Securities Investors Association (Singapore)
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Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: United Food Holdings Limited

Stock code: AZR

Meeting details:
Date: 28 September 2021
Time: 10.00 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

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Q1. The group reported a 68% decrease in revenue to RMB9.7 million in FY2021 and a gross profit of RMB1.3 million. Loss attributable to shareholders was RMB(57.0) million and RMB(73.0) million in FY2021 and FY2020 respectively.

Shareholders' funds have decreased from RMB248.6 million as at FP2019 to RMB127.6 million as at FY2021.

In the past two years, the group achieved operating margins of (726)% and (330)%. An extract of the financial highlights (page 4 of the annual report) is reproduced below for reference:

	FY2021 RMB'000	FY2020 RMB'000	Change %
REVENUE	9,713	30,305	-68%
GROSS PROFIT	1,316	5,403	-76%
(LOSS)/ PROFIT FROM OPERATIONS	(70,497)	(99,961)	-29%
PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	(57,023)	(73,005)	-22%
SHAREHOLDERS' FUND	127,588	188,068	-32%
Profitability			**Change %**
GROSS MARGIN	14%	17.8%	-24%
OPERATING MARGIN	-726%	-329.8%	N/A
RETURN ON REVENUE	-587%	-240.9%	N/A
Per Share Data (Notes)			**Change %**
A. NET ASSETS (RMB)	0.66	1.00	-34%
B. (LOSS)/ PROFIT (RMB)	(0.30)	(0.42)	N/A
C. GROSS DIVIDEND (RMB)	0.00	0.00	N/A

Adapted from company annual report

(i) **At the AGM, can management provide shareholders with a holistic overview of the group's business model in its core business of additives related segment (including L-Ascorbyl Palmitate ("L-AP") related equipment and provision of technical consultation services)? How does management create and capture value for shareholders? In the presentation to shareholders, please also include the size and trends of the addressable market, the group's competitive advantages, management's experience and track record, and the major opportunities in the next 18-24 months.**

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(ii) **In addition, can management elaborate further on the patents held by the group?** As disclosed in Note 14 (page 98 – Intangible assets), the group's patents which had a carrying value of RMB64.5 million as at 31 March 2020 were completely written off in FY2021. These patents relate to (a) Preparation of drugs for the prevention and treatment of livestock and poultry and other viral infection and diseases which are held by CDPR; and (b) Production of the additive L-Ascorbyl Palmitate ("L-AP") or antioxidant which are held by HBXR/BM. Chengde Purun Shengwu Zhiyao Co., Ltd. ("CDPR"), Hebei Xingrun Shengwu Keji Gufen Co., Ltd. ("HBXR") and Benchmark Trade Limited ("BM") were acquired in the previous financial period ended 31 March 2019.

In particular, it was highlighted in the chairman's message that the group's supply and installation of L-AP equipment was expected to generate a gross margin of 10% (page 2).

(iii) **Can the board/management elaborate further if the group is able to generate a return that is commensurate with the level of risks taken in its business? How does the company create long-term value for shareholders when the gross margin is as low as 10%?**

The group made advances of RM49 million to a new supplier for an order of equipment to be delivered to its customer (Kangweijian) because of the "customised" nature of the equipment. Based on the company's response to SGX (dated 13 September 2021), the company has only collected RMB8 million from the customer while paying its supplier RMB49 million out of a total order of RMB50 million. The supplier has informed that the delivery has been delayed and is now expected to be completed by the first quarter of 2022. The company's responses to SGX's 17 queries on the advances, the group's financial statements and the auditor's disclaimer of opinion can be read from the following URLs:

https://links.sgx.com/1.0.0/corporate-announcements/7WV8GDE7W6NO3G3Q/806b8fd7701f3abdd23e5e93e89e4c5d575e6d58f6fb64d9c0b566ceacf7a7f2

https://links.sgx.com/1.0.0/corporate-announcements/G12EFI062XFFD4K8/10c640d694c86a137681fb0ff793d3ca456efa71254a129fb2cc1bbcf6e66be9

(iv) **Did the board/management consider it prudent to similarly require a significant advance payment from the customer given the "customised" nature of the equipment?**

(v) **Has the board set up a robust risk management policy to safeguard the interests of the company and its shareholders?**

(vi) **Did the board approve the particular transaction with the supplier, ZhongFan, knowing that they are a new supplier to the group?**

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Q2. The directors had, in the directors' statement, declared that the statement of financial position of the company and the consolidated financial statements of the group are drawn up so as to give a true and fair view of the financial positions of the company and of the group as at 31 March 2021 (page 39).

Opinion of the directors

In the opinion of the directors,

(a) the statement of financial position of the Company and the consolidated financial statements of the Group are drawn up so as to give a true and fair view of the financial positions of the Company and of the Group as at 31 March 2021 and the financial performance, changes in equity and cash flows of the Group for the year ended on that date; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

Directors
The directors of the Company in office at the date of this report are:

Executive director:
Mr. Wu Xiaoran

Non-executive director:
Ms. Song Yanan (Chairman)

Independent Non-executive directors:
Prof. Ling Chung Yee
Mr. Chng Hee Kok
Mr. John Ng (Resigned on 5 January 2021)
Mr. Zeng Wei (Appointed on 1 March 2021)

(Source: company annual report)

However, the auditors have included a disclaimer of opinion in their report on the audit of the financial statements (page 42 of the annual report). The 11-page basis for disclaimer of opinion can be found on pages 42 to 52 of the annual report. As mentioned earlier, SGX-ST has also queried the company in relation to the disclaimer of opinion by the independent auditor on the financial statements for the financial year ended 31 March 2021.

(i) **Can the directors, especially the members of the audit committee, help shareholders understand the basis of their opinion given the disclaimer of opinion by the independent auditor?**

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Q3. The company was listed on the SGX on 26 March 2001, marking its 20th year of listing on SGX recently. The majority of the directors were appointed in 2016, including Ms Song Yanan as non-executive chairman (15 August 2016), Mr Wu Xiaoran as executive director (11 July 2016), Prof Ling Chung Yee as lead independent director (20 November 2015) and Mr Chng Hee Kok (23 October 2015).

As noted in the corporate governance report, the board is responsible for the overall performance of the group (page 13). It sets the group's strategic direction and vision and directs the group's overall strategy, policies, business plans, as well as, stewardship and allocation of the group's resources.

(i) **Has the board carried out a formal annual assessment of its effectiveness (Principle 5 of the Code of Corporate Governance 2018)? If so, how did the board assess its effectiveness especially in creating long-term value for shareholders?**

(ii) **What are the returns achieved by the group in the past 5, 10 and 20 years?**

(iii) **How did the board monitor the performance of management? What were the key performance indicators used to assess performance? Is the board satisfied with the long-term performance of management in the past 5 years (since 2016)?**

(iv) **Has the board assessed if the group has the necessary human resources in place for the company to meet its long-term objectives?**

(v) **In addition, has the audit committee reviewed the adequacy and effectiveness of the group's internal controls, including financial, operational, compliance and information technology controls?**

(vi) **If so, what is the AC's basis to be satisfied with the adequacy and effectiveness of the internal controls given that the independent auditor has included in their report the basis for disclaimer of opinion on pages 42 to 52?**

^On 1 October 2020, the Accounting and Corporate Regulatory Authority ("ACRA"), the Monetary Authority of Singapore ("MAS") and Singapore Exchange Regulation ("SGX RegCo") published an updated checklist to guide listed entities on the conduct of general meetings arising from the latest updates from the Multi-Ministry Taskforce.

^ Guidance on the Conduct of General Meetings Amid Evolving COVID-19 Situation (https://www.sgx.com/media-centre/20201001-guidance-conduct-general-meetings-amid-evolving-covid-19-situation)

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Issuers may continue to conduct their general meetings held on or before 30 June 2021 via electronic means, and are encouraged to do so. On 9 April 2021, it was announced that the alternate arrangements for meetings ("Meetings Order") would be extend beyond 30 June 2021 until it is revoked or amended by the Ministry of Law. Accordingly, until such time, issuers may continue to utilise the Checklist issued by ACRA, MAS and SGX RegCo to guide entities on the conduct of their general meetings.

Issuers who, after due consideration of public health and other risks, wish to provide for physical attendance at their general meetings must ensure that they implement all relevant measures to comply with the safe management measures imposed by the Singapore Government.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on SIAS website

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