

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 14 October 2020, the Board of Directors of the Company wishes to provide the following information in respect of the Company’s announcement dated 12 September 2020 and 14 September 2020 as set out below:

SGX-ST’s Query as follows:

- (i) We refer to the following in the Company’s announcement dated 12 September 2020: *“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.”*
- (a) Please explain what “no-respond” means i.e. does it mean a rejection of the Company’s application or that the Company’s application is invalid, or otherwise? When did the Company receive the “no-respond”, and how many times (if applicable) did it receive it since the date of its application?
- (b) Please state the exact date on which the management “has submitted an application via Bank of Communications in July 2020.” Further, what is the status of this application? Has a response been received, if yes, what is the outcome of the application? If no, why not and when does the Company expect a response to its application?
- (c) Please explain how the “another route where the Company is making a foreign exchange application through Bank of Communications, Shenzhen Branch” is different from the Company’s earlier application with SAFE.
- (ii) We refer to the following in the Company’s announcement date 12 September 2020: *“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**” (emphasis added).*

Does the Company mean that the original application to SAFE could not be used for the purposes of paying the Company’s outstanding loans with, *inter alia*, Soleado and/or DEG? Was the Company of the knowledge previously that “the repatriation of funds, if approved, is only towards declaring dividends in the Company and it cannot be used for any other purposed”?

- (iii) We also refer to the following statements in the Company's announcements dated 12 September 2020 and 14 September 2020:

*"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.**"*

*"The Board wishes to update that the Company is still in negotiation with the bondholders on the extension of repayment of the amount due and payable to bondholders. The latest understanding reached with the bondholders that the Company should provide such 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.**"*

(emphasis added).

- (a) Apart from Mr Huang Yupeng, who else in the Company's board and management is directly involved in the negotiations concerning the Company's repayment of the DEG loan, Soleado loan and the amounts due to the bondholders? If no one else is involved, please explain why.
- (b) Has the Company sought any professional advice or engaged professional firms to address the repayment of the DEG Loan, Soleado loan and the amounts due to the bondholders? If no, why not?
- (iv) The Company's announcement dated 12 September 2020 states the following in 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.” (emphasis added)

- (a) Please provide an update on the outcome of the tele-conference meeting with DEG in the week of 14 September 2020 concerning the repayment plan.
 - (b) Per Query (iii) in the Company’s announcement dated 12 September 2020, how long has the Group been in discussion with Soleado and DEG? Please provide the reason(s) as to why no agreement has been reached till date with regard to the repayment plans for the DEG and Soleado loans.
 - (c) Aside from engaging with DEG and Soleado on the repayment plans, has the Company considered other options? If yes, please elaborate on these options and the Company’s assessment of these options. If no, please explain why not.
- (v) The Company’s announcement dated 12 September 2020 states the following in 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.” (emphasis added)*

The Company’s announcement dated 14 September 2020 also states the following:

*“The Board wishes to update that the Company is still in negotiation with the bondholders on the extension of repayment of the amount due and payable to bondholders. **The latest understanding reached with the bondholders that the Company should provide such 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.” (emphasis added)*

- (a) Please provide an update as to whether the Company has provided an extension proposal before 30 September 2020 for the bondholders’ consideration. If yes, what is the outcome? If an outcome has not been reached, please explain why not and provide an indicative date as to when an outcome is expected to be reached. Please also clarify what these bonds are and elaborate on the Company’s proposed plans to repay its bondholders.
 - (b) Per Query (v) in the Company’s announcement dated 12 September 2020, are there any breaches of financial covenants? Please elaborate.
- (vi) The Company’s announcement dated 12 September 2020 states the following in response to Query (viii):

“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.”

- (a) Please state precisely where each of these two financial institutions are situated so as to clarify their respective locations.

- (b) Please elaborate on the said discussion with the two financial institutions in PRC / Hong Kong, and provide the outcome of the discussion. If an outcome has not been reached, please explain why not and provide an indicative date as to when an outcome is expected to be reached.

Company's Response to Query (i)

The “no-respond” in the explanation provided on the announcement dated 12 September 2020 means the Company has not received from SAFE the results of its application to SAFE. In other words, the status of the application is pending. Save for the above, no other application had been made.

The Company has appointed a local consultant/agent to submit an application via Bank of Communications. The consultant/agent has been following up with the bank on the outcome of the application. As at the date of this announcement, the Company has not received any response in relations to the application made via Bank of Communications.

The application through Bank of Communications is an alternative route provided by SAFE under its guidelines notice meant primarily to facilitate and expedite the application for dividend repatriation, which the Bank of Communications helps to review and verify the accuracy of the documentations submitted by the Company.

Company's Response to Query (ii)

For the purpose of application for dividend repatriation from China, the applicant is required to submit the following documents to support its application *inter alia*

- a) Tax payment certificate and tax declaration form;
- b) An audit report on the profits, dividends and bonuses of the current year issued by an accounting firm;
- c) Resolutions of the board of directors concerning profits or dividends and bonus distribution;
- d) Foreign exchange registration certificate for foreign-invested enterprises;
- e) Capital verification report provided by an accounting firm; and
- f) Other materials required by the SAFE office.

With the shareholders general meeting approving for the dividend declaration required by SAFE office during the application, the dividend repatriation from China could only be used to pay dividend to the shareholders as resolutions passed in the general meeting.

The management is aware of the above requirements by the SAFE office, has no other alternatives but to apply to the SAFE office without the complete documentations required, given the default in loan repayment conditions of the Company.

Company's Response to Query (iii)

The Group CEO and Chairman, Mr Huang Yupeng, is leading the negotiations with DEG, Soleado and bondholders. Mr Huang is assisted by the Vice President of the Investment and Funding Department in the negotiations with DEG, Soleado and bondholders. Where required, support on accounting and financial matters is provided by the accounting team.

At this juncture, negotiations is in respect principally of the commercial terms of the extension, including amongst others the terms and timing for repayment. The Company intends to consult legal advisers only where a preliminary understanding is reached with the creditors on the terms and/or where legal issues arise in respect of the financing arrangements.

Company's Response to Query (iv)

An agreement with DEG has been reached. Kindly refer to the announcement of 21 October 2020 for the details of the agreement.

The Company announced in the Response to SGX's Query dated 12 September 2020, 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 remains pending and no agreement has 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 (v)

The Company has proposed to the Bondholders to convert the amount owing to bondholders to the ordinary shares of the Company. However, no agreement has been reached with the bondholders to-date. The Company would make the necessary announcement as and when there is any material development.

The details of the bonds are illustrated in page 129 to 142 of the Company's Annual Report for the financial year ended 31 December 2018 which has been announced on 23 July 2019.

Based on the agreement with the bondholders, the Company has breached a financial covenant of the bonds in accordance with the unaudited consolidated financial statements for the financial period ended 30 June 2020, where the ratio of Total Debt to the prior financial year's EBITDA of the Company shall not at any time exceed 2.00.

Company's Response to Query (vi)

The headquarter of the 2 financial institutions are located at PRC. Brief description of the 2 financial institutions are as follows:

Financial institution 1: An assets management company principally involved in the investment and asset management business. The assets under management is approximately RMB270 billion.

Financial institution 2: A company principally involved in the securities brokerage services, investment banking services and asset management.

Due to the nature of the discussions, the Company is unable to name the financial institutions.

As the discussion still in early stage, no agreement has been reached with these financial institution to-date. There is no assurance that the Company will secure the fund-raising from these two financial institutions. The Company would make the necessary announcement as and when there is any material development.

By Order of the Board

Huang Yupeng
Chairman and CEO
21 October 2020