RMB57,636,000.
 - (i) Please name the director in question.
 - (ii) Please elaborate on the circumstances leading to the amount of RMB57,636,000 being owed by the Company to the director.
- b. The Company has provided an amount "owing to contractors and third parties" of RMB35,326,000. It further explained that its "increase in other payables was mainly due to the increase in service fee payable to a product distributor".
 - (i) How much of the amount of RMB35,326,000 is attributable to the "service fee payable to a product distributor"?
 - (ii) Please explain what the said service fee relates to.

Company's Response to Query 2

- a.
 - (i) The amount due to a director relates to amount due to Mr Huang Yupeng, CEO and Chairman of the Group, which is unsecured and interest free.
 - (ii) The Balance mainly represented the unpaid Director's fees, bonus and related expenses paid to Mr Huang Yupeng, CEO and Chairman of the Group for the past few years. The Director's fees (including bonus and related expenses) paid to Mr Huang Yupeng, CEO and Chairman of the Group amounted to approximately RMB 11.6 million, RMB 11.1 million, RMB 11.1 million, RMB 10.4 million and RMB 10 million respectively during FY2015 to FY2019.
- b.
 - (i) Approximately RMB 7.2 million is attributable to the service fee payable to a product distributor.
 - (ii) The said service fee relates to the marketing research cost for new products in China market, which is in line with the Group's business strategy to expand its product line.

Query 3 - On the Company's response to Query 5 in the Earlier Announcement

- a. We note that 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 fulfilment of submitting a listing application with a recognized 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."

The Company's announcement of 25 June 2019 also states, amongst others, that the salient terms of the Investment Agreement include:

"- GF Hong Kong will issue its shares and Investor shall subscribe for 4.65% of the enlarged share capital in CF Hong Kong.

- The consideration payable for the Proposed Issue, i.e. the Subscription Consideration is USD30 million, equivalent to RMB200 million.

- Investor shall pay the Subscription Consideration in full to GF Hong Kong upon completion.

- Completion will take place on or about forty-five (45) working days immediately following the fulfillment (or waiver, as applicable) of conditions precedent.

- The Investor may request the Company or GF Hong Kong to buy back the Investor's shares if (i) GF Hong Kong or the Propose Listing Entity fails to submit the listing application with 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 RMB377 million, with 10% variance allowed. The consideration for buying back the Investor's Shares shall be the Subscription Consideration plus 10% annual interest.

- 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."

- (i) Please clarify whether GF Hong Kong has already issued its shares to the Investor.
- (ii) If so, what are the reason(s) as to why the Company has yet to receive the Subscription Consideration of USD30 million from the Investor pursuant to the Investment Agreement which was announced on 25 June 2019?
- (iii) Please clarify whether the terms as well as the conditions precedent of the Investment Agreement has been met, noting that the Company has yet to receive the Subscription Consideration of USD30 million from the Investor pursuant to the Investment Agreement. If not, please elaborate on the status of this Investment Agreement.
- (iv) It is mentioned in your response that "...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". What is this long-stop date being referred to? What is the long-stop date of the Investment Agreement announced on 25 June 2019?

- b. It is stated in your response: "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."
- (i) Please clarify whether the beverage business in your response refers to Garden Fresh Group Holding Co., Ltd, as mentioned in the announcement on the Investment Agreement of 25 June 2019.
 - (ii) Please explain why the Company is assessing the submission of a listing application with a recognized stock exchange at this juncture, given that the Company has yet to receive the Subscription Consideration of USD30 million from the Investor pursuant to the Investment Agreement.
- c. With reference to the Company's announcement dated 29 August 2019, the Company disclosed that it "has on 29 August 2019 engaged Maxim Group LLC ("**Maxim**") as joint book runner and investment banker in connection with the proposed initial public offering (the "**Offering**") of the ordinary shares of Garden Fresh Group Holding Co. on a stock exchange in the United States of America ("**USA**"). The engagement of Maxim shall end on the earlier of 30 June 2020 or the closing of the Offering."
- (i) How many listings of its beverage business is the Company currently proposing?
 - (ii) Based on its announcement dated 29 August 2019, what is the status of the proposed listing of its beverage business in the USA?
- d. Please explain why the Company did not provide any announcements via SGXNet to clarify or update the market on matters concerning the Investment Agreement announced on 25 June 2019.

Company's Response to Query 3

- a.
- (i) GF Hong Kong has not issued its shares to any Investor up to the date of this announcement.
 - (ii) The Company had requested for the reasons for the non-subscription from the Investor. The Investor has yet to provide the reasons why the Investor has yet to fund the Subscription Consideration of USD30 million pursuant to the Investment Agreement which was announced on 25 June 2019.
 - (iii) The Company has yet to receive the Subscription Consideration of USD30 million from the Investor pursuant to the Investment Agreement. To protect the Company's and its shareholders' interest, no prior approval of the shareholder in the general meeting have been sought from Sino Grandness Food Industry Group Limited for enlargement of share capital /amendment of By law of GF Hong Kong for the purpose of additional capital injection as required due to the investor's non-subscription. As explained in our Earlier Announcement dated 15 May 2020, taking into consideration the COVID-19 pandemic, Investor has 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 will update the Group and shareholders of any material developments in this matter.

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.
 - (i) The beverage business in our previous response refers to Garden Fresh Group Holding Co., Ltd, as mentioned in the announcement on the Investment Agreement of 25 June 2019.
 - (ii) The Group is actively looking for any new funding opportunities in different finance market for fulfilling the Qualified Listing Application criteria as set out in the Amended and Restated 2018 Restructuring Agreement on 14 January 2019 with the Bondholders of the Exchangeable Bond as set out in the Announcement at paragraph 2.1 dated at 17 January 2019.
- c.
 - (i) The US listing proposal was put on hold due to the current political tension between US and PRC, the management of the Group now evaluate the options for listing either in Hong Kong or Shenzhen
 - (ii) As explained in c (i) of the Company's Response to Query 3.
- d. The Company believes that regular and timely investor communications play a vital role in creating Shareholders' value, enhancing the corporate transparency as well as establishing market confidence. The Company disclosed such updated information in SGX announcements. For details, please refer to the Company's quarterly results announcements dated 29 August 2019 in page 12, dated 13 September 2019 in page 14, dated 14 November 2019 in page 13, and dated 31 March 2020 in page 13 respectively.

By Order of the Board

Huang Yupeng
Chairman and CEO
3 June 2020