**UNITED FOOD HOLDINGS LIMITED**
**(Incorporated in Bermuda as an exempted company limited by shares)**
(Company Registration No. 28925)

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**RESPONSES TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ON THE ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020**

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*Unless otherwise specified, all capitalised terms used herein shall have the meanings ascribed to them in the announcement made by United Food Holdings Limited on 12 November 2020* with respect to the Annual Report for the financial year ended 31 March 2020 *(the "**Announcement**").*

The board of directors (the "Board") of United Food Holdings Limited (the "Company", and collectively with its subsidiaries, the "Group") wishes to provide its responses to the queries raised by the Singapore Exchange Securities Trading Limited (the "SGX-ST") with respect to the Annual Report for the Financial Year ended 31 March 2020 (the "Annual Report").

**SGX-ST Query 1**

**Pages 46 and 47 of the Annual Report – Full-year results**

**Pursuant to Listing Rule 704(6), explain the material adjustments of 10% or more made subsequently to the preliminary full-year results by auditors, in the statements of comprehensive income (Other income, Administrative expenses, Other expenses) and financial position (Property, plant and equipment, Right-of-use assets, Intangible assets, Inventories, Trade and other receivables, Contingent consideration for acquisition of subsidiaries, Borrowings, Deferred tax liabilities).**

**Company's response:**

| Accounts | Preliminary full year results | Annual report | Difference | Notes |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | |
| Other income | 186 | 17,020 | 16,834 | Difference due to adjustment on fair value change in contingent consideration of RMB 16,831,000. |
| Administrative expenses | (12,786) | (39,316) | (26,530) | Difference due to adjustment on depreciation of property, plant and equipment ("PPE"), amortisation of land use right and patents of RMB13,495,000, provision of expected credit loss ("ECL") allowance for trade receivables of RMB13,822,000 and adjustments on audit fee accruals of 897,000. |
| Other expenses | (187) | (80,849) | (80,662) | Difference due to impairment loss of RMB3.2million, RMB14.2million and RMB63.3million has been recognised on the carrying amounts of the Group's PPE, ROU assets and patents respectively. |
| Property, plant and equipment | 17,678 | 2,730 | (14,948) | Difference due to reclassification of leasehold buildings of RMB12,108,000 to ROU assets, impairment adjustments of 3,224,000 and RMB383,000 adjustment on depreciation of PPE. |
| Right of use assets | - | 8,664 | 8,664 | Difference due to reclassification of leasehold properties and land use rights to ROU assets upon adoption of IFRS 16 and impairment adjustments of RMB14,172,000 on leasehold properties and land use rights. |
| Land use rights | 10,828 | - | (10,828) | Difference due to reclassification of land use rights of RMB10,728,000 to ROU assets and RMB100,000 adjustment on depreciation of land use rights. |
| Intangible asset - patents | 141,553 | 64,507 | (77,046) | Difference due to adjustment on amortisation on the patent of RMB13,779,000 and impairment on patent of RMB63,627,000. |
| Inventories | 2,554 | 1,520 | (1,034) | Difference due to adjustment of production wastage of RMB 1,034,000 to cost of sales. |
| Trade receivables | 28,539 | 14,368 | (14,171) | Difference due to provision for ECL allowance on trade receivables of RMB 13,822,000 and foreign exchange differences. |
| Other receivables | 87,757 | 127,766 | 40,009 | Difference mainly due to reclassification of RMB 40,000,000 from short-term investment to other receivables. |
| Short-term investment | 40,000 | - | (40,000) | Refer to 'Other receivables' above. |
| Bank loan | 10,000 | 10,000 | - | No difference. |
| Contingent considerations | 17,519 | 688 | (16,831) | Differencedue to adjustment on fair value change in contingent consideration of RMB16,831,000 following the revised forecast on HXBR and CDPR. |
| Deferred tax liabilities | 6,192 | 2,295 | (3,897) | Difference resulted from the deferred tax impact on adjustments of depreciation, amortisation and impairment of PPE, ROU assets and patents. |
| | | | | |

**SGX-ST Query 2**

**Page 27 of the Annual Report – General working capital of $707,130.30**

**Pursuant to Listing Rule 1207(20), provide a breakdown with specific details on the use of proceeds for working capital.**

**Company's response:**

As at the date of this Annual Report, the net proceeds from the Placement of 30,001,263 new ordinary shares have been utilised and the details were as depicted in the table below:

| Intended Use of Net Proceeds | Amount allocated | | Amount utilised | Balance of Net Proceeds utilised |
|---|---|---|---|---|
| | S$ | % | S$ | S$ |
| Exploration of investments, acquisitions, strategic alliances and/or joint ventures | 1,649,970.70 | 70 | 143,509.70 | 1,506,461.00 |
| General working capital | 707,130.30 | 30 | 707,130.30 | 0 |

Breakdown of proceeds used for general working capital:

| Items | S$ |
|---|---|
| Professional fees | 39,028.23 |
| Administrative expenses | 668,102.07 |
| Total | 707,130.30 |

**SGX-ST Query 3**

**Page 43 of the Annual Report – Auditors' Disclaimer of Opinion based on going concern**

**The Company's independent auditor issued a disclaimer of opinion raised over the Group's ability to operate as a going concern. We draw the Company's attention to Listing Rule 1303(3) which states that, "The Exchange may at any time suspend trading of the listed securities of an issuer in any of the following circumstances:-…(3) where the issuer is unable to continue as a going concern or unable to demonstrate to the Exchange and its shareholders that it is able to do so, including the following circumstance: (c) when the issuer is unable to reasonably assess its financial position and inform the market accordingly". In this regard:**

**(a) Please elaborate with specific details on the Directors' views on (i) how the Group will be able to operate as a going concern; and (ii) how it has sufficient capital that will enable the Group to operate as a going concern. Please include indicative timelines and details of how the Company intends to operate as a going concern for the next 12 months.**

**(b) Provide the Board of Directors' opinion as to why a trading suspension is not required pursuant to Listing Rule 1303(3).**

**(c) If the Board is able to justify and substantiate its view that the Company is able to operate as a going concern, provide the Board of Directors' confirmation that all material information has been fully disclosed by the Company to enable trading to continue on an informed basis.**

**(d) If the Company is unable to operate as a going concern, kindly ensure compliance with Listing Rule 1303(3) with regards to the trading suspension required.**

**Company's response:**

(a) Please elaborate with specific details on the Directors' views on (i) how the Group will be able to operate as a going concern; and (ii) how it has sufficient capital that will enable the Group to operate as a going concern. Please include indicative timelines and details of how the Company intends to operate as a going concern for the next 12 months.

As stated in Note 2(a) to the financial statements, the Group reported a net loss of RMB96,173,000 (included the non-cash adjustment of RMB80,849,000) for the financial year ended 31 March 2020. In addition, the Group also recorded a cash outflow from operating activities of RMB18,928,000.

Notwithstanding the above, that the Board is of the view that the use of the going concern assumption in the preparation and presentation of the financial statements for the financial year ended 31 March 2020 is appropriate after taking into consideration the following factors:

- As at 31 March 2020, the Group has net current assets of RMB119,180,000 (2019 - RMB99,809,000) and net assets of RMB195,528,000 (2019 - RMB279,204,000), including cashand cash equivalents of RMB27,140,000 (2019 - RMB73,832,000);

- Cash flow forecast was prepared for the next 12 months after year end which showed that sufficient cash flows will be generated from operations to pay liabilities when they are due based on the assumptions made by management;

- Management expects the monies to be collected from the return of the investment monies for short-term investment and the remaining proceeds due from the Purchaser as disclosed in Note 16 to the financial statements; and

- The Group's Chairwoman and controlling shareholder, Ms Song Yanan, has on 25 October 2020, indicated her intention to the Board to support the Group's working capital requirements for the next 12 months after the reporting date.

(b) Provide the Board of Directors' opinion as to why a trading suspension is not required pursuant to Listing Rule 1303(3).

While the ongoing Covid-19 pandemic creates uncertainties for the Company, the Board of Directors is cautiously optimistic that the Group's business operations will gradually improve underpinned by (1) increased marketing efforts on L-Ascorbyl Palmitate, (2) exploration of potential markets in the agricultural sector using L-Ascorbyl Palmitate and (3) the Company is in the midst of discussions with a vendor for manufacturing and distribution of antiseptic products to create a new revenue stream. The Company would provide more details as soon as there is any development.

With the initiatives for business continuity, the Board believes that the Company would continue trading activities; the trading suspension would not be appropriate given the current situation.

(c) If the Board is able to justify and substantiate its view that the Company is able to operate as a going concern, provide the Board of Directors' confirmation that all material information has been fully disclosed by the Company to enable trading to continue on an informed basis.

The Board, with the assurance of the Management, disclosed all material information as appropriate. The Company can operate as a going concern, with the current business strategies and working capital for the next 12 months. The Group will continue to assess and monitor closely the business development and will provide update or any other material developments as soon as practicable.

(d) If the Company is unable to operate as a going concern, kindly ensure compliance with Listing Rule 1303(3) with regards to the trading suspension required.

Reference is made to Listing Rule 1303(3), the Board wishes to confirm that :

i. No application is filed with a court to place the Company (or significant subsidiary) under judiciary management; and

ii. No application is filed with a court for the liquidation of the Company (or significant subsidiary) and the amount of debt alledged is significant.

As illustrated above regarding the Company's financial position, the Company is able to operate as a going concern and therefore, trading suspension is not necessary.

**SGX-ST Query 4**

**Page 54 of the Annual Report – Going concern**

**We note the disclosure that "Management expects the monies to be collected from the return of the deposits paid for potential business acquisitions and the remaining proceeds due from the Purchaser as disclosed in Note 16 to the financial statements". Please disclose the basis of this statement and what is the assurance management has for its statement that the money will be collected. Disclose the financial position of the purchaser, when the amount was due and whether it has been repaid on the due date. Quantify the amount to be collected. How is this amount sufficient for the Company to operate as a going concern? Please substantiate with data.**

**Company's response:**

The Management has communicated with related investees and obtained the relevant written confirmation on the return of the deposits made payable to the Company. With the receipt of the valuation reports which form part of the confirmation obtained from the investees, they are capable of repaying all investment monies and deposits. Append the table below outlined the receivables position of the Company:

| Receivables Table | | | | | | | |
|---|---|---|---|---|---|---|---|
| **No** | **Name** | **In arrears** | **Amount owing (RMB'000)** | **Amount owing as at 31 March 2020 (RMB'000)** | **Amount owing as at 30 November 2020 (RMB'000)** | **Proposed repayment** | **Remarks** |
| A | Financial Services Company For Innovative Industry In China Limited | 11/24/2017 | 15,000 | 15,000 | 11,000 | Payment Schedule:<br><br>Dec 2020 – RMB4.5 mil<br><br>Jan 2021 – RMB2.0 mil<br><br>Feb 2021 – RMB2.5 mil<br><br>Mar 2021 – RMB2.0 mil | The Company had received payment during April and October 2020 as follows:<br><br>Apr 2020 – RMB3.5 mil<br><br>Oct 2020 – RMB0.5 mil. |
| B | Tangshan | 10/18/2018 | 25,000 | 25,000 | 25,000 | The deposit would be converted into shares of Tangshan by 31 December 2020 to the Group for the mutual benefit and future cooperation of both parties. | The potential investee was valued at RMB151.0 million based on a valuation report prepared as of 30 June 2020 by the investee. |
| C | Nongfu | 11/28/2016 | 35,000 | 35,000 | 35,000 | The deposit would be converted into shares of Nongfu to the Group by 31 December 2020 for the mutual benefit and future cooperation of both parties. | The potential investee was valued at RMB142.6 million based on a valuation report prepared as of 31 August 2020 by the investee. |
| D | Kangweijian | | 40,000 | 40,000 | 40,000 | The investment monies would be returned to the Group by 1st quarter of 2021. | A valuation report of Kangweijian showing a valuation of RMB405.1 million as of 30 June 2020. |
| Total | | | | | 111,000 | | |

**SGX-ST Query 5**

**Page 54 of the Annual Report – Going concern**

**We note the disclosure that "The Chairwoman and executive director, Ms Song Yanan, has indicated her intention to provide financial support to the working capital of the Group for the next 12 months after the reporting date." Please provide details of her financial resources, and explain what assurances has been provided that she can and will be extending sufficient funds to the Company to enable it to operate as a going concern. How much funds have been extended to date? How much funds will she be able to extend to the Company in total?**

**Company's response:**

The Chairwoman, Ms Song Yanan is deemed interested in the shares of the Company held by Golden Ever International Property Management Limited, the controlling shareholder who holds 44,223,680 shares, which 23.54% interests in the capital of the Company. In her capacity as the controlling shareholder of the Company, she has provided an assurance statement in writing to assure and provide the financial assistance and aid fund support to the Company as and when required. As of to date, the Chairwoman has not provided financial assistance to sustain the current business operations of the Group, but a relative insignificant shareholders' loan granted to the Company earlier for payment of expenses incurred and payable in SGD and HKD. Such shareholders' loan had been mostly repaid.

**SGX-ST Query 6**

**Page 56 of the Annual Report – Impairment of non-current assets (Goodwill, property, plant and equipment, ROU assets and intangible assets)**

**The Company disclosed that "These valuations were performed by an independent professional valuer. The determination of the recoverable amounts includes use of unobservable inputs." Disclose who is the valuer, their qualification and accreditation, and what were these unobservable inputs used. Explain how management came up with these specific inputs, and how was the Board and AC satisfied about these inputs used?**

**Company's response:**

1. Ascent Partners was established in 2008 and headquartered in Hong Kong, with subsidiaries in Shenzhen and Singapore, their clients are mostly companies listed on Hong Kong, Singapore, Australia and United Kingdom Stock Exchanges. They have been engaged in providing full range of valuation services cover real estate properties, plant & equipment, business entities, financial instruments, intangible assets and goodwill, and etc. for financial reporting, mergers & acquisitions, pre-IPO investments and management decision-making purposes for over 10 years.

   The director and principal of the Valuer have extensive experience in corporate advisory and valuation of business entities, tangible and intangible assets and financial instruments for private and public companies in various industries. As advised by the Valuer, in respect of valuation for listed companies in Hong Kong or in Singapore, it has been engaged to perform for more than 60 business and/or property valuations for public disclosure purpose. Below are the links to some circulars on the Hong Kong Exchanges and Clearing Limited (HKEX) and Singapore Exchange Securities Trading Limited (SGX-ST) websites with valuation reports:

   (i) https://links.sgx.com/FileOpen/United%20Food%20-Circular%20on%20Proposed%20Acquisition%20of%20Target%20Companies.ashx?App=Prospectus&FileID=35408
   (ii) http://www.hkexnews.hk/listedco/listconews/SEHK/2018/0622/LTN20180622429.pdf
   (iii) http://www.hkexnews.hk/listedco/listconews/SEHK/2018/0308/LTN20180308767.pdf

2. The main unobservable inputs are the discount rate adopted and the forecast made in the valuation of the Value in Use of cash generating units ("CGUs"), with major assumptions listed in the above replies and these assumptions are consistently adopted in this year and previous year. These valuation inputs have also been reviewed by the auditor expert during the audit process.

**SGX-ST Query 7**

**Page 56 of the Annual Report – Impairment of non-current assets (Goodwill, property, plant and equipment, ROU assets and intangible assets)**

**We note that "Factors such as changes in discount rates, the presence of competition, technical obsolescence and lower-than anticipated product sales could lead to shorter useful lives or impairment." Please quantify all these assumptions used in comparison with the previous corresponding period, set out the reasons for any material differences, and disclose the bases used to quantify the various material assumptions (i.e. discount rate, technical obsolescence, useful lives, anticipated product sales, etc.).**

**Company's response:**

1. Discount Rate

The pre-tax discount rate is 19.15% compared to 17.75% previous year in Chengde Purun Shengwu Zhiyao Co., Ltd. (承德普润生物制药有限公司) ("CDPR"), while pre-tax discount rate is 20.24% compared to 20.61% previous year in Hebei Xingrun Shengwu Keji Gufen Co., Ltd. (河北兴润生物科技股份有限公司) ("HBXR"). As pre-tax discount rate is back solved from the after-tax discount rate, key assumptions to derive after-tax discount rate are listed below respectively for HBXR and CDPR:

| HBXR | 2020 | 2019 |
|---|---|---|
| Risk-free Rate[1] | 2.59% | 3.07% |
| Equity Risk Premium[2] | 7.84% | 7.75% |
| Beta[3] | 0.96 | 0.98 |
| D/E Ratio[4] | 9.48% | 12.19% |
| Size Premium[5] | 3.16% | 3.67% |
| Company Specific Risk Premium[6] | 4.00% | 3.00% |
| Cost of Equity | **17.31%** | **17.32%** |
| Cost of Debt[7] | 4.90% | 4.90% |
| After-tax Discount Rate (WACC) | **16.13%** | **15.84%** |

| CDPR | 2020 | 2019 |
|---|---|---|
| Risk-free Rate[1] | 2.59% | 3.07% |
| Equity Risk Premium[2] | 7.84% | 7.75% |
| Beta[3] | 1.06 | 1.04 |
| D/E Ratio[4] | 15.77% | 28.43% |
| Size Premium[5] | 3.16% | 3.67% |
| Company Specific Risk Premium[6] | 4.00% | 3.00% |
| Cost of Equity | **17.09%** | **16.76%** |
| Cost of Debt[7] | 4.90% | 4.90% |
| After-tax Discount Rate (WACC) | **15.27%** | **13.87%** |

Notes for key inputs of discount rate:

1. The 10 years China Government Bond as at the Valuation Date is employed as the risk-free rate of China because government bonds are regarded as risk-free.
2. The market risk premium of China is estimated by adding up the market risk premium of the US (long-term rate referenced from Duff & Phelps valuation handbook) and the country risk premium of China (referenced from Reference to Prof. Damodaran estimate), which is updated
3. Beta is derived from the average of unlevered beta of guideline public companies in similar industries.
4. D/E ratio is the mean of that of guideline public companies, which is referenced from the market data.
5. Size premium is referenced from the Duff & Phelps valuation handbook, which is updated on a year basis compared to previous year.
6. Company specific risk premium is applied to the computation of cost of equity for the risk factors specific to the entities, which is 1% more in this year to account for increasing business operation risk.
7. The cost of debt is China's long-term lending rate.

The basis for all the above inputs is consistently adopted in this year and previous year, subject to the change of market parameters and valuation reference. There is no material change in those assumptions for the calculation of after-tax discount rates for both CGUs.

2. The useful live of both CGUs remain the same compared to previous year, while the anticipated product sales have been significantly downward adjusted due to the supply of gas and the potential impact of COVID-19, which leads to the large decline in the Value in Use of two CGUs. The forecasted five year revenue of HBXR and CDPR compared to previous year are listed as below:

| | **31 March 2020** | 31 March 2019 |
|---|---|---|
| **HBXR** | | |
| Revenue forecast: | **Year 1: RMB 3.2 million** | Year 1: RMB 52.7 million |
| - L-AP patented product sales | **Year 2: RMB 19.3 million** | Year 2: RMB 59.7 million |
| | **Year 3: RMB 21.9 million** | Year 3: RMB 63.2 million |
| | **Year 4: RMB 24.6 million** | Year 4: RMB 66.7 million |
| | **Year 5: RMB 29.2 million** | Year 5: RMB 70.2 million |

| | **31 March 2020** | 31 March 2019 |
|---|---|---|
| **CDPR** | | |
| Revenue forecast | **Year 1: RMB 0.5 million** | Year 1: RMB 25.2 million |
| | **Year 2: RMB 14.3 million** | Year 2: RMB 40.9 million |
| | **Year 3: RMB 18.4 million** | Year 3: RMB 49.0 million |
| | **Year 4: RMB 20.7 million** | Year 4: RMB 51.8 million |
| | **Year 5: RMB 24.0 million** | Year 5: RMB 53.4 million |

**SGX-ST Query 8**

**Page 56 of the Annual Report – Valuation of inventories**

**We note that "The net realisable value for such inventories are estimated based primarily on the latest invoice prices and current market conditions." Please disclose how invoiced prices were determined by the Company in the absence of benchmarks, the date of the invoices, and how these prices have generally changed from the previous financial year in comparison to the figures adopted by the Company. What is the basis for the Board noting that the net realisable values are realisable by the Group at the values stated in the balance sheet?**

**Company's response:**

The "latest invoice price" refers to the latest actual selling price based on inventories that were sold subsequent to the Group's financial year end. The NRV also takes into account the market condition related to the demand on the Group's products by the market. The NRV is therefore assessed based on actual selling prices which are priced above the cost of the acquiring and/or producing the good for sale. The management determines its invoice or selling prices based on the current level of demand for its products such as L-AP for which there is a demand by the market which ranges from RMB200,000 to RMB300,000 per tonne. The Group prices its product on the basis of the quality that its product can achieve compared to its competitors.

**SGX-ST Query 9**

**Page 31 of the Annual Report – Additional Information on Directors seeking re-election pursuant to Rule 720(6)**

**We note that Prof Ling Chung Yee confirmed on each of the questions as set out in paragraph (j) of Appendix 7.4.1 to the Listing Manual, that the answer is "No". Paragraph (j)(iv) of Appendix 7.4.1 requires disclosure of whether Prof Ling Chung Yee has ever to his knowledge been involved in the affairs of any entity which has been investigated for a breach of any law or regulatory requirement that relates to the security industry in Singapore or elsewhere. Among other things, we note that per announced by Debao Property Development Ltd. on 12 November 2018, in which Prof Ling Chung Yee was a Director, Ernst & Young (China) Advisory Limited was appointed to conduct an Independent Review. Please advise why this disclosure was omitted. Kindly amend the disclosure accordingly and provide details of all investigations of entities that Prof Ling Chung Yee was a director or key management of, as required under Appendix 7.4.1.**

**Please disclose fully the response to paragraph (j) of Appendix 7.4.1 to the Listing Manual, and set out full information in relation to all the entities in which he has been involved in which have been investigated for breaches of any law or regulatory requirement that relates to the securities industry.**

**Company's response:**

The independent review by Ernst & Young (China) Advisory Limited on Debao Property Development Ltd. ("Debao") concluded in November 2018. Prof Ling Chung Yee was only appointed as a Director of Debao in February 2019.

**SGX-ST Query 10**

**Listing Rule 1207(10C) requires the Audit Committee's comments on whether the internal audit function is independent, effective and adequately resourced. Please also provide specific information on whether the head of the internal audit function team has the relevant experience and qualifications. Please substantiate your responses. Disclose whether the Group has adopted the Enterprise Risk Management ("ERM") Framework which is in line with the ISO31000 – Risk Management and Guidelines and the recommended best practices standard. If not, please set out the standards which the internal audit function has adopted to ensure the adequacy and effectiveness of the group's internal controls. Where the internal audit function is outsourced, please provide information on the relevant experience of accounting firm and the engagement team.**

**Company's response:**

The Group has an in-house internal audit function team based at the Group's headquarters in Luanping country, China. The head of the internal audit function team is Mr Liu Yang. Mr Liu Yang holds an Executive Master Degree from the Chinese University of Hong Kong and a Diploma from the Chartered Institute of Purchasing and Supply in United Kingdom. He was also awarded Certified Professional in Supply Management by the Institute for Supply Management in United States.

Mr Ni ShaoJun, a qualified Chinese Accountant is a member of the internal audit team and a Finance Manager of the Group since 2018. He has more than 20 years' experience in auditing fields and has great exposure in manufacturing, trading and food industries. The internal audit function team adopted the ERM Framework with reference to the principles of the International Professional Practice Framework of the Institute of Internal Auditors.

The AC ensures that the internal audit function is adequately resourced and qualified. On an annual basis, the AC reviews the adequacy and effectiveness of the internal audit function. The internal audit team prepares and present internal audit plan which incorporated feedback from the AC ("Audit Committee") reviews, categorized inputs gathered from the audits, reviewing risk map, core programs of the Group and critical internal control areas. To ensure maximization of human resources in internal audit team, there is a training programme drawn up specifically to ensure that the team is kept updated and current on matters of audit, risks and internal controls based on the recommendation of the AC.

**By Order of the Board**

**Song Yanan**
**Non-Executive Chairman**
4 December 2020