

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 29 July 2020, the Board of Directors of the Company wishes to provide the following information in respect of the Company’s announcement dated 23 July 2019, 30 December 2019, 31 March 2020 and 20 July 2020 (the “Earlier Announcements”) as set out below:

Query 1

(a) We refer to the following:

- (i) On Page 51 of the Company’s annual report for the financial year ended 31 December 2018 (“**FY2018**”), the independent auditors report highlighted that the Company *“has defaulted on the repayment of debt owing to a related party, Soleado Holdings Pte. Ltd. of US\$ 21.2 million (RMB 145.5 million) with interest thereon which was due on 6 January 2019. The initial due date was 16 May 2018, the Company has been served letters of demand on 8 January 2019 and 23 January 2019”*.

The independent auditors’ report also highlighted that “a subsidiary has defaulted on the second instalment repayment to a financial institution, Deutsche Investitions und Entwicklungsgesellschaft mbH (“DEG”) of US\$ 2.5 million (RMB 17.2 million) which was due on 15 October 2018. Arising from the default, DEG is entitled to demand immediate repayment of the entire outstanding loan of US\$22.9 million (RMB 157.2 million) and accrued interest thereof. DEG has issued an Acceleration Notice dated 20 December 2018 to the borrower, Garden Fresh (Hubei) Fruit & Vegetable Beverage Co., Limited (“GF Hubei”) and the Company.”

*On Page 68 of the Company’s **FY2018 annual report**, the Company disclosed that the “Group is preparing to repatriate funds of RMB 150.0 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.”*

- (ii) The Company’s announcement dated **30 December 2019**, providing that *“The Company wishes to update that it is in negotiation on the extension of repayment of the loans with (i) the Lender - Soleado pertaining to the convertible loan agreement and repayment framework agreement; and (ii) DEG pertaining to the loan agreement entered on 8 January 2016.”*
- (iii) The Company’s announcement dated **31 March 2020** in relation to its financial statements for the full financial year ended 31 December 2019 (“**FY2019**”), which provides an update on an overdue loan from Soleado as follows: *“The Company is currently in discussion with the lender to extend the repayment of principal and interest. The Company would make the necessary announcement as and when*

there is any material development. The Company has repaid approximately RMB10.9 million to Soleado from the placement proceeds”.

- (iv) The Company’s announcement dated **20 July 2020**, providing that “*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)*”.
- (b) In this regard, we seek your response to the following:
- (i) What is the total outstanding principal loan sum and accrued interest owing in Singapore dollars, under the convertible loan agreement with Soleado and the loan agreement with DEG? Please provide a summary table showing the total outstanding principal loan sum and the accrued interest owing to Soleado and DEG, the amounts previously paid as well the dates of each payment.
 - (ii) What is the current status of the discussions with the Soleado and DEG to extend the repayment of the principal sum and interest of the loans from Soleado and DEG respectively? Has there been any agreement on the repayment schedules? If yes, please provide details. What is the Company’s proposed steps to repay the outstanding loan sums owed to Soleado and DEG to date?
 - (iii) Please clarify whether Soleado and DEG taken any action to enforce their respective loan agreements with the Company? If so, what is the Company’s proposed action steps to address these actions?
 - (iv) In respect of the Company’s intentions to “repatriate funds of RMB 150.0 million back from the People’s Republic of China”, what is the Company’s intentions on how these funds will be utilised?
 - (v) What is the status of the Company’s application to SAFE for approval for the repatriation of funds, and what is the amount of funds to be transferred which is pending SAFE’s approval?
 - (vi) Note 2(a) to the Company’s audited financial statements for FY2018 provides that “*The letter of application to the SAFE regulator was dated 26 February 2019.*” Please clarify why there is a delay in obtaining approval from SAFE till date. When is the Company expecting to receive an update from SAFE in this regard?
 - (vii) Please clarify whether there are any breaches of financial covenants? If yes, please elaborate.
- (c) We further note that the unaudited full year results for FY2019 released on 31 March 2020 made mention that there is a 2012 Convertible Bond amount to RMB 339,752,000 as at 31 December 2019, and a 2011 Convertible Bond amounting to RMB 145,040,000 as at 31 December 2019. In this regard:
- (i) Please clarify whether these convertible bonds refer to the 2012 SB2 Bonds and 2011 SB2 Bonds respectively.
 - (ii) Please provide a background of, and elaborate on the status of the (a) SB1 Bonds; (b) 2012 SB2 Bonds; (c) 2011 SB2 Bonds; (d) 2012 Convertible Bond; and (e) 2011 Convertible Bond, and address whether they have been repaid.

- (iii) If they have not been repaid, what is the Company's proposed steps to repay them? Please clarify whether the bondholders taken any action to claim or enforce the obligations of the Company for the amounts due and payable under these bonds?
- (iv) Please clarify whether there are any breaches of financial covenants? If yes, please elaborate.

Company's Response to Query 1(b)

- (i) 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

Sino Grandness Food Industry Group Ltd								
Loan from related party - Soleado								
as at 31 Dec 2019								
	Principle	USD	\$20,000,000					
	int rate (Annually)		15.00%					
				No				
	From		To	of days	base	default interest	O/S Sum B/F	
							20,000,000	
	17-Aug-18	to	16-Nov-18	92	360	766,667	20,766,667	
	17-Nov-18	to	31-Dec-18	45	360	375,000	21,141,667	
	1-Jan-19	to	6-Jan-19	6	360	50,000	21,191,667	
	7-Jan-19	to	23-Jan-19	17	360	141,667	21,333,333	
	24-Jan-19	to	31-Mar-19	67	360	558,333	21,891,667	
	1-Apr-19	to	30-Jun-19	91	360	758,333	22,650,000	
	1-Jul-19	to	30-Sep-19	92	360	766,667	23,416,667	
	1-Oct-19	to	31-Dec-19	92	360	766,667	24,183,333	
	Repayment on		20-Jun-19				(1,463,202)	
	Repayment on		30-Aug-19				(1,573,848)	
	Outstanding loan payable as at 31 Dec 2019 (unaudited)					USD	21,146,284	

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

Sino Grandness Food Industry Group Ltd			FY2019
Bank borrowings-DEG			Amount
as at 31 Dec 2019			RMB
			000
Outstanding principal			156,753
Interest recognised in P&L (FY2019)			13,196
Accrued interest paid			2,805
Principal repayment/interest paid in June-July 2019			(6,967)
As at 31/12/2019 (unaudited)			165,787

(ii) 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. The management is not aware of any adverse circumstances that might cause the third party lenders not to extend the loans tenure and call for the entire outstanding loans repayment from the Group given that (i) the repayment of loan made to those lenders during FY2019, (ii) net current assets of the Group amounted to RMB 1.56 billion as at 31 December 2019 (unaudited), (iii) The loans granted to the Group are secured on certain of the Group's properties, plant and machineries, corporate guarantees to be provided by the Company's indirect subsidiaries /the personal guarantee to be provided by directors of the Group, and (iv) the Group will carry on its business operations even during Covid-19.

(iii) **Regarding the repayment of loan to Soleado**

The Company has been served with a letter of demand dated 7 January 2019 by Soleado for the principal sum of US\$ 20.0 million (equivalent to RMB 137.3million) and interest under the Repayment Framework Agreement dated 20 July 2018 to the loan agreement dated 13 April 2016. As of 7 January 2019, the interest reported to be owing by the Company to Soleado was US\$ 1.2 million (equivalent to RMB 8.2 million) and other charges of S\$ 30,000 being costs and expenses for legal and professional fees. The second letter of demand was served on 23 January 2019.

The Company announced on 25 March 2019 that the Company has on 22 March 2019 entered into a placement agreement ("Placement Agreement") with JW Capital Group Limited ("JW Capital"). Under the Placement Agreement, the Company intended to issue to JW Capital an aggregate of 170,000,000 new ordinary shares in the capital of the Company

Funds of approximately S\$7,005,000 to be received from JW Capital Group Limited and a sum of S\$4.2 million (equivalent to approximately US\$3.026 million) were paid to Soleado during FY2019.

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.

Default of loan repayment of loan to DEG

DEG has issued letters of payment guarantees to the Company on 22 January 2019, Garden Fresh (Shenzhen) Fruit & Vegetable Beverage Co., Limited on 21 January 2019 and Garden Fresh Group Holding Co., Ltd on 21 January 2019 for the immediate repayment of the sum of US\$ 22.9 million (equivalent to RMB 157.2 million).

During FY2019, the Company has repaid loan interest of approximately US\$1 million. 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.

Save for the above, the Company has not received any further legal letters of demands from the 2 lenders as of the date of this reply.

- (iv) The RMB150 million will be used for debt repayment and for general working capital requirements when received. in order to reduce the gearing ratio and interest paid by the Group.
- (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.
- (vii) The Company has breached the loan covenants as the loans have become due and payable on demand. The Group is currently in discussion with the third party lenders to extend the relevant loans tenure and to derive a repayment plan. Please refer to b (ii) for further details.

Company's Response to Query 1(c)

- (i) Yes. these convertible bonds refer to the 2012 SB2 Bonds and the 2011 SB2 Bonds respectively
- (ii) Background

FY2016 Restructuring - refer to pages 90 to 93 in Note 20 of FY2016 annual report

FY2017 Restructuring - refer to pages 130 to 142 in Note 22 of FY2018 annual report

During FY2018, subsequent to 31 December 2018, the Company entered into Amended and Restated 2018 Restructuring Agreement ("ARA") on 14 January 2019 where the repayment date be amended and extended by 12 months to 13 January 2020.

As of 22 January 2019, one preference share was issued to a major bondholder, Goldman Sachs, pursuant to the Amended and Restated 2018 Restructuring Agreement, *clause 5.9 of Schedule 2*, the Company's:

- Net Gearing Ratio shall not at any time exceed 1;
- ratio of Total Debt to the prior financial year's EBITDA shall not at any time exceed 2.00; and
- total equity shall not at any time fall below RMB1,500,000,000.

As at 31 December 2019, there is no redemption of SB2 bonds and exchangeable bonds ("EBs"), SB2 bonds continued to be charged the interest rate of 10% per annum.

- (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.
- (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.

By Order of the Board

Huang Yupeng
Chairman and CEO
5 August 2020