UNITED FOOD HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)
(Company Registration Number: 28925)

UPDATE ON INDEPENDENT REVIEW INTO THE LOSSES SUFFERED BY THE GROUP

Further to the Company's announcements of 30 June 2015, 10 July 2015 and 14 August 2015, the Board of Directors of United Food Holdings Limited ("the Company" or together with its subsidiaries, the "Group") would like to provide an update of the independent review ordered by the Audit Committee ("AC") of the Company. The independent review was ordered to assist in evaluating the circumstances leading to the significant loss of the Group.

A summary of the main findings is set out below:

1. Actions taken by the local municipal government in Linyi City to curb serious industrial pollution

Management had previously advised that there was a change in the operating environment which was caused by actions taken by the Chinese authorities in China to curb serious industrial pollution. The local government in Linyi (where the Group's business operations are based) had ordered more than 50 companies in the region involved in heavy industries and power generation to stop production due to pollution reasons. The Group was not one of those companies directly affected. However, the anti-pollution actions taken had indirectly affected the Group in terms of higher operating expenses.

Management had further advised that, among the 50 plus enterprises forced to shut down, it included the sole utility supplier of electricity and steam to enterprises located in the local industrial park and also to the Group. Once the sole utility supplier's production was shut down by the government, the Group's processing plant would have no utility to run the production. Machines in the processing plants are driven by the electricity. However, steam is used to heat the soybean materials in certain key production processes such as softening, swelling, leaching and refinement. If there was no supply of steam, the soybean processing would have to be halted

During the course of the independent verification and review, Management's representation regarding the Linyi municipal government's stringent measures to control air pollution, were checked by searching for relevant news on publicly accessible websites, through the local newspapers as well as the relevant news on the official websites of local environmental bureau. As a result of above procedures, it has been found that, on certain publicly accessible websites, local newspapers and the websites of local environmental bureau, there were news and government announcements regarding the local government's measures (i.e. shut-down of production of enterprises in the local area) to control air pollution. Those news and government announcements appeared to be posted during the period from February 2015 to March 2015.

2. Loss of approximately RMB142 million from the Group's business operations

Management had previously advised that, although the Group was not one of those companies directly affected by the shut-downs ordered by the Linyi municipal government, the anti-pollution actions taken had nevertheless indirectly affected the Group in terms of higher operating expenses and lower selling prices for the Group's finished products due to weakened demand.

Management had further advised that, as the sole utility supplier might be exposed to a risk of crackdown by the local government, the Group had to re-negotiate the terms of the utility supply agreement, in order to ensure that there were sufficient utilities to sustain the processing of the remaining soybeans in the warehouse and those to be received in the second quarter of 2015. Under the re-negotiated terms, the cost of electricity during the second quarter of 2015 was raised from RMB0.67 kwh to RMB1.1 kwh and the cost of steam was increased from RMB100 per ton to RMB300 per ton. The increase in utility cost as a result of the re-negotiated utility supply agreement was approximately RMB26 million in the second quarter of 2015.

Management further represented that the effect of the new environmental law was not only limited to Linyi City but had also spread over to other cities in Shandong Province and other provinces.

Management stated that soybean meal is the key component of feed for live pigs. In the first half of 2015, due to farmers' increasing caution in expanding rearing scale of pigs and the negative impact on pig rearing business as a result of environment protection, the demand for pig feed witnessed a considerable decline. The slump in market demand led to an oversupply in the market which dragged down the market prices of soybean meal. In addition, the weakening global economy, lower soybean prices in the international commodity market and the depressed domestic economy also contributed to the drop in the prices of soybean related products in the domestic market.

According to Management, the average selling price of soybean meal of the Group for the period from 1 January 2015 to 30 June 2015 decreased by approximately 16%, compared with that of the same period in 2014. The sale of soybean meal in the first half of 2015 accounted for nearly 70% of total sales of the Group. Further, the average selling price of the soybean oil in the first half of 2015 was 13% lower than that in the prior corresponding period.

During the course of the independent verification and review, Management's representations regarding the increased costs of utility and decrease in selling prices of soybean products were checked:

a. the summary of utility costs in the soybean processing segment for the first half of 2015 was obtained. The total was compared with the general ledger and management account and found to be in agreement. A comparison of the summary was made with the accounting records, such as journal entries and bank out slips and found to be consistent;

b. the sales ledger by product and by customer for the six months period ended 30 June 2015 was considered. It was found that the total amount was in agreement with the general ledger and management account;

c. it was observed that the revenue derived from soybean processing segment in the first half of 2015 in the management account saw a decline of RMB460 million when compared with the corresponding period for 2014. According to the sales ledger of the Group, the average selling price of soybean meal decreased by RMB530 per ton or 16% and the average selling price of soybean oil deceased by RMB834 per ton or 13%, compared with the first half of 2014;

d. based on sales ledger by customers for the first half of 2015 and 2014, it was observed that the average unit selling prices to the top ten customers witnessed a decrease;

e. from the sales ledger and relevant sales documents from January 2015 to June 2015, samples with individual amount greater than RMB950,000 were selected, and the relevant original sales agreements were checked against original sales orders, original sales invoices, original goods delivery notes, journal entries, sub-ledger and the subsequent receipt records which comprised bank-in slips and bank statements. Those documents were found to be consistent in reflecting the relevant sales.

3. <u>Loss of approximately RMB232 million from the sale of 5 shipments of raw soybeans</u>

Management had previously advised that they had sold off 5 shipments of raw soybeans which had arrived in China but yet to be processed, because processing the 5 shipments would result in even greater losses.

Management advised that the 5 shipments of soybeans with a total quantity of about 322,000 tons berthed at Qingdao Port, were sold without processing in the second quarter of 2015.

The purchase cost of those 5 shipments of soybeans in aggregate was RMB1,042 million. It was sold at a total consideration of RMB810 million, resulting in a loss of RMB232 million. Management explained that, due to the unexpected delay in transportation and the lack of processing capacity caused by the air pollution issue, those soybeans stored at the port might need to be stored for a long time and such long storage would harm its quality. In order to avoid further losses, the Group had to sell off the 5 shipments of soybeans as soon as they could.

During the course of the independent verification and review, Management's representations regarding the sale of the 5 shipments were checked and the following were disclosed:

a. Qingdao port was not the frequently used ports by the Group in prior years. The Group would usually use Lanshan (岚山) port and Rizhao (日照) port to declare the importation;

b. those 5 shipments were previously heading to Lanshan or Rizhao. However, when approaching the ports, Management noted that Lanshan port and Rizhao port could only supply 1 berth for unloading the soybeans. After considering the total volume of 5 shipments of about 322,000 tons, the unloading capacity of 8,000 tons per day and the relevant costs, Management decided to look for another port to berth. Other than Lanshan port and Rizhao

port, Qingdao port was another port frequently used by the China soybean importers and it could supply 3 berths to the Group;

c. geographically speaking, Lanshan port and Rizhao port are closer to the Group's plant, i.e. nearly 150 kilometres. On the other hand, Qingdao port is nearly 300 kilometres away from the Group's plant. If the soybeans were transported by road, it would increase the Group's transportation costs based on the average transportation price of RMB40 per ton. However, if it could be transported by railway, the average transportation price would be lowered to RMB30 per ton. According to Management's knowledge at that time, the railway for cargo transportation enroute from Qingdao to Linyi was under maintenance and was expected to be re-opened at around the time when the soybeans arrived at the port;

d. taking into account the above considerations, Management decided to choose Qingdao port instead of Lanshan port or Rizhao port. Management then advised all 5 shipments of soybeans to go to Qingdao port in the first quarter of 2015;

e. after unloading to the silos at Qingdao port, those raw soybeans remained to be transported to the Group's plant. However, Management noted that the railway enroute from Qingdao to Linyi was still under maintenance then and Management did not know when the railway would be re-opened;

f. as the air pollution issue had caused the local government in Linyi City to take action in February 2015 and shut down the operations of over 50 enterprises in March 2015, including the sole utility supplier to the Group, Management considered that once the soybeans were transported back to the plant, the plant might not have the capacity to process the soybean;

g. in view of the above circumstances and also taking into account the fact that prolonged storage of the soybeans in the silos at the port would harm the processing quality, Management decided to sell the soybeans at Qingdao port as early as possible so as to minimize the losses;

h. Management identified two soybean trading companies and begun to sell the soybeans from April 2015. The average selling price of the soybeans was RMB2,842 per ton, which appeared to be lower than that quoted from certain publicly accessible websites related to agricultural products. Management represented that the selling prices were determined after taking into account certain relevant factors, such as the immense urgency to sell the soybeans, the then market prices of imported soybeans, the quality of soybeans, customer payment terms and the Group's overall bargaining power;

i. confirmations were circularized to the 2 buyers regarding the transaction details advised by Management, including the transaction amounts, trading terms and settlement of the transactions. Replies from these 2 buyers had confirmed the details of those circularised items. Management had also confirmed that the 2 buyers are not related parties of the Group.

4. Impairment of prepayments and deposits of approximately RMB190 million arising from Management's decision to stop importing soybeans for processing

Management had previously advised that they decided to stop importing soybeans for processing. Management proceeded to cancel the remaining 11 shipments of soybeans. Based on the most recent market future prices of raw soybeans, the Group's soybean supplier is expected to suffer a substantial loss in connection with those 11 shipments, and those losses would probably exceed RMB190 million in prepayments and deposits made by the Group. Management opined that the said prepayments and deposits would not be recoverable and the Group will therefore make a full impairment on the said prepayments and deposits.

Management had also previously advised that the final quantum of the losses suffered by the Group's soybean supplier from the cancellation of the 11 shipments would actually depend on the price of soybean at the time of the settlement of accounts between the Group and the Group's soybean supplier. If that loss exceeds the RMB190 million impairment for prepayments and deposits, the Group may be liable to the Group's soybean supplier for the difference. The situation is further worsened by the sudden devaluation of the Renminbi on 11 August 2015 which will add to the size of the losses as the contracts for the 11 shipments were in USD.

During the course of the independent verification and review, Management's representations regarding the prepayments and deposits were checked and the following were disclosed:

a. the Group's soybean supplier would help the Group to purchase the soybeans grown in the United States, Argentina and Brazil through Chicago Board of Trade ('CBOT'). The Group's soybean supplier is a qualified trader in CBOT and who will follow the Group's instruction to buy in the soybeans using future contracts at prices designated by the Group. The Group itself was not the contracting party in the future contracts. This was the way to fix the price of soybeans in the near future at levels which the Group deemed to be appropriate so as to mitigate the soybean price fluctuation in the international market;

b. the Group's soybean supplier was instructed to fix the prices of 24 shipments (sufficient for an entire year) in succession from the second half of 2014 and up to early 2015 when the prices of soybean in the international market were down to a historically low level then. Based on the designated prices, the Group's soybean supplier entered into future agreements with CBOT and purchased the soybeans through margin arrangements. However, once the market went against the future position, the Group's soybean supplier would be required to post additional variation margins to bring the market value of the margins up to its initial value;

c. the average soybean price for the outstanding 11 shipments designated by the Group was at CBOT price of US1,026 cents per bushel. In the first half of 2015, the market price of soybean went below US1,000 cents per bushel and even declined to as low as US920 cents per bushel. The Group's soybean supplier requested the Group to make advances so as to keep the future position;

d. pursuant to the purchase agreements between the Group and its soybean supplier, , any loss incurred by the soybean supplier on the future contracts could be claimed against the Group;

e. according to a current account statement from the Group's soybean supplier provided by the Group, the amounts contained in the statement were found to be consistent with the prepayment amounts of approximately RMB 190 million;

f. the Group received a notice from its soybean supplier in July 2015 that, out of the 11 shipments, the future contracts of 4 shipments were due to be settled. Actual loss incurred by the Group's soybean supplier was approximately RMB40 million in aggregate. Taking into account this actual loss and the soybean future prices up to 30 June 2015, the Group expected the estimated losses to be recorded by the Group's soybean supplier would be approximately RMB 192 million, which is very close to the prepayment and deposits amounting to RMB 190 million;

g. based on the considerations above, the Group decided to make a full impairment for the balances with its soybean supplier in aggregate amounting to RMB190 million as at 30 June 2015.

5. Circularisation of cash and bank and restricted deposit balances

The AC had directed that the scope of the independent verification and review should include a confirmation of the cash and bank balances, as well as restricted deposit balances, held by the Group as at 30 June 2015.

In the management accounts of the Group, as of 30 June 2015, cash and bank balance was RMB 3.5 million and the restricted deposit balance was RMB 412.3 million, respectively.

The circularisation procedures were done either by physically visiting the banks or by post (taking into account the materiality of the bank balances, nature of the bank accounts and the geographical distance).

The results of the circularization procedure disclosed that the Group had RMB 415.8 million as at 30 June 2015. The 2 main banks holding the Group's monies were Bohai Bank in Jinan City (with RMB 335 million) and China Construction Bank, Luozhuang Branch (with RMB 77 million).

During the course of the independent verification of the balance in Bohai Bank in Jinan City, the following were disclosed:

a. that bank account was a new bank account opened in the first quarter of 2015. Management had advised that the bank account was opened for the application of letter of credit facility in the future if necessary. The Group sought letter of credit facility from the four stated-owned banks located in Linyi city in prior years. In order to increase the flexibility in obtaining the letter of credit facility, Management also looked for other suitable banks with experience in financing international procurement business. After considering Bohai Bank's sufficient experience in facilitating the overseas procurement businesses, Management chose to open a new bank account in Bohai and made deposits;

b. different sums of cash totalling approximately RMB1,430 million were received in that bank account and different sums of cash totalling approximately RMB1,095 million were transferred out of that bank account in the first half of 2015. As of 30 June 2015, the bank balance was RMB 335 million in the books;

c. based on a set of pledge deposit agreements made available by the Group, it stated that as of 30 June 2015, the bank balance of RMB 335 million was in the form of several time deposits which were pledged for banking facilities of an equivalent amount. Management stated that such an arrangement was for the Group to apply for letters of credit, when necessary, for the purpose of overseas procurement of soybean;

d. during a physical visit to that bank to conduct the procedure over the counter providing circularisation service, a request was made to confirm the bank balance and other items in the confirmation template on the spot, and a request to print out all the bank statements was also made. However, the bank staff advised that their internal procedure required 3 to 5 days to complete and the bank will send the confirmation by post. The bank staff also advised that the bank statements had been provided to the Company and the bank's internal policies required certain authorisation documents to be furnished before they could print and provide another set of bank statements. The required documents could not be provided during that visit;

e. subsequently, the bank confirmation received by post verified the bank balance to be RMB 335 million which were stated to be pledged deposits. However, the bank confirmation did not indicate whether there was any banking facilities granted to the Group and whether the Group had used any banking facilities by 30 June 2015;

f. a second visit to the bank was then proposed to further seek clarification from Bohai Bank regarding the banking facilities, and also to obtain the bank statements from the bank on the spot, which was not achieved during the first visit due to lack of sufficient authorisation documents required by the bank;

g. Management took the view that a second visit to the bank was not necessary. Management also stated that the banking facilities were not utilised as the Group had suspended the importation of soybeans.

During the course of the independent verification of the balance in Bank of China, the following were disclosed:

a. that bank account was a frequently used bank account. As at 30 June 2015, the balance of that bank account was nil, according to a bank statement initially made available by Management before the circularization to the bank;

b. however, during a visit to the bank, the bank staff disclosed that the balance in that bank account was RMB43.02 according to their records. A request was immediately made to the bank to print out the bank statement of June 2015 in order to understand the nature of the difference. However, that request was not acceded by the bank;

c. Management explained that the variance of RMB43.02 was caused by the different cut off point when printing out the bank statement on 30 June 2015 and the difference represented an interest income related to the deposit

previously saved in that bank account. Management subsequently provided an updated bank statement which showed the ending balance as of 30 June 2015 was RMB43.02, which was consistent with the confirmation provided by the bank.

Having considered the agreed upon procedures ("AUP") report, the AC is of the view that the independent review has been completed and there is no need to expand the scope of the AUP. However, the AC has taken note of the issues concerning the Group's bank accounts in Bohai Bank and Bank of China (as disclosed above), and will direct the external auditors to pay special attention to those 2 bank accounts during the year-end audit.

The Company will make the necessary announcements as and when there are material developments on the various matters raised in this announcement.

BY ORDER OF THE BOARD

Wang Tingbao
Chief Executive Officer & Executive Director

Date: 18 September 2015