

RESPONSES TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED IN RELATION TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

- Response to question raised pursuant to the Company's announcement dated 7 June 2021

The board of directors (the "**Board**") of United Food Holdings Limited (the "Company", and collectively with its subsidiaries, the "**Group**") refers to the Company's announcement dated 7 June 2021 (the "**Announcement**") with respect to the Unaudited Financial Statements for the financial year ended 31 March 2021 ("**FY2021**").

The Board wishes to provide its response to the following question raised by the Singapore Exchange Securities Trading Limited (the "**SGX-ST**"):-

SGX-ST Query 1

With reference to the Company's response on Query 1 in the Announcement:

- (a) **Explain the reasons for the significant year-end impairment loss arising from buildings, land use rights, patents, plant and equipment of RMB80,828,000 at 31 March 2020, versus the absence of this at 31 March 2021.**

Company's response:

RMB80,828,000 was the adjusted figure based on FY2020 audit. As FY2021 audit is still in progress, the Company discloses unaudited figures in its full year results announcement. Once the audited numbers are available, the Company will make corresponding comparisons and adjustments.

Out of RMB80,828,000, approximately RMB64,000,000 relating to the patents would be subject to impairment assessment. The valuation of the patents is still in progress.

- (b) **For the impairment of RMB7,173,000 on Buildings and RMB6,999,000 on Land use rights, disclose the methodology used in arriving at the impairment value, and the name of the valuer, their track record and accreditation. Disclose the main assumptions that changed which resulted in the aforementioned impairment amounts.**

Company's response:

The valuation on the patents and buildings are still in the progress. The finalisation of valuation report has been delayed due to additional procedures required by the valuer .

The Company has engaged Ascent Partners, a licensed valuer (the "**Valuer**"), to perform the valuation. The information of the Valuer has been disclosed in the Announcement.

- (c) **Explain the factors that caused the significant impairment in Patents of RMB63,267,000. Provide a breakdown of the patents that were impaired and reasons for the impairment, how the impaired value was arrived at and the basis for the valuation. Who undertook the valuation for the impairment?**

Company's response:

Based on the audited financial statements as at 31 March 2020, the breakdown of impairment in intangible assets is as follows :

No.	Description	Amount (RMB'000)
1.	Additives	17,089
2.	Animal feed and Traditional medicine	46,178

According to the Valuer, Ascent partners, the Value in Use valuation was performed for both the CDPR and HBXR to determine the recoverable amount of the two CGUs, which include the key valuation assumptions such as valuation forecast, discount rate and terminal growth rate. Except for material change in the valuation forecast, other key valuation assumptions are consistently adopted with no significant change. The material change in the valuation forecast was due to the weak demand (as a result of COVID-19) and reduced production caused the supply of gas issue and the potential impact of COVID-19, which leads to the lowered recoverable amount and thus the impairment.

SGX-ST Query 2

With reference to the Company's response on Query 2 in the Announcement:

- (a) **What is the principle operating business of Really Time's? How did Really Time's trade receivables arise? What is the basis for expecting payment in 4Q2021 when the amount has been outstanding for more than 12 months? What is the Chinese name of this customer and why were they unable to pay their trade debts owing to the Company as and when they fell due? What is the operating status of Really Time's and are they under financial difficulties?**

Company's response:

The principle business activities of Really Time are import-export trading, procurement and distribution of food products including pork related food products, kitchenware, food additives and food related packaging products and materials, in Hong Kong, People's Republic of China and Southeast Asian countries.

Due to the China and US trade war and the COVID-19 pandemic, the Group's trading business segment has stalled. The upstream and downstream businesses have not been fully recovered as of to-date leading to the slow recovery of cash chains. The management has been working and coordinating on the restoration of trading business and also following up on payment collection with the parties as soon as possible.

The list of customers of Really Time is as follows :

No.	Name of Customers
1.	Global Diamec Ltd
2.	Huidong XianFu Wanmao Yiyou Xian Company
3.	Huizhou Shi Zhong Fanshi Ye You Xian Company
4.	Shengzhen HuiPu Sengwu Liugong Yinli Anyou Xian Company

The Company has ceased selling to the customers until the payments are fully recovered.

With the easing and recovery economic situation, the management expects to recover the outstanding debts in 4Q2021.

- (b) **Disclose the details of why amounts were paid to Nong Fu, and what were the terms of these advances/transactions. When is the due date under the agreement/s?**

Company's response:

In respect of the RMB35 million refundable deposit paid to Nongfu, the Group entered into an agreement with Nongfu on 28 November 2016 to explore a potential business acquisition. The agreement for potential business acquisition had expired in November 2019. Subsequent to the financial year ended 31 March 2020, given the COVID-19 pandemic, the Company has decided to accelerate the recovery of the deposit.

The Company expects to recover the refundable deposit from Nongfu by 30 June 2021.

- (c) **Provide details of when the deposit to SST was made and whether it was approved by the Board. When will the decision on the expected date of collection be made?**

Company's response:

The refundable deposit of RMB35 million was paid in end March 2021. The Board had entered into a Cooperation Framework Agreement (the "Agreement") with SST, except for two directors who abstained from the voting due to the concern on recoverability of the refundable deposit. Following which, the Company released an announcement relating thereto on 12 May 2021.

If the transaction was not approved by the shareholders or the salient terms and conditions of the Agreement were not satisfied, the refundable deposit will be refunded to the Company within 5 months.

- (d) **What is the basis for the deposit amounting to RMB49,152,000 paid to 惠州中凡机电设备? Provide details of this company and what business does it operate. Additionally, the security deposit of RMB35 million was paid to SST in March 2021. Why are there 2 amounts totaling RMB84 million paid to SST?**

Company's response:

惠州中凡机电设备 is an equipment provider and has been providing the Group with corresponding equipment customization, installation, maintenance and other services. The LAP equipment sold to the Group's downstream companies is mainly provided by 惠州中凡机电设备.

The details of 惠州中凡机电设备 are as follows :

Name	Reg. No.	Name of Director/Legal Representative/ Shareholder	Paid up Capital	Principle Activities
惠州中凡机电设备	91441303MA4WPFGU88	Zeng Cui Qing	RMB20 million	Production, research and development, sales of food processing machinery and equipment

The Group has entered into a sales contract with Huizhou Kangweijian Biotechnology Co., Ltd ("Kangweijian") for a total amount of RMB77.5 million. In this respect, the Group has placed a deposit to 惠州中凡机电设备 in procuring the relevant equipment and other relevant materials for order fulfilment.

The Company wishes to clarify that only RMB35 million as refundable deposit was paid to SST. The balance RMB49 million was an advance payment made to 惠州中凡机电设备.

SGX-ST Query 3

With reference to the Company's response on Query 3 in the Announcement:

Net cash used in operating activities was mainly due to the advance payment for the engineering project to 惠州中凡机电设备 for RMB49,152,000.

Elaborate on this project and explain why advance payment was needed. How was this amount funded?

Company's response:

As disclosed under Query 2 (d), 惠州中凡机电设备 is one of the Group's equipment suppliers. The revenue stream of the Group was mainly selling customized equipment to the customer. In order for 惠州中凡机电设备 to provide the corresponding equipment, the Group would need to pay them in advance. These funds were mainly from the operating capital.

SGX-ST Query 4

With reference to the Company's response on Query 4 in the Announcement:

- (a) **The Company disclosed that the security deposit of RMB35 million was paid to SST in March 2021. As at 31 March 2021, the Group had cash on hand of RMB20,621,000. However, based on the cash flow statements for the year ended 31 March 2021, the company disclosed that "Deposit for potential business acquisitions" was NIL. Please reconcile this discrepancy and disclose where this deposit was recorded in the balance sheet as at 31 March 2021.**

Company's response:

Given the nature of the security deposit has not been determined, and short period of repayment i.e. within 5 months, when a decision could be made, it was classified under Changes in Trade and Other Receivables instead of Investing Activities in the Cash Flow Statement, according to local accounting treatment.

Based on discussions with our auditors during the FY2021 audit, which is still in progress, as the nature of the security deposit is that of an investing activity, we will be reclassifying it to Investing Activities in the Cash Flow Statement in accordance with IFRS in due course.

- (b) **In the Company's response on 7 June 2021 on its ability to operate as a going concern, the Company disclosed that "Ms Song Yanan, has indicated her intention to the Board to support the Group's working capital requirements for the next 12 months after the reporting date of the audited financial statement for FY2021." Please substantiate these two statements, including providing details of and quantifying the present financial condition of Ms Song Yanan, and substantiate that she has sufficient financial resources to fulfil these financial obligations and undertakings to the Company to meet its short term obligations as and when they fall due for it to operate a going concern.**

Company's response:

To further substantiate Ms Song Yanan's undertakings, in addition to the procurement of a notarised declaration from Ms Song Yanan, the Company will receive confirmation from the banks within this week that Ms Song Yanan has sufficient financial resources to fulfil these financial obligations and undertakings to the Company to meet its short-term obligations as and when they fall due for it to operate a going concern.

SGX-ST Query 5

With reference to the Company's response on Query 5(6) in the Announcement:

- (a) **The Independent Valuer has limited its scope of work by taking the presumption that the historical data can be accepted and that the use of the key assumptions and estimates for the Forecast can be relied upon.**

Is this the norm under IVS standards for valuation? State what work has been undertaken by the valuer to verify the appropriateness of these assumptions in arriving at a reliable valuation under international valuation standards.

Company's response:

According to the Valuer, Ascent Partners, the historical data (financial performance of the valuation targets) provided by the Company had been audited, and hence, the Valuer believed that those data have gone through professional processes so that they were from reliable sources to carry out the valuation task.

For the key assumptions and forecast provided by the management, the Valuer had made the appropriateness assessment as follows :

- i. Made enquiry to the Management about the expected date of the resumption of gas supply, and request for any related supporting documents after noting the gas supply issue. In response to the enquiry, the Management provided the correspondence documents regarding the subject matter of the gas pipeline to the local authority, and the reply from the local authority with the expected date of the gas supply resumption. Such evidence was believed to be sufficient for the valuation task;
- ii. Checked, reviewed and discussed the valuation forecast provided by the Management together with their business plan, product plan and consideration in the demand and supply under the COVID-19 situations. It was noted that the impacts regarding the lack of gas supply and the pandemic have been taken into consideration in the forecast, with the observations of low projected production outputs in the first forecast year and gradually increase in production outputs in the subsequent years;
- iii. Reviewed the production forecast and found out that the outputs were within the max production capacity;
- iv. Noted that the net profit margins of the financial forecast in CDPR were within a reasonable range as compared to net profit margins of the comparable guideline companies;
- v. Made enquiry to the Management after noting the projected profit margins of HBXR were higher than those of comparable guideline companies in normal circumstances, and have got confirmation from the Management that the unique features of the product have put them in good competitive advantages resulting in higher net profit margins;
- vi. And evaluated the risks and challenges of the Management to meet the financial projections as a result of the uncertainties faced by the Company included but not limited to the gas supply and COVID-19 factors, and as a result, we have applied a company specific risk premium to the discount rates in the Value in Use valuation of both CDPR and HBXR to account for such uncertainties.

(b) Is Paul Wu accredited by any professional valuation body and if so, which one?

Company's response:

Mr. Paul Wu is a Chartered Valuer and Appraiser (CVA), accredited to The Institute of Valuers and Appraisers, Singapore and a Certified Management Accountant (CMA) accredited to CMA Australia Hong Kong Branch.

SGX-ST Query 6

With reference to the Company's response on Query 5(7)(a) in the Announcement:

(a) The auditor disclosed in its Disclaimer of Opinion that "Given that HBXR and CDPR relies significantly on the supply of gas for its production process, the facts that no approval was granted by the local authorities during the financial year ended 31 March 2020 indicate that full-scale production of the Antioxidant Product and Animal Feed and Traditional Medicine cannot take place."

Reconcile the Company's response that "The use of natural gas by industries does not require a license." to the auditor's disclaimer that "no approval was granted by the local authorities". What approval had not been granted? If so, explain for how long have these entities been operating without a license. Were the Board and the Audit Committee aware when the significant valuations and acquisitions of HBXR and CDPR were made, that HBXR and CDPR did not have approval/license for gas? Have HBXR and CDPR applied for such approval/license? If so, when will the approval be forthcoming? If not, please explain why.

Company's response:

The Auditors clarified that the statement "no approval was granted by the local authorities" refers to the lack of response and action taken by the local authorities to install, connect and supply the gas to the factory plants of HBXR and CDPR after management has written in to the local authorities for the status of the gas supply.

Management confirms that no license or approval is required from the local authorities to operate the factory plants with regard to the supply of gas.

(b) Was the Company aware that the local government had made changes to the gas pipelines and had yet to connect them to the industries park where Hebei factory located, when the value of the consideration was determined for the acquisitions of HBXR and CDPR by the Company? If not, why not? If yes, explain and quantify how this issue impacted the valuation.

Company's response:

During the acquisition, HBXR and CDPR used its own fossil fuel base burning boiler. After the acquisition, the local government encouraged the replacement of fossil fuel based boilers with natural gas boilers to reduce pollution. However, the natural gas pipeline has yet to be connected to the plant area of the Hebei factory to date. The implementation by the local government was not expected by the Company at the time of acquisition.

SGX-ST Query 7

With reference to the Company's response on Query 5(7)(b) in the Announcement:

The value of 80% sale shares was RMB160,000,000.

Explain and quantify how this amount was derived.

Company's response:

The Company had on 5 July 2018 dispatched a Notice of SGM accompanied with a circular for the Proposed Acquisition of HBXR, CDPR and Benchmark. Please click on to the following link for more information.

<https://links.sgx.com/1.0.0/corporate-announcements/VBTW6JJYJUTZAQM5/d13d1fd1f7f392084218755d0e7b78bf7d4dcd5bd6c4dd7d89f451059bafc28e>

The valuation report is placed in the Appendix E of the circular, link as follows :-

[United Food -Circular on Proposed Acquisition of Target Companies.ashx \(sgx.com\)](#)

SGX-ST Query 8

With reference to the Company's response on Query 6 in the Announcement:

- (a) **Quantify the contingent consideration for the acquisition of subsidiaries. Which are these subsidiaries? Provide details of the concerns raised by the auditor, and elaborate on the background for this disclaimer, including how the confirmation with the valuer that it has taken a conservative approach will resolve the audit disclaimer.**

Company's response:

The subsidiaries are HBXR and CDPR.

Details of the concerns raised by the auditors

The fair value of the contingent consideration was arrived at after taking into account the probability of meeting each performance target from the profit warranty given by the vendors, the estimated discount for lack of marketability ("DLOM") and the estimated share price. However, as the auditors were unable to rely on the key assumptions to the profit forecast that has a direct impact on the expected performance target to be met, which in turn, affects the calculation of the fair value of the contingent consideration as the performance target is one of the components in that calculation.

- (b) **We refer to the paragraph 3.4 summary of the terms that adjust the principal amount of the convertible bond based on net profits provided by the Company. Explain the rationale behind the formula for the adjustment and elaborate how this adjustment to the bonds is reasonable. Under what circumstances will the consideration be adjusted and the contingent consideration kick in? Has any amount of contingent consideration materialised to date? If so, please quantify and explain under what circumstances.**

Company's response:

Please refer to the Proposed Acquisition of HBXR, CDPR and Benchmark announcement released on 5 October 2017 :-

<https://links.sgx.com/1.0.0/corporate-announcements/PMP5PDMSV4PBM8NW/886378d0ad29a5be8a4b156345338632aca91d29b41138d54daf7b34e05161>

Extracts from the announcement in relation to the summary of the terms of the principal amount of the convertible bond are as follows :-

5.1. Details of the Purchase Consideration

The aggregate purchase consideration of RMB120,000,000 ("Purchase Consideration") for the Sale Shares shall comprise:

- (c) the balance purchase price of RMB85,000,000 payable to Vendor C by way of the issuance of zero per cent. convertible bonds, convertible at a price of S\$0.45 (the "Conversion Price") with a conversion period of one year commencing on the first day of the financial year ended 31 December 2021 ("FY2021") (the "Bonds"), subject to the terms and conditions of the Profit Warranty (as defined herein).

7.4.1 Views of the Board

The Board is of the view that the Profit Warranty is reasonable and helps to safeguard the interests of the Shareholders, having taken into account, inter alia, the following factors:

- (a) The terms and rationale of the Proposed Acquisition, the adjustment mechanisms agreed by the Vendors and the Company in the event that the Profit Warranty is not satisfied (as set out below) and the fact that these adjustment mechanisms to the Purchase Consideration are only limited to the issuance of the Bonds, which represents approximately 70.83% of the Purchase Consideration;

The Company had entered into a supplemental agreement with the parties on 7 June 2019 (the "2019 Supplemental Agreement"). The key amendments of the 2019 Supplemental Agreement amongst others including each of the First Bond Subscription Date, Second Bond Subscription Date, and Third Bond Subscription Date to be the date falling not more than 120 days from the financial year end of FY2020, FY2021, and FY2022 respectively. Assuming a full conversion of the principal amount of RMB85,000,000 in bonds to be issued, the 38,576,307 Conversion Shares will be issued in FY2023.

There was no adjustment on the principal amount as of today. No bond has been issued under the contingent consideration which will only be finalised by end of FY2022.

If the performance milestones are not met by end of FY2022, the balance consideration will not be issued.

- (c) **We refer to paragraph 3.4(c). What do the amounts of RMB75,000,000, RMB85,000,000 and S\$17,359,338 refer to, and how were these amounts determined?**

Company's response:

Please refer to the summary below :-

1. RMB75,000,000 refers to the total profit guarantee by the vendors.
2. RMB85,000,000 refers to the balance amount of the total consideration to be issued in shares to the vendors.
3. S\$17,359,338 refers to conversion of RMB85,000,000 to SGD at the exchange rate when the contract was signed.

SGX-ST Query 9

With reference to the Company's response on Query 8 in the Announcement:

- (a) **Based on the recommendation of the AC, the Company proceeded to appoint the Licensed Law Firm at the Bank municipality, Guangdongzhuming law Firm to conduct a review and issued a report to the AC and Board, regarding the arising of the errors, and to report any defective over the internal control regarding the cash control of the Company's operation.**

What is the name of the lawyer and law firm? Disclose this lawyer's experience in special audits to verify veracity of bank balances. When was this investigation completed?

Company's response:

The details of the law firm and the lawyer are as follows :

Name of the law firm	Guangdong Zhuming Law Firm
Name of the lawyer	Luo Shaowen
Qualification	Law practitioners in China
Website	http://www.zmlawfirm.cn
Experience	<ul style="list-style-type: none">- Director and Senior Partner of Guangdong Zhuming Law Firm- Vice President of Huizhou Bankruptcy Administrators Association- Deputy Director of the Law Firm Construction and Management Committee of Huizhou Lawyers Association,- First Council of the Bankruptcy Law Research Association of Guangdong Law Society General manager.- Since June 2002, he has been officially practicing in Zhuming Institute.

- (b) The AC will be discussing the legal opinion issued by the law firm with the external auditors in their FY2021 audit which is currently in progress and the AC will be taking steps prior to finalising the special investigation.

Does this mean the special investigation has been conducted? Otherwise, the Company must provide the terms of reference of the special investigation to SGX RegCo for review before appointment of the special auditor.

Company's response:

The Company had proceeded to appoint the Licensed Law Firm at the Bank municipality, Guangdong Zhuming Law Firm to conduct a review and it has issued a report to the AC and Board, regarding the arising of the errors, and to report any defective over the internal control regarding the cash control of the Company's operation. The law firm was of the opinion that no major deficiency arisen from the errors detected, but indeed contain grounds for improvement, or to conduct a more thorough review, subject to the finding of the audits, for the year ended 31 March 2021.

Based on the AC's preliminary discussion with the external auditors, they have expressed that the legal opinion may not explicitly address the veracity issue. Nonetheless, the investigation process was carried out in accordance with the legal procedures in PRC and with the documents reflected an account balance of RMB24 million, tallied with the total balances of the closed bank accounts against bank statement as at 27 July 2020, the external auditors would review and assess the investigation conducted by the law firm during the course of audit for FY2021.

The AC will be taking steps subject to the review of the external auditors, if necessary.

SGX-ST Query 10

With reference to the Company's response on Query 9 in the Announcement:

In view of the fluid COVID-19 situation and strict controls put in place in China, the Company's upstream and downstream logistics, flow of people, and capital flow were greatly restricted. The respective business of the Group cannot be carried out as usual, thus, revenue has drastically declined.

Elaborate on what issues in upstream and downstream logistics caused the significant fall of 81.9% and 67.4% in Additives Related Segment. Explain the meaning of the "flow of people" causing the significant fall in Additives Related sales. Please substantiate how capital flow was greatly restricted, which caused the sharp decline in Additives Related sales.

Company's response:

Some components of LAP equipment sales would need to be purchased overseas. Due to the COVID-19 situation, the Group was unable to purchase these components and without complete components, the production process was impacted and led to a significant fall in revenue.

The Company wishes to clarify that there is no restriction on the capital flow.

By Order of the Board

Song Yanan
Non-Executive Chairman
15 June 2021