

FOOD EMPIRE HOLDINGS LIMITED
(Co Registration No: 200001282G)

RESPONSE TO SINGAPORE EXCHANGE REGULATION PTE. LTD.'S QUERIES REGARDING RESTRUCTURING OF SUBSIDIARY COMPANIES

The Board of Directors of Food Empire Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) refers to the queries raised by Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) on 3 February 2022 in relation to the Company’s announcement dated 31 January 2022 (the “**Announcement**”) regarding the Restructuring of Subsidiary Companies and wishes to respond to the queries as follows:

Unless otherwise defined, all capitalised terms used herein shall have the same meanings as the Announcement.

SGX-ST’s queries:

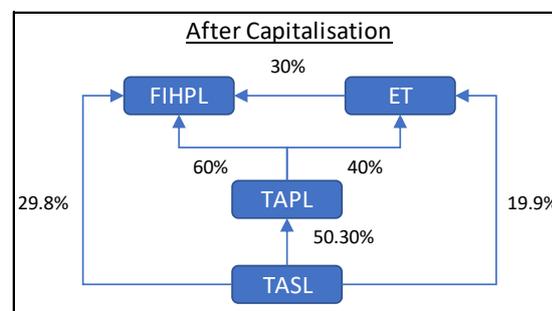
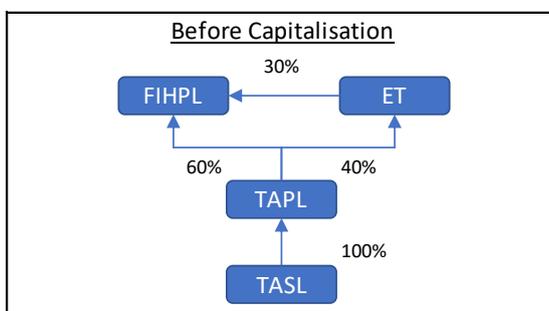
“The Company’s wholly-owned subsidiary, Future Investment Holdings Pte. Ltd. (“**FIHPL**”) and the Company’s associate company, Empire Teas (PVT) Ltd (“**ET**”) have agreed to capitalise the outstanding loan payable by Tea Avenue (Private) Limited (“**TASL**”) to them in the form of share capital of TASL (“**Loan Capitalisation**”).

After the Loan Capitalisation, the total issued and paid-up share capital of TASL will increase from LKR99,842,280.00 (equivalent to USD635,070.87) comprising 9,984,228 ordinary shares to LKR198,460,830.00 (approximately USD1,128,163.69) comprising 19,846,083 ordinary shares in which FIHPL holds 5,917,113 ordinary shares (representing 29.8% shareholding), ET holds 3,944,742 ordinary shares (representing 19.9% shareholding) and the Company’s indirect subsidiary, Tea Avenue Pte. Ltd. (“**TAPL**”) holds 9,984,228 ordinary shares (representing 50.3% shareholding) in TASL.”

- (a) What is the Group’s shareholding interest in TASL prior to the Loan Capitalisation, and what is the Group’s current shareholding interest in TAPL? Please provide details and present the relevant shareholding structure (where appropriate).

The Company’s response:

There is no change in the Group’s effective shareholding of 72% in TAPL before and after capitalisation of the loan. The shareholding structure before and after capitalisation are as follows:



	FIHPL	ET
Direct	0.0%	0.0%
Indirect TAPL	60.0%	40.0%
Indirect ET	12.0%	-12.0%
	72.0%	28.0%

	FIHPL	ET
Direct	29.8%	19.9%
Indirect TAPL	30.2%	20.1%
Indirect ET	12.0%	-12.0%
	72.0%	28.0%

- (b) Please provide details of the loan, including the loan amount, the outstanding amount payable (including the principal sum and interest (if any)), when the loan was made and the purpose of the loan.

The Company's response:

All the loans were provided for working capital purposes. Details of the loan are as follows:

	In Sri Lanka Rupee					
<u>Loan From</u>	<u>Principal Amt</u>	<u>Interest Amt</u>	<u>Total</u>	<u>Cap Amt</u>	<u>Outstanding Amt</u>	<u>Inception</u>
FIHPL	41,579,776	17,591,362	59,171,138	59,171,130	8	2014 & 2017
ET	28,705,382	10,739,996	39,445,378	39,447,420	- 2,042	2014, 2017 & 2018
HT	7,480,257	112,694	7,592,952	0	7,592,952	2019 & 2020
Total	77,765,416	28,444,052	106,209,468	98,618,550	7,590,918	

- (c) Will the Loan Capitalisation result in the full repayment and discharge of the loan payable by TASL? For the avoidance of doubt, are there any other loans payable by TASL to FIHPL, ET or TAPL?

The Company's response:

The loan capitalisation will result in the substantial repayment and discharge of the loan payable by TASL to FIHPL and ET. There will still be outstanding loan repayable by TASL to Hyson Tea ("HT") as follows.

	In Sri Lanka Rupee					
<u>Loan From</u>	<u>Principal Amt</u>	<u>Interest Amt</u>	<u>Total</u>	<u>Cap Amt</u>	<u>Outstanding Amt</u>	
FIHPL	41,579,776	17,591,362	59,171,138	59,171,130	8	
ET	28,705,382	10,739,996	39,445,378	39,447,420	- 2,042	
HT	7,480,257	112,694	7,592,952	0	7,592,952	
Total	77,765,416	28,444,052	106,209,468	98,618,550	7,590,918	

- (d) Please provide the rationale for the Loan Capitalisation, and for it to be executed at this juncture.

The Company's Response:

The rationale behind the loan capitalisation is to settle the loan due from TASL to FIHPL and ET in order to facilitate the divestment of TA Group to ET, as part of the Group's on-going effort to rationalise its non-performing businesses. Discussion for the divestment commenced sometime in 2020 and was prolonged due to the Covid-19 pandemic, which led to both parties to reassess the transaction parameters and resulted in a delay in the process. The loan capitalisation was eventually approved on 31 December 2021 by the Department of Foreign Exchange and procedures for the issuance and lodgement of new share certificates were completed on 27 January 2022.

SGX-ST's queries:

We refer to the following: "The consideration for the Disposal was arrived at a willing buyer and willing seller basis, after taking into consideration, among others, the collective unaudited net asset value of TAPL and TASL."

- (a) Please state the unaudited net asset value of each of TAPL and TASL.

The Company's response:

The unaudited net asset value of TAPL and TASL prior to capitalisation as at 31 July 2021 is as follow. Both parties agreed to use 31 July 2021 as the basis period for the divestment.

	In USD		
<u>As at 31 Jul 2021</u>	<u>TAPL</u>	<u>TASL</u>	<u>Consolidated</u>
<u>NTA/(L) bf Capitalisation</u>	10,128	- 476,628	- 466,500

SGX-ST's queries:

We refer to the Company's announcement dated 5 July 2021 (available here: <https://links.sgx.com/FileOpen/FEH%20-%20Draft%20Ann%20-%20Subscription%20of%20shares%20in%20TAPL.ashx?App=Announcement&FileID=673616>), which provides:

"the Company's wholly-owned subsidiary, Future Investment Holdings Pte. Ltd. ("FIHPL"), and the Company's associate company, Empire Teas (PVT) Ltd ("ET(P)L"), have subscribed for additional 66,500 ordinary shares in the share capital of Tea Avenue Pte. Ltd. ("TAPL") for an aggregate cash consideration of SGD66,500.00 (approximately USD50,000.00), in proportion to their respective shareholdings in TAPL.

FIHPL, which holds 60% shareholding in TAPL, has subscribed for 39,900 ordinary shares for a cash consideration of SGD39,900.00 (approximately USD30,000.00) and ET(P)L, which holds 40% shareholding in TAPL, has subscribed for 26,600 ordinary shares for a cash consideration of SGD26,600.00 (approximately USD20,000.00).

Following the completion of the new share subscription, the total issued and paid-up share capital of TAPL has increased from SGD1,030,330.00 (equivalent to USD779,608.00) comprising 1,030,330 ordinary shares to SGD1,096,830.00 (approximately USD829,608.00) comprising 1,096,830 ordinary shares in which FIHPL holds 658,098 ordinary shares and ET(P)L holds 438,732 ordinary shares." (emphasis added)

- (a) Please address whether and how the consideration amount of US\$15,900.00 for the Disposal took into account FIHPL's previous investment(s) in TAPL, including the cash consideration of S\$39,900.00 payable by FIHPL for its subscription of 39,900 ordinary shares in TAPL.

The Company's response:

The consideration amount of US\$15,900.00 does not take into account the FIHPL's previous investment(s) of S\$39,900.00 for its subscription of 39,900 ordinary shares in TAPL as this amount was already used to repay an outstanding amount due to Future Enterprises Pte Ltd ("FEPL"), a related company of FIHPL.

- (b) In view of FIHPL's previous subscription of 39,900 ordinary shares in TAPL for S\$39,900.00 on 5 July 2021, please elaborate on what "The Disposal is in line with the Group's ongoing efforts to rationalise its loss making businesses" means.

The Company's response:

The previous subscription of 39,900 ordinary shares in TAPL for S\$39,900.00 on 5 July 2021 was only sufficient for the repayment of a long overdue amount to FEPL and also to cover for subsequent year working capital requirement for TAPL.

In the past couple of years, the Group has been actively reviewing and rationalising its underperforming businesses to focus on its core markets and strategic businesses. The café operation of TASL has been incurring losses for many years and the Covid-19 pandemic further exacerbated the situation. The Group foresees that it will require significant funding requirement to sustain the business. Following discussion with our business partner, it was agreed that we would divest all our direct interest in the business to them. The Group still retains 30% indirect interest in TAPL through its equity stake in ET.

SGX-ST's queries:

We wish to draw your attention to Listing Rule 1008, which states:

"(1) Unless Rule 703, 905 or 1009 applies, no announcement of the transaction is required if all of the relative figures computed on the bases set out in Rule 1006 amount to 5% or less.

(2) However, if the issuer wishes to announce the transaction, the announcement must include:—



*details of the consideration as required in Rule 1010(3); and
the value of assets acquired or disposed of as required in Rule 1010(5).” (emphasis added)*

In this regard:

- (a) Please provide details of the value (book value, net tangible asset and the latest available open market value) of the assets disposed.

The Company’s response:

The NTA of TAPL and TASL as well as the consolidated NTAs before the capitalisation are as follows:

			In USD
As at 31 Dec 2021	<u>TAPL</u>	<u>TASL</u>	<u>Consolidated</u>
NTA/(L) bf Capitalisation	8,864	- 638,199	- 629,335

- (b) Please address whether a valuation was conducted, and if yes, the value placed on the assets, the party who commissioned the valuation and the basis and date of such valuation. If no, why not?

The Company’s response:

At the outset of the divestment exercise, the Group commissioned an external professional firm to conduct a valuation exercise on TAPL sometime in 2020 to serve as a basis for our negotiation. Following discussions with various stakeholders and a preliminary valuation, the Group’s 72% shareholding in TAPL was placed with an attributable value of US\$211,000.00. The preliminary valuation was derived using the Income Approach and Discounted Cash Flow methodology. However, due to uncertainty over the deteriorating Covid-19 situation, negotiation between the parties was put on hold for a period of time. Eventually, both parties agreed to revise downward the figure to take into account the negative effects of the Covid-19 pandemic. The final consideration was arrived based on willing buyer- willing seller basis, taking into consideration the unaudited Net Asset value of TAPL and TASL.

By order of the Board

Kevin Cho
Company Secretary

7 February 2022