

ZHONGXIN FRUIT AND JUICE LIMITED
(Company Registration No. 200208395H)
(Incorporated in the Republic of Singapore)

**RESPONSE TO QUERIES FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE)
ON THE ANNUAL REPORT**

The Board of Directors (the “**Board**”) of Zhongxin Fruit and Juice Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) would like to provide its responses to the queries received from the Securities Investors Association (Singapore) (“**SIAS**”) in relation to the Company’s Annual Report for the financial year ended 30 June 2021 (“**FY2021**”) prior to the upcoming annual general meeting for FY2021 to be held by way of electronic means on 29 October 2021 at 10.00 am. The Company did not receive any questions from the shareholders as at the deadline stated in the Notice of Annual General Meeting.

QUERIES FROM SIAS

Q1. As disclosed in the business overview (page 9), the Group experienced a slowdown in market demand for its fruit juice concentrate products in FY2021. The Group further stated that its near-term performance is dependent on factors including the speed of recovery of the global economies and consumer spending as well as the outcome of the US and China trade disputes.

Management has stated that it will expand the product offerings to cater to the evolving consumer tastes and needs, and also support the end customers’ initiatives to develop and broaden geographical market reach and product distribution channels.

Revenue for the financial year ended 30 June 2021 decreased to RMB130.8 million and the group recorded a loss of RMB(3.9) million after recognising a RMB(4.2) million impairment of property, plant and equipment.

- (i) **Can management help shareholders understand how much R&D is carried out by the Group? How does the group carry out product innovation? What are the avenues for the Group to understand the “evolving consumer tastes and needs”?**

Company’s response:

The Group does not carry out any specific R&D activities.

The immediate holding company of the Group is SDIC Zhonglu Fruit Juice Co., Ltd (“**SDICZL**”) which is incorporated in the People’s Republic of China (“**PRC**”) and listed on the Shanghai Stock Exchange. The Company’s ultimate holding company is State Development and Investment Corporation (“**SDIC**”), a state-owned enterprise in PRC. SDICZL and SDIC have resources to carry out research on product development and consumer behaviour. The Group is currently tapping on the knowledge and resources of its parent company and its related companies in understanding consumer preference and sales and marketing outreach.

- (ii) **Can the Board elaborate further on the Group’s performance obligation? How much influence does the Group have on the development and broadening of new geographical markets? Is management tasked to help the end customers expand their geographical reach?**

Company's response:

The Group has no influence on the end customers' initiatives to develop and broaden new geographical markets. The Group / Management is also not tasked to help the end customers to expand their geographical reach. Such activities are entirely derived from the end customers' own initiatives and corporate strategy. The Group works together with end customers through supporting them in their market expansion plan by providing the supplies that meet the end customers' requirement. By working together with end customers, the Group benefits through the growth in sales. There is no performance obligation required from the Group's end.

(iii) Separately, for the new fresh garlic processing venture by Xuzhou Zhongxin, can management (re)state the business model and elaborate further on Xuzhou Zhongxin's competitive advantage in this new business?

Revenue from processed garlic amounted to RMB8.9 million (page 65). On page 9, it was stated that the export demand for processed garlic has been lower than expected and that the new venture has not met management's expectations. After deliberating on the market situation, management has taken the decision to suspend the garlic processing activities since the end of FY2021 and will continuously monitor the situation. The Group will consider resuming garlic processing activity in the next garlic harvesting season if market conditions improve. **What is the amount of capital invested in the new business? Would the board be reviewing its board approval process for any major capital expenditure?**

Company's response:

Xuzhou Zhongxin Fruit and Juice Company Limited ("**XZFJ**") had ceased fruit juice production since FY2015 due to the higher cost of raw material in Jiangsu province. XZFJ owns the land use rights of a 141,592 square metres land in Xuzhou, Jiangsu Province, PRC with a building area of approximately 16,000 square metres, including factory, storage, cold room and dormitory ("**Xuzhou Factory Facilities**"). Since ceasing production, the Group has been exploring on how to convert Xuzhou Factory Facilities for other use.

Agriculture continues to be a major economic sector in the region where Xuzhou Factory Facilities is located with development towards higher efficiency and more stable yield produce such as garlic, onions and other agriculture products. The Group has studied into agriculture market in the region where Xuzhou Factory Facilities are located and is of the view that there are potential value-add opportunities in the processing, sorting, packaging and distribution of agriculture products.

The Group has converted the Xuzhou Factory Facilities for the processing, sorting, packaging and distribution of agriculture products. In particular, the Group intends to focus on the sorting, packaging and distribution of garlic initially ("**Garlic Business**"). Some of the existing equipment in the Xuzhou Factory Facilities were used for the Garlic Business. The Group has commenced the fresh garlic processing business as well as the corresponding sales activities in FY2021. XZFJ has leveraged on the sales network of SDICZL to secure the customers for Garlic Business since many of SDICZL's customers also buy agriculture products or are distributors of agriculture products.

The venturing into Garlic Business is part of the Group's expansion plan to develop new products offerings, while at the same time allowing the Group to tap on the existing facilities that are under-utilised. It was aimed at providing additional revenue stream to the Group to cushion the possible impact of sales fluctuation in the fruit juice concentrate business of the Group.

The Garlic Business does not require significant capital investment since the Group is utilising the Xuzhou Factory Facilities. The Group has invested approximately S\$500,000 to service, upgrade and convert the Xuzhou Factory Facilities for the sorting and packaging of agriculture produce.

Any significant capital expenditure plan is required to be tabled for discussion in the Board meeting and to seek Board's approval before implementation. For capital expenditure plan where the Board is required to make decision, the Management provides the Board with sufficient background and explanation information on the subject matter to enable the Directors to be properly briefed on the matters to be considered.

- (iv) **Can the Board help shareholders understand the reasons for the 20% increase in staff costs to RMB8.1 million (page 66 – Note 6: Staff costs) when revenue decreased by 25% in FY2021?**

Company's response:

The increase in staff costs were mainly due to the direct labour costs and the related staff overheads for the Garlic Business as the sales activities of Garlic Business commenced in FY2021.

Q2. The “impairment assessment on property, plant and equipment (PPE)” is a key audit matter (KAM) highlighted by the independent auditor in their report on the audit of the financial statements. Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.

As shown in the KAM (page 38), as of 30 June 2021, the Group's PPE were carried at net book value of RMB 48.98 million. For PPE with indicators of impairment, management performed an impairment review to assess the recoverable amounts of those PPE based on the higher of value-in-use (“VIU”) and fair value less costs of disposal (“FVLCD”).

- (i) **What were the indicators of impairment used by management?**

In particular, the carrying amount of plant & machinery as at 30 June 2020 of RMB19.19 million was written down by RMB(4.2) million during the financial year. As at 30 June 2021, the carrying value of plant and machinery stood at RMB14.06 million.

Xuzhou Zhongxin Fruit and Juice Company Limited has had idle production machineries upon the cessation of concentrated apple juice production since FY2015 while some of Yuncheng Zhongxin Fruit and Juice Company Limited's plant and machineries have malfunctioned (page 64).

Company's response:

Management has assessed that there are indications of impairment based on the following indications:

- a) Xuzhou Zhongxin Fruit and Juice Company Limited - The assets related to fruit juice production became idle due to non-production activities and did not generate any current and future economic benefits to the company.

- b) Yuncheng Zhongxin Fruit and Juice Company Limited (“YZFJ”) – Evidence is available of obsolescence or physical damage of an asset leading to discoveries of malfunctioned plant and machineries.

(ii) What are the current production capacities and utilisation rates across the Group and its subsidiaries for FY2021 as well as prior to the pandemic?

Company’s response:

The fruit juice industry is cyclical in nature as raw materials such as apples are in season during the first half of the Group’s financial year. To ensure the freshness of the ingredients, generally, the Group procures and produces the fruit juice during the first half of the financial year for its full year’s supply (“**Procurement and Production Season**”).

YZFJ is able to produce approximately 15,000 tonnes of fruit juice concentrate annually. Generally, YZFJ will achieve 100% production utilisation rate during the Procurement and Production Season.

The COVID-19 pandemic situation in PRC was generally under control in the second half calendar year of 2020 (i.e. first half of the Group’s financial year) and did not materially affect the procurement and production operations of the fruit juice concentrate business of the Group in FY2021. There is no significant change in the production capacities and utilisation rate during FY2021 and prior to the pandemic.

(iii) Can the audit committee (AC) provide shareholders with greater clarity on the state of idle plant and machineries? Why has the Group retained the idle production machineries for the past 6 years?

Company’s response:

The Group has carried out a review in FY2021 to assess the assets’ utilisation with the view of enhancing its utilisation. Further to the review, idle assets were identified and impairment losses of these assets have been recognised. The idle plant and machineries are currently still left idle and will be deployed for other use as and when necessary, if required.

Fruit juice production is the principal business activity of XZFJ. However, there was shortage of quality raw materials in the procurement region of XZFJ since year 2015 leading to the increase in the prices of raw materials. The Management having assessed the situation considered that it would not make economic sense for the plant at XZFJ to continue production and hence has decided to suspend the fruit juice production operation of XZFJ since FY2015.

The quality of the raw materials are highly dependent on external factors such as weather conditions and the surrounding environment of the plantation. It is also susceptible to natural disasters, adverse weather conditions and outbreak of plant-related diseases. In order to ensure that XZFJ can continue with its core business, the Management continuously monitored the situation of raw materials supply and was hopeful that the situation would improve and that XZFJ could resume production. The plant and machineries that were dedicated for the fruit juice production were left idle but these assets were still functioning well as the Management carried out regular maintenance on the assets. As such, these assets were still retained in XZFJ over the years such that in the event the market situation improved

and XZPJ has to resume production, the machineries would then be able to be deployed immediately.

- (iv) **Would the AC lead a review to look at how the Group could realise the recoverable value of the idle machineries in an orderly manner in the next 6-12 months?**

Company's response:

The Board/AC will work together with the Management to review on how the Group could realise the recoverable value of the idle machineries in an orderly manner in the next 6-12 months. This may include assessing opportunities to dispose the relevant assets at the market value to interested buyer.

Q3. On 15 October 2021, the Company announced that it has received a settlement payment of RMB27.5 million in relation to the disposal of a subsidiary by the group in 2006. The final settlement amount of RMB27.5 million (~S\$5.8 million) includes interest and default interest and was received in full on 13 October 2021.

This marks the close of the chapter after 15 years.

- (i) **Will the Board declare a capital reduction totaling RMB27.5 million to reward shareholders? Based on the corporate announcement page at SGX.com, the Company has not declared a dividend. The Company (formerly known as New Lakeside Holdings Limited) was first listed on the SGX Sesdaq (now known as the SGX Catalyst) in 2004. Based on the current exchange rate, the Company would be able to support a capital reduction of \$0.00549 per share.**

Company's response:

As disclosed in the announcement made by the company on 15 October 2021, the final settlement amount of RMB27.5 million was received in full by XZPJ on 13 October 2021. The refund was received quite recently and the Board has not made any immediate plan to propose capital reduction. Prior to proposing any shareholders' reward plan, the Board will take into consideration the need to conserve funds for the Group's continuing business activities and working capital requirement.

By Order of the Board

Tham Mun Chee
Lead Independent Director

27 October 2021

This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor, UOB Kay Hian Private Limited (the "Sponsor") for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited (the "SGX-ST") Listing Manual Section B: Rules of Catalyst.

This announcement has not been examined or approved by the SGX-ST and the SGX-ST assumes

no responsibility for the contents of this announcement, including the accuracy, completeness or correctness of any of the information, statements or opinions made or reports contained in this announcement.

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