Financial Statements and Related Announcement::Auditor's Comments of Accounts

Issuer & Securities

Issuer/ Manager	UNITED FOOD HOLDINGS LIMITED
Securities	UNITED FOOD HOLDINGS LIMITED - BMG9232V2045 - AZR
Stapled Security	No

Announcement Details

Announcement Title	Financial Statements and Related Announcement
Date & Time of Broadcast	25-Apr-2016 19:51:33
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Announcement Reference	SG160425OTHR6ZBR
Submitted By (Co./ Ind. Name)	Wang Tingbao
Designation	Director
Description (Please provide a detailed description of the event in the box below - Refer to the Online help for the format)	EMPHASIS OF MATTERS BY AUDITORS ON THE FINANCIAL STATEMENTS FOR FINANCIAL YEAR ENDED 31 DECEMBER 2015 Please see attached.

Additional Details

For Financial Period Ended	31/12/2015

Attachments	UFood - Auditors Emphasis of Matter.pdf Total size =318K

UNITED FOOD HOLDINGS LIMITED
(Incorporated in Bermuda)
(Company Registration Number: 28925)

EMPHASIS OF MATTERS BY AUDITORS ON THE FINANCIAL STATEMENTS FOR FINANCIAL YEAR ENDED 31 DECEMBER 2015

In compliance with Rule 704(5) of the Listing Manual of the Listing Manual of the Singapore Exchange Securities Trading Limited, the Board of Directors of United Food Holdings Limited (the **"Company"**) wishes to announce that the independent joint auditors of the Company, Foo Kon Tan LLP and HLB Hodgson Impey Cheng Limited (the **"Auditors"**), have emphasis of matters in their Independent Joint Auditors' Report for the financial statements of the Company and its subsidiaries for the financial year ended 31 December 2015 (the **"Financial Statements"**). The opinion of the Auditors, however, remains unqualified. Please refer to the attached copy of the Independent Joint Auditors' Report together with extracts of the related notes 1(b), 8 and 9 to the Financial Statements.

BY ORDER OF THE BOARD

Wang Tingbao
Director

25 April 2016

INDEPENDENT JOINT AUDITORS' REPORT

TO THE MEMBERS OF UNITED FOOD HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the accompanying financial statements of United Food Holdings Limited (the "Company") and its subsidiaries, (collectively the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the company as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and Section 90 of the Companies Act 1981 of Bermuda, and for such internal control as management determines is necessary to enable the preparation of financial statement that are free from material statements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's reparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with International Financial Reporting Standards to give a true and fair view of the financial position of the Group and the Company as at 31 December 2015, and the financial performance, changes in equity and cash flows of the Group for the financial year then ended on that date.

Emphasis of matters

Without qualifying our opinion, we draw attention to the following:

We draw attention to note 1(b) to the uncertainty involving the resumption of the soybean processing division which is temporarily suspended due to the slowdown in the local economy and the resultant weaker market demand of soybean products. Under Notes 8 and 9, management has assessed the temporary suspension of soybean processing division and has impaired an amount of RMB223,738,000 (Note 8) and RMB131,071,000 (Note 9) in respect of the carrying amount of the Company's investment in its subsidiaries and property, plant and equipment of the Group respectively as at 31 December 2015 based on recoverable amounts and their assumptions.

The consolidated financial statements which indicate that as at 31 December 2015, the Group incurred net losses of approximately RMB974,221,000 and negative cash flow from operating activities of approximately RMB 282,438,000. The Group ability to continue as a going concern is dependent on the sufficiency of cash resources of RMB183.3 million as at 31 December 2015 and cash flow forecast prepared by management for the next twelve months from the end of the reporting period that adequate liquidity exists to finance the working capital requirement. If there is any adverse change on the assumption of the cash flow forecast prepared by the management, these may cast significant doubt about the Group's ability to continue as a going concern.

Other matter

This report, including the opinion, has been prepared for and only for you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

The financial statements for the year ended 31 December 2014 were audited by another firm of auditors whose report dated 19 March 2015 expressed an unmodified opinion on those financial statements.

Foo Kon Tan LLP
Public Accountants and
Chartered Accountants

Singapore

21 April 2016

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Hon Koon Fai, Alex
Practising Certificate Number: P05029

Hong Kong

21 April 2016

EXTRACT FROM THE NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1(b) Going concern

The Group incurred net losses of approximately RMB974,221,000 and negative cash flow from operating activities of approximately RMB282,438,000 for the year ended 31 December 2015. There is uncertainty involving the resumption of the soybean processing division which is temporarily suspended due to the slowdown in the local economy and the resultant weaker market demand of soybean products. The soybean processing division has been a major contributor to the Group's revenue. The Group will monitor and assess the situation before deciding when to resume the Group's soybeans processing operations. These events and conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and hence, its ability to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, the Company prepared the financial statements based on the assumption that the Group can be operated as a going concern and is of the view that the Group will have sufficient working capital to finance its operations in the next twelve months from the end of the reporting period, after taking into consideration of the following:

(i) Excluding the loss on sales of raw soybeans of RMB238,100,000 and loss on cancellation of 11 shipments of soybeans of RMB162,300,000, the cash flow from operating activities for the year ended 31 December 2015 is a positive RMB117,962,000.

(ii) The Group has net current asset of approximately RMB241,699,000 as of 31 December 2015 which is able to support working capital requirement; and

(iii) The Group is taking measures to tighten cost controls over various costs and expenses and to seek new investment and business opportunities with an aim to attain profitable and positive cash flow operations.

Barring any unforeseen circumstance, the management of the Company believes that given the above financing/ business plans and operational measures, the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements in next twelve months. In addition, the management are of the opinion that the Group and the Company are able to meet their obligations for the next financial year as and when they fall due having regard to the sufficiency of cash flows estimated by the management. Based on the cash flow forecast prepared by management for the next twelve months from the end of the reporting period, the management have estimated that adequate liquidity exists to finance the working capital requirements of the Group for the next financial year. Accordingly, the management considers it appropriate that these financial statements should be prepared on a going concern basis and do not include any adjustments that would be required should the Group and the Company fail to continue as a going concern.

8 Investments in subsidiaries

The Company	2015 RMB'000	2014 RMB'000
Unquoted equity shares, at cost	223,738	223,738
Less: Impairment loss during the year and at the end of the year	(223,738)	–
Net carrying value	–	223,738

Amounts due from subsidiaries included in the Company's current assets of Nil (2014 – RMB536,667,000) were unsecured, interest-free and repayable on demand. During the financial year, the Company fully impaired the amounts due from subsidiaries of RMB418,600,000 (2014 – Nil).

8 Investments in subsidiaries (Continued)

Details of the subsidiaries are:

Name	Country of incorporation/ principal place of business	Issued ordinary/ registered shares capital		Percentage of equity interest attributable to the Company		Principal activities
		2015	2014	2015 %	2014 %	
Directly held by the Company						
Post-Ante Trading Limited ("Post-Ante")	British Virgin Islands	US$200	US$200	100	100	Investment holding
Held by Post-Ante						
Globe Bright Limited ("GBL")	Hong Kong	HK$100	HK$100	100	100	Provision of administrative services
Linyi Shengquan Grease Co., Ltd. ("SQ Grease")	PRC/ Mainland China	US$59,900,000	US$59,900,000	100	100	Production and sale of soybean meal and soybean oil* and animal feed production

* The Group has temporarily suspended the production and sale of soybean meal and soybean oil during the year.

Impairment of costs of investment in subsidiaries

During the year ended 31 December 2015, having regard to the financial performance of certain subsidiaries that have been loss making in the current year, an impairment loss of approximately RMB223,738,000 was recognised in respect of the Company's investments in these subsidiaries to write off the carrying value of the investments to nil. The recoverable amounts of the investments were determined to be nil in consideration of the net liabilities of subsidiaries after assessing the recoverable amount of the cash-generating units using fair value less disposal cost in respect of property, plant and equipment and the realization of net assets as at 31 December 2015. The property, plant and equipment of the subsidiaries has been impaired based on the fair value less cost of disposal. The assumption of the fair valuation of property, plant and equipment are disclosed in Note 9.

9 Property, plant and equipment

The Group	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost							
At 1 January 2014	455,442	74,271	519,032	551	5,369	19,768	1,074,433
Additions	780	–	2,499	218	–	15,173	18,670
Transfer	14,814	–	20,127	–	–	(34,941)	–
At 31 December 2014, 1 January 2015 and 31 December 2015	471,036	74,271	541,658	769	5,369	–	1,093,103
Accumulated depreciation and impairment loss							
At 1 January 2014 and 1 January 2015	274,416	58,793	346,099	519	5,188	–	685,015
Depreciation for the year	29,537	10,422	37,914	32	150	–	78,055
At 31 December 2014	303,953	69,215	384,013	551	5,338	–	763,070
Depreciation for the year	20,132	3,495	28,983	47	31	–	52,688
Impairment loss	93,011	–	38,060	–	–	–	131,071
At 31 December 2015	417,096	72,710	451,056	598	5,369	–	946,829
Net book value							
At 31 December 2015	53,940	1,561	90,602	171	–	–	146,274
At 31 December 2014	167,083	5,056	157,645	218	31	–	330,033

The Group operated three divisions, namely Soybean Processing, Animal Feed and Pig Rearing. Pig Rearing Division ceased operations in 2014. Soybean Processing Division, a cash generating unit, was temporarily suspended in 2015. The other operation is relating to the production of animal feed which are operated by two production centres. The Group considered both centres to be under one cash generating unit.

The Company engaged a registered independent valuer to perform a valuation on the recoverable amount of the asset based on the "fair value less costs of disposal" ("FVLCD") of the assets. Based on the difference between the recoverable amount and the net book value of those property, plant and equipment, an impairment amount of RMB131,071,000 has been made.

As at 31 December 2015, certain items of property, plant and equipment with a gross carrying amount of RMB482,218,000 (2014 - RMB444,750,000) were fully depreciated but still in use.

9 Property, plant and equipment (Continued)

Impairment of property, plant and equipment

During the year ended 31 December 2015, the Group recognised substantial loss from operation and deficit in cash flow from operating activities. Under the requirements of IAS 36, the loss and negative operating cash flow are indicators of impairment which requires management to perform impairment testing of the Group's non-current assets. In view of the persistence of production issues and significant decline in profitability in the current year since the last financial year end, which were indicators of impairment under IAS 36, during the current year the Board conducted reviews on the carrying value of the Group's non-current assets as at the financial year ended 31 December 2015. The Board appointed an independent valuer, which is a Registered Professional Surveyor and Registered Business Valuer, to assess the carrying value of the Group's assets as of the respective period and year end date. According to the valuation reports dated 30 March 2016, there was a shortfall of approximately RMB131.1 million to the carrying value of the Group's property, plant and equipment as at the year ended 31 December 2015. The shortfall to the carrying value represented the need of recognising an impairment loss. This is the first financial year that the Group determined the recoverable amount based on FVLCD. An independent valuation of the Group's property, plant and equipment was performed by independent valuer not connected with the Group, who have appropriate qualifications and recent experience in the fair value measurement of the properties to determine the fair value of the property, plant and equipment as at 31 December 2015. The fair valuation of the assets had taken into consideration the cost of disposal as required under IAS 36. The following table analyses the non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical asset.

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – Inputs for the asset that are not based on observable market data (that is, unobservable inputs).

Level 3	**Market and cost approach RMB'000**	**Market comparable RMB'000**	**Total RMB'000**
Buildings, plant and machinery	81,310	64,702	146,012

Fair value measurements using market comparable and significant unobservable inputs to derive level 3 fair values

The fair value of building (Level 3 valuation) were determined based on established used market comparable. Market comparable assume sale in their existing states with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant market. Appropriate adjustments have then been made to account for the differences between the properties and the comparables in terms of location, time, size and other relevant factors.

The fair value of plant and machinery (Level 3 valuation) were determined based on established used market comparable and corroborated with using depreciated replacement cost approach. Market comparable was based on recent selling prices based on price trend index for similar assets, with adjustments made to the indicated market prices to reflect the conditions and utilities of the appraised assets relative to their market comparables. Depreciated replacement cost approach was determined based on cost to reproduce or replace under new condition with current market prices based on price trend index for similar assets, with allowance for accrued depreciation arising from the conditions, utility, age, wear and tear, or obsolescence present (physical, functional or economic), taking into consideration past and present maintenance policy and rebuilding history.

9 Property, plant and equipment (Continued)

Fair value measurements using market comparable and significant unobservable inputs to derive level 3 fair values (Continued)

The following table shows the Group's valuation techniques used in measuring Level 3 fair values, as well as the significant unobservable inputs used:

Type	Valuation technique	Inter-relationship between key unobservable	Inter-relationship between key unobservable
Property	Market comparable including appropriate adjustments	Coefficient adjustment which include transaction correction coefficients as to the location, time, size and other relevant factors like status, regional factor correction coefficient and specific factor correction coefficient.	The estimated fair value would increase/(decrease) if the coefficient adjustments are lower/(higher).
Plant and equipment	Market approach	Coefficient adjustment which include recent selling prices based on price trend index for similar assets, and other specific factor correction coefficient to reflect the conditions and utilities of the assets.	The estimated fair value would increase/(decrease) if the coefficient adjustments are lower/(higher).
	Cost approach	Cost to replace under new condition with current market prices based on price trend index and other specific factor correction coefficient to reflect the conditions, utilities, age, wear and tear or obsolescence of the assets taking into consideration past and present maintenance policy.	The estimated fair value would increase/(decrease) if the coefficient adjustments are lower/(higher).

An impairment loss of RMB131.1 million was recognized during year ended 31 December 2015 in relation to the Group's non-current assets based on the impairment assessment by management. The calculation of impairment loss is as follows:

	As at 31 December 2015 RMB'000
Carrying amount of:	
- Property, plant and equipment	277,083
FVLCD of:	
- Property, plant and equipment	146,012
Shortfall of FVLCD over the carrying amount of:	
- Property, plant and equipment	131,071

The shortfall arising from property, plant and equipment during year ended 31 December 2015 was mainly due to the slowdown in the local economy and the resultant weaker market demand of soybean products and to a lesser extent, government control policy on power generation.

The property, plant and equipment, while has been impaired, will be able to resume soybean processing should the Group decide to lift the temporary suspension of soybean production.