

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

**DISCLAIMER OF OPINION ON THE AUDITED FINANCIAL STATEMENTS FOR THE
FINANCIAL YEAR ENDED 31 DECEMBER 2019**

Pursuant to Rule 704(5) of the Listing Manual of the Singapore Exchange Securities Trading Limited (“SGX-ST”), the Board of Directors of Sino Grandness Food Industry Group Limited (the “Company”) wishes to announce that the Company’s Independent Auditors, Foo Kon Tan LLP, have included a disclaimer of opinion in the Independent Auditors’ Report on the consolidated financial statements of the Group and the statement of financial position of the Company for the financial year ended 31 December 2019 (the “FY2019 Financial Statements”).

The Independent Auditors’ Report and the FY2019 Financial Statements will form part of the Company’s Annual Report for financial year ended 31 December 2019 (the “FY2019 Annual Report”) which will be available to the shareholders of the Company by electronic means via SGXNet. Shareholders are advised to read the FY2019 Financial Statements as part of FY2019 Annual Report.

Relevant sections of the Independent Auditor’s Report are reproduced below:-

Independent Auditor’s Report to the Members of Sino Grandness Food Industry Group Limited

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the financial statements of Sino Grandness Food Industry Group Limited (the “Company”) and its subsidiaries (collectively the “Group”), which comprise the statements of financial position of the Group and the Company as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying consolidated financial statements of the Group and the statement of financial position of the Company. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

Limitation of scope and fundamental uncertainty relating to the going concern basis

We draw attention to Note 2(a) of the financial statements which states that the financial statements have been prepared on a going concern basis.

As at 31 December 2019, the Company's current liabilities exceeded its current assets by RMB 281.7 million (2018 - RMB 264.0 million).

As stated in Note 2(a) to the financial statements, despite the fact that the Group has net current assets of RMB 1,447.9 million (2018 - RMB 1,241.1 million), cash and cash equivalents of RMB 600.2 million (2018 - RMB 621.8 million) as shown in the consolidated statement of financial position as at 31 December 2019 and has net positive operating cash flows of RMB 138.9 million (2018 - RMB 334.6 million), the Group nevertheless continued to default on the repayment of loan owing to Soleado Holdings Pte. Ltd. ("Soleado") with interest thereon of RMB 147.2 million (US\$ 21.1 million) [2018 - RMB 144.8 million (US\$ 21.1 million)] as at 31 December 2019 which was due on 6 January 2019 (originally due on 16 May 2018) and the Deutsche Investitions-und Entwicklungsgesellschaft ("DEG") loan with interest thereon of RMB 169.8 million (US\$ 24.3 million) [2018 - RMB 157.2 million (US\$ 22.9 million)] as at 31 December 2019. The Group's subsidiaries in the People's Republic of China ("PRC") ("Group subsidiaries") were not able to repatriate fund to the Company to allow the Company to pay off its debts to Soleado.

Basis for Disclaimer of Opinion (Cont'd)

We draw attention to the circumstances arising from the Company's and the Group's fundamental uncertainty relating to the going concern basis as mentioned in paragraph 1 of this report:

1. Ability of the Company and the Group to repay debts when fall due

(a) Default of indebtedness for loan from Soleado

During the financial year ended 31 December 2019, the Company was served with several letters of demand since 8 January 2019 by Soleado for the sum of US\$ 20.0 million (equivalent to RMB 139.5 million) and interest on loan ("Soleado loan"). Soleado is a wholly-owned subsidiary of Thoresen Thai Agencies Public Company Limited, a company listed with the Stock Exchange of Thailand. The Soleado loan was due on 6 January 2019 but was not repaid. The original due date was 16 May 2018. This constituted an event of default under the terms of the Soleado loan. A standstill up to and including 31 December 2019 was provided by Soleado in July 2019 to the Company upon the payment of US\$ 1.5 million (RMB 10.8 million) on 29 August 2019. The money was repaid and disbursed from the share placement of S\$ 3.4 million (RMB 17.3 million) on 10 July 2019.

Since then, there was no further payment made to 31 December 2019. Soleado has communicated to us upon our request, that there were several attempts made for immediate demand of debts or at least partial repayment to be made by the Company. Our request confirmation to Soleado is to confirm the status of the statutory demand. On 5 June 2020, Soleado, informed the Company in writing, that the shareholders of Soleado may require the company to demand settlement or to take legal action against the Company if warranted. In addition, the pledged shares (102 million shares) of the Company owned by Mr Huang Yu Peng will be realised if called upon. At the date of this report, the Company is still in negotiation with Soleado on the extension of repayment of the loan.

As at 31 December 2019, the loan remained outstanding was RMB 147.2 million (2018 - RMB 144.8 million).

(b) Default of indebtedness for bank loan for Deutsche Investitions-und Entwicklungsgesellschaft ("DEG")

- i. In the financial year ended 31 December 2018, a subsidiary, Garden Fresh (Hubei) Food & Beverage Co., Limited ("GF Hubei") defaulted its loan obligation to a foreign bank, Deutsche Investitions-und Entwicklungsgesellschaft ("DEG") on the principal sum for the second instalment of US\$ 2.5 million together with interest thereon in October 2018. Under the terms of the DEG loan agreement, the failure to repay any amounts due under the DEG loan constitutes an event of default whereby DEG is entitled to demand immediate repayment of all the loans and any accrued interest due by the Group and to terminate the loan agreement with immediate effect.

Basis for Disclaimer of Opinion (Cont'd)

(b) Default of indebtedness for bank loan for Deutsche Investitions-und Entwicklungsgesellschaft ("DEG") (Cont'd)

- ii. On 22 January 2019, DEG demanded immediate repayment of US\$ 22.9 million (RMB 157.2 million) together with the default interest. Only the accrued interest on the bank loan was paid by the disbursement of US\$ 0.5 million on 28 June 2019 from the share placement proceeds. With the payment made, the bank agreed and accepted the standstill up to and including 31 December 2019.
- iii. There was no further payment made to 31 December 2019. GF Hubei continues to negotiate with the bank for further extension of time. On 28 August 2020, the bank has written to us to confirm that they reserve the right to demand immediate repayment for the bank loan from GF Hubei as well as the guarantors which are Garden Fresh Group Limited, Garden Fresh (Shenzhen) Fruit & Vegetable Beverage Co., Limited ("Garden Fresh SZ") and the Company itself. The bank also reiterated that they had demanded payment in their letters dated 21 January 2019 and 22 January 2019 but the said guarantors did not honour their contractual obligations. The bank made aware to us that GF Hubei had complied with the requirements of the State Administration of Foreign Exchange ("SAFE") regulations.
- iv. The said bank loan is secured by way of GF Hubei's assets in Hubei. The carrying amount of the secured assets totalled RMB 481.5 million (2018 - RMB 499.5 million) as at 31 December 2019 [See Note 20(h)]. Should the bank exercise their rights to freeze the assets upon applying for Court Order, the effect and impact of the businesses of fruit beverages and canned foods will be severely affected. As of the date of this report, there is no indication of repayment made of the defaulted loan with accrued interest thereon.
- v. DEG and GF Hubei entered into an agreement ("Settlement Agreement") dated 1 October 2020 where a director of the Company, Mr. Huang Yu Peng acknowledged on 12 October 2020 to the effect that the bank agreed to waive on the request of GF Hubei and shall not claim any remaining outstanding amount if GF Hubei shall pay to the bank an amount of US\$ 2.6 million until 10 November 2020.
- vi. DEG made aware to us on 15 October 2020 of the significant haircut embodied in the Settlement Agreement. On 19 October 2020, the bank explained to us that they have not waived the entire principal amount but to a

large extent according to the bank's due diligence on the creditworthiness of the subsidiary concerned. This executory document only becomes effective upon full payment of US\$ 2.6 million as mentioned above.

As at 31 December 2019, the loan owing to the bank was RMB 169.8 million (2018 - RMB 157.2 million).

Basis for Disclaimer of Opinion (Cont'd)

(b) Default of indebtedness for bank loan for Deutsche Investitions-und Entwicklungsgesellschaft ("DEG") (Cont'd)

- vii. On the premise that the bank reiterated that there is a legal technicality to the effect of the waiver, we were unable to ascertain whether the settlement of debt, if duly carried out, is properly executed in accordance under the laws governing the waiver due to the fact that:
- the bank has a security over the subsidiary's assets where the market value of these assets is to cover at least 150% of the outstanding loan amount;
 - the loan is guaranteed by Garden Fresh Group Limited, Garden Fresh SZ and the Company itself; and
 - there was no professional independent financial adviser assisting the subsidiary in reaching this settlement.

(c) Liabilities owing to Bondholders

- i. Under 2016 Restructuring, all the shares issued as fully paid up and registered in the name of Grandness (HK) Industry Co., Ltd. ("Grandness HK") are mortgaged and charged in favour of Goldman Sachs Investments Holdings (Asia) Limited ("GS") pursuant to a share mortgage dated 21 April 2016, as amended from time to time. This charge was entered into the Register of Members of Garden Fresh Group Holding Co., Ltd. ("Garden Fresh Cayman") on 10 May 2016. Based on the search of the relevant companies, the register of charge is still valid. The Bondholders comprise several parties including institutional investors.
- ii. Under the 2017 Restructuring Agreement, Garden Fresh (HK) Fruit & Vegetable Beverage Co., Limited ("Garden Fresh (HK)") is to fully redeem the 2011 SB2 bonds and 2012 SB2 bonds at a redemption price equal to 100% of the aggregate principal amount of RMB 178,562,000 (Note 22), together with any interest accrued up to the due date, 28 September 2017.
- iii. On 17 January 2019, the Company announced that it entered into an Amended and Restated 2018 Restructuring Agreement ("2018 RRA") dated 14 January 2019 with the Bondholders in relation to the extension of bond repayment dates.
- iv. The 2018 RRA contains cross default provisions which provide for the acceleration or payment of debt obligations upon any default or failure to pay or satisfy any obligations under any other agreement, namely the "Cross Default Warranty". Up to the Completion Date, under the 2018 RRA, all obligations of the Parties shall cease and all rights and remedies of the Bondholders shall remain actionable without any further demand or notice.

Basis for Disclaimer of Opinion (Cont'd)

(c) Liabilities owing to Bondholders (Cont'd)

- v. In addition, there is a Standstill provision which forbears the Bondholders from taking any action to claim or enforce the obligations of the Group to repay the amounts due and payable, including all accrued and unpaid interest to the Bondholders only if there is no occurrence of an event of default up to the Completion Date.
- vi. Under the terms of the 2018 RRA, the full redemption of the principal sum of the 2012 SB2 Bonds and 2011 SB2 Bonds of RMB 128,250,000 and RMB 50,312,500 respectively with interest thereon shall be repaid on the Completion Date i.e. 13 January 2020.
- vii. In May 2020, the subsidiary, Garden Fresh (HK) negotiated with the Bondholders to allow for extension of time. The majority of the Bondholders agreed but not in writing to provide a further extension of time for the long stop up to 31 August 2020 without agreement to the standstill. The Bondholders have requested the Group to provide a repayment plan including any restructuring which they were prepared to explore on the stipulated date of on or before 30 September 2020. Amongst other conditions, the Bondholders demanded a repayment of SB2 Bonds of principal sum of RMB 128.3 million together with interest thereon of RMB 193.9 million, calculated as at 30 June 2020. As of the date of this report, there is no formal agreed plan between the Bondholders and the Group. The Company only indicate that there may be possible fund to be borrowed from financial institutions to repay the borrowings.
- viii. As at 31 December 2019, the amounts owing to the Bondholders were RMB 742.2 million, which comprise the Straight Bonds of RMB 257.4 million and Exchangeable Bonds of RMB 484.8 million, including interests thereon. As at the date of this report, the cash redemption has not been met on due date 13 January 2020. On this basis, the Bondholders have the right to exercise the mortgaged shares as mentioned herein.
- ix. At the date of this report, there is no indication of affirmative funding from external parties which the Group is currently seeking such possible fund raising exercise. Based on the 2018 annual report, there was an upcoming investor, Baoao Equity Investment Partnership (LLP) (广东宝傲股权投资合伙企业(有限合伙)) for a possible fund of US\$ 30.0 million. As we understand, this placement is held on abeyance and is at exploring stage.

Basis for Disclaimer of Opinion (Cont'd)

(d) Preparation of Group's cashflow forecast and profit projection

As part of the going concern assessment, we require management to prepare a forecast for the cashflow and profit projection for the next 12 months from the date of this report to ascertain the ability of the Company and the Group to continue as a going concern in the light of the circumstances having regard to the multiple uncertainties associated, namely, with the following conditions and events:

- the outcome of the repayment of liabilities owing to creditors and the possible legal actions and the implications of the cross-default provisions as mentioned herein;
- the impact on the pandemic as to the disruptions of business in particular to the distributors for sales orders and the effect on cessation of contract manufacturers for beverage business;

- the management of working capital whether it is sufficient in the light of immediate repayment of liabilities owing to creditors as long overdue;
- the outcome of fund raising to the sum of RMB 800 million from two financial institutions in the PRC/Hong Kong (as announced by the Company on 12 September 2020); and
- as well as management's future plan based on available information at the time at which the critical judgement and significant estimates were made.

Furthermore, as mentioned in this report under the paragraph 2 - Recoverability of trade receivables, there was a mismatch of the timing of receipts from trade receivables and payments made to trade suppliers. The collection from trade receivables was slow. On the other hand, the suppliers not only demanded immediate payment but also down-payment before committing to supply raw materials in December 2019. The advances to trade suppliers have significantly increased from RMB 77.0 million as at 31 December 2018 to RMB 638.6 million as of 31 December 2019 (Note 13).

Without these forecasts, we consider that there is a limitation of scope by the Company and the Group in their assessment of the appropriateness of the going concern assumption in the light of circumstances and events not made known to us. We were unable to obtain sufficient and appropriate evidence regarding the going concern assumptions.

Basis for Disclaimer of Opinion (Cont'd)

(e) Possible liquidation of assets in the event of defaults

The Group subsidiaries in the PRC have total non-current assets amounted to RMB 2,080.3 million which comprise mainly production facilities and buildings on leasehold land from the State. Should there be a trigger of default for immediate repayment of debts or application by creditor for Court Order to freeze the assets of the Group or any event which may lead to the realisation of assets on the premise of the mortgaged shares as described in the preceding paragraphs, the value of the non-current assets will be significantly affected and impaired. The non-current assets may be classified to held-for-sale. The financial statements do not incorporate any of such adjustments and reclassifications which may arise from these uncertainties.

As announced by the Company on 20 July 2020, the Group expected to report a loss for the three-months ended 31 March 2020 for the first time since the Company was listed with the Stock Exchange of Singapore. Based on unaudited management accounts, the Group's bank balance was RMB 600.2 million as at 31 December 2019 where a principal bank confirmed the bank balance from the two bank accounts was RMB 594.5 million, representing 99% of total cash and cash equivalents as at 31 December 2019. These bank accounts may be frozen as explained above.

The outcome of the negotiation for extension of time or refinancing with Soleado and DEG as well as the action (which no longer standstill) to be taken by the Bondholders for the liabilities owing becomes uncertain where these creditors reserve their right of legal actions.

Because of the matters referred to the preceding paragraphs, we were unable to assess whether the going concern assumption is appropriate as to the Group's ability to continue as a going concern in the next twelve months from the date of this report. The resultant effect may cause adjustments to be made to the financial statements and reclassification of accounts for which no such adjustment has been effected in

the books. Due to the limitation of scope by the Company where there was no cash flow forecast and profit forecast being provided to us to address the uncertainty surrounding the going concern assumptions, we were unable to determine whether the use of going concern basis is appropriate in the preparation of the financial statements.

The effect of Covid-19 and the impact of the pandemic is as disclosed in Note 37 *Events after end of reporting period*.

Basis for Disclaimer of Opinion (Cont'd)

2. Recoverability of trade receivables

- i. There are two business segments of the Group. The segments were the fruit beverages, and the canned vegetable and fruits and the trade receivables were RMB 1,135.5 million and RMB 179.8 million respectively. As at 31 December 2019, the trade receivables were RMB 1,315.3 million net of impairment. Towards the end of 2019, a subsidiary, Garden Fresh SZ provided an incentive to the distributors for early repayment of debts where the sales rebates amounted to RMB 87.3 million incurred in December 2019. Another incentive was also similarly made in April 2020. The management has on 25 March 2020, officially implemented such early settlement payment incentives to encourage customers to make prompt payments. Based on the available unaudited management accounts as at 30 June 2020, the money received from Group's trade receivables was RMB 415.1 million and there were deductions amounting to RMB 102.6 million for promotional expenses against the trade receivable as a settlement of debts.

Because of the matters described in the preceding paragraph, we were unable to ascertain whether the trade receivables as at 31 December 2019 can be recoverable arising from the Covid-19 and the impact of the pandemic.

3. Impairment assessment of property, plant and equipment and non-current assets of the Group

- i. As shown in Note 5 to the financial statements, 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 (Note 10). Property, plant and equipment mainly comprise factory and warehouse premises with carrying amount of RMB 677.1 million and plant and machinery of RMB 655.1 million as at 31 December 2019. The plant and machinery are mainly automated production lines, where the specifications of the machinery are customised towards the Group's requirements of the manufacturing of the beverage, whether in can, glass bottles or plastic. There are two business segments, namely the fruit beverages and canned vegetable and fruits.

Canned vegetable and fruits segment

- ii. The canned vegetable and fruits segment has a carrying value of RMB 608.4 million for property, plant and equipment, mainly in three locations in the PRC. Nearly 88.5% of these assets are located in Anhui and Shanxian. The canned vegetable and fruits segment's loss before taxation is RMB 59.4 million [Note 32(a)].
- iii. The carrying amount of the property, plant and equipment (including land use rights) recorded in the books of Grandness (Anhui) Foods Co., Ltd. ("GAH") was RMB 396.1 million as at 31 December 2019. The production plant for canned vegetable and fruits products in Anhui was fully commissioned in 2018 where there were only two months

of production. However, there were no production activities in 2019. There were no employees in GAH since December 2018. No impairment has been made to the financial statements to reflect the impact of the idle plant.

Basis for Disclaimer of Opinion (Cont'd)

3. Impairment assessment of property, plant and equipment and non-current assets of the Group (Cont'd)

Canned vegetable and fruits segment (cont'd)

- iv. As at 31 December 2019, the carrying value of the property, plant and equipment (including land use rights) recorded in the books of Grandness (Shanxian) Foods Co., Ltd. ("GSX") was RMB 142.2 million, net of impairment of RMB 88.0 million. An impairment loss of RMB 105.1 million was made in FY2018 due to known pending the urban development programme by the municipal. During the financial year ended 31 December 2019, an amount of RMB 17.1 million was reversed upon disposals of certain plant and equipment. The management of the Group subsidiaries indicated that an expected price in the region of RMB 40 million has been informally agreed. There is no formal letter provided from the local authorities to this effect. No adjustment has been made to reduce the carrying amount to the recoverable sum.
- v. In relation to the canned vegetable and fruits production plant in Hubei, the carrying amount of the property, plant and equipment recorded in the books of Grandness (Hubei) Foods Co., Ltd. was RMB 34.6 million as at 31 December 2019. There were no production activities from January to May for both the financial years ended 31 December 2018 and 2019 attributed to seasonality of fruits harvests. There is an indicator of possible impairment to be made.
- vi. As at 31 December 2019, there were deposits of RMB 81.4 million placed with 临沂泉通机械设备有限公司 for two canned fruits production lines (水果罐头生产线) located in Anhui and deposits of RMB 178.6 million placed with 象山双鱼轻工机械有限公司 for another two canned fruits production lines (水果罐头生产线) located in Anhui (Note 10). Based on the unaudited management accounts, the assets for both deposits paid were delivered. However, we did not find the assets during our sighting. There were some dispute as to the contract between 象山双鱼轻工机械有限公司 and the management. We did not receive reply to the confirmation of balance other than a letter of dispute. As explained in paragraph 3(iii) above, there is an indicator of possible impairment to be made.
- vii. We were unable to ascertain the recoverability of the deposits paid for non-current assets of RMB 97.7 million placed with 江西雄基钢构建材有限公司 recorded in the books of GAH (Note 10). This is because the deposit paid since FY2016 is for the proposed construction of factory and warehouse facilities where the construction and build-up (using prefabrication) has been on hold as the grounding has not been completed. It was expected to be completed in financial year 2019. Under the PRC rules, there is a breach of contract though not mentioned in the contract. No impairment has been made.

Basis for Disclaimer of Opinion (Cont'd)

3. Impairment assessment of property, plant and equipment and non-current assets of the Group (Cont'd)

Fruit beverages segment

- viii. The fruit beverages segment has a carrying value of RMB 834.8 million for property, plant and equipment, mainly in three locations in the PRC. Nearly 99.6% of these assets are in Hubei, Anhui and Sichuan.
- ix. As described in the preceding paragraphs above, one of the Bondholders has the mortgage over the shares in a subsidiary, Garden Fresh Cayman, the immediate holding company of the subsidiaries of the fruit beverages segment. Should the said Bondholder exercise the rights over the mortgage, the value of the property, plant and equipment of the fruit beverages segment would be significantly impaired. The completion long-stop date agreed on 1 May 2020 was already due on 31 August 2020.
- x. There was a stoppage of production during the Covid-19 from January 2020 onwards to mid of 2020 and a reduction in distributors. Because of the pandemic, there is an indication of possible adverse changes in the near future arising from market environment in which the Group operates. The carrying amount of the Group's net assets of RMB 3,496.6 million exceeded the Company's market capitalisation of approximately S\$34.5 million (RMB 172.4 million) as of 31 December 2019.
- xi. Because of the pandemic, a subsidiary, Anhui Garden Fresh Fruit & Vegetable Beverage Co., Limited agreed with a supplier, 江苏星 A 包装机械集团有限公司 for the manufacture of two beverage production lines (无菌冷罐装饮料罐生产线, 利乐包装功能性饮料灌装生产线) in Anhui and one beverage production line (易拉罐饮料灌装生产线) in Hubei, to refund the deposit money subsequent to year ended 31 December 2019 as the supplier defaulted their contractual obligation to deliver the plants on the agreed time schedule. The said non-current deposits to be refunded stood at RMB 193.2 million as at 31 December 2019. As at the date of this report, the negotiation is still on going as to the proposed schedule of repayment. The management of the Group subsidiaries did not carry out any impairment assessment as to the recoverability of these deposits.

The management of the Group subsidiaries did not duly perform an assessment of the possible impairment as at the reporting date nor there is a profit forecast prepared for impairment assessment in the light of the circumstances as stated herein. Neither is there a valuation report from independent professional valuer made available to us for our review. As of the date of this report, there is no 2019 forecast on the capital budget made available to us though it was indicated in the minute book. We were unable to ascertain the recoverable amount of the idle production plant for the canned vegetable and fruits and fruit beverages as well as the money spent on the new production plant installed in mid of 2020.

Basis for Disclaimer of Opinion (Cont'd)

3. Impairment assessment of property, plant and equipment and non-current assets of the Group (Cont'd)

No allowance for impairment has been recognised and recorded during the financial year ended 31 December 2019. As at 31 December 2019, accumulated impairment losses of RMB 88.0 million relates to the impairment losses made for GSX.

On the basis of the matters as described in the preceding paragraphs, we were not able to obtain sufficient appropriate audit evidence to determine the extent of impairment to be made on the carrying amount of the property, plant and equipment and the recoverability of these non-current assets.

4. Other receivables

- Recoverability of advances to trade suppliers
- Recoverability of advances to acquire new patents and VAT receivables

As shown in Note 13 to the financial statements, the carrying amount of the advances to trade suppliers was RMB 638.6 million for money placed to secure the delivery of supplies. The said amount comprised the advances of RMB 473.2 million made to outsourcing manufacturers where a sum of RMB 193.4 million was for the canned fruits and vegetable goods and another sum of RMB 279.8 million for fruits and vegetable beverage goods. The balance of RMB 165.4 million was for advances placed with suppliers of raw materials, packaging materials and others. The advances of RMB 279.8 million for the fruits and vegetable beverage goods made was stipulated in the terms of the contract where a down-payment of 30% is required.

As at the date of this report, there was a refund of RMB 35.0 million from an outsourcing manufacturer to Shenzhen Grandness Industry Groups Co., Ltd. ("Shenzhen Grandness") and RMB 26.1 million payments made by Shenzhen Grandness to outsourcing manufacturers for the canned fruits and vegetable goods. The goods received subsequent to the reporting date totalled RMB 449.3 million. The net balance of RMB 180.4 million from trade suppliers for which the expected delivery for raw materials and packaging materials is considered owing too long a period and they may be credit impaired of which the advances of RMB 35.0 million is for canned fruits and vegetable and the balance of RMB 145.4 million is for vegetable and fruit beverages according to unaudited management accounts as at 30 June 2020. The update is based on the Goods Received Notes, an internal generated document.

As fully explained in the preceding paragraph, we were unable to determine the recoverability of the advances of RMB 180.4 million made to these trade suppliers.

In addition to the matter disclosed in relation to advances to suppliers, we were unable to determine the recoverability of advances to acquire new patents of RMB 16.2 million recorded in the books of Garden Fresh SZ and VAT receivable of RMB 18.9 million and RMB 10.2 million recorded in the books of GAH and GSX respectively as at 31 December 2019. The advances to acquire the new patents were paid since 2016.

Basis for Disclaimer of Opinion (Cont'd)

5. Investments in subsidiaries and amount owing by subsidiaries

As at 31 December 2019, the Company's cost of investments in the subsidiaries was RMB 328.3 million (Note 7) and the amount owing by subsidiaries were RMB 568.2 million (Note 8).

As fully explained in paragraphs 3 and 4, the resultant effects caused us to be unable to determine whether the amounts owing by the subsidiaries can be recoverable as well as to the carrying value of the cost of investments made in these subsidiaries as mentioned in Note 7 to the financial statements.

6. Intra-group financial guarantee

In so far as to the intra-group financial guarantee for the default of the DEG loan, the Company did not recognise the provision for intra-group financial guarantee contract and no assessment of impairment has been regarded as at the reporting date on the premise that there is a waiver agreed by DEG on the request of the subsidiary, GF Hubei. This is not in compliance with SFRS(I) 9 *Financial Instruments*.

7. Fair value of Exchangeable bonds and liability owing to preference share creditor

As fully explained in Note 22 to the financial statements, the carrying values of the Straight bonds and Exchangeable bonds were RMB 257.4 million and RMB 484.8 million respectively as at 31 December 2019. The Straight bonds are determined based on the interest rate of 10% per annum accrued. The Exchangeable bonds are based on the fair value determined in FY2018. In so far as to the one preference share issued on 22 January 2019, the preference share has not been recorded and recognised in the books. There is no valuer appointed to determine the fair value at the inception date and at the reporting date for the preference share, and the put and call option as well as the fair value for Exchangeable bonds as at 31 December 2019. In this respect, we were unable to determine the application of the split accounting of preference share as to the liability and/or equity component. Accordingly, we were unable to ascertain the fair value of the Exchangeable bonds and the fair value measurement of the preference share as to its liability and/or equity component.

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Companies Act, Chapter 50 (the “Act”) and Singapore Financial Reporting Standards (International) [“SFRS(I)”], and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors’ responsibilities include overseeing the Group’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the Group’s financial statements in accordance with Singapore Standards on Auditing and to issue an auditor’s report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the Group.

We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (“ACRA”) Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (“ACRA Code”) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code.

Report on Other Legal and Regulatory Requirements

- i. As disclosed in the 2018 Annual Report, the Group made an application before the SAFE administration on 26 February 2019 to request for the repatriation of profits to the sum of RMB 150 million. Our legal counsel pointed out that the application only need to be applied to the bank with the relevant documents and reiterated that the application is only for the use to declare dividends and not for any other purposes.

- ii. During the financial year ended 31 December 2019, there was a capital injection in GAH of RMB 44.0 million (equivalent to HK\$ 50.0 million) by Shenzhen Grandness representing shareholding interest of 83.3% (2018 - Nil) and thereby reducing the holding of Grandness (Hong Kong) industry Co., Ltd. from 100% to 16.7%. The capital contribution of GAH has increased from HK\$ 10.0 million to HK\$ 60.0 million according to the verification of capital contribution report dated 24 January 2019. However, the money for the capital injected has been withdrawn on the same day to a third party, who is also the provider of the fund for this capital injection. In the verification of capital contribution by the approved PRC auditor, it was affirmed by the then senior personnel of GAH that no fund can be withdrawn. As at 31 December 2019, Shenzhen Grandness is a creditor to GAH of RMB 614.2 million. The verification of capital contribution report certified that the paid up of capital is by way of cash and not otherwise.

In our opinion, in view of the significance of the matters referred to in the Basis for Disclaimer of Opinion section of our report, we do not express an opinion on whether the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Yeo Boon Chye.

By Order of the Board

Huang Yupeng
Chairman and CEO
19 November 2020