HOCHDORF
BEST PARTNER

Answers to shareholder's questions

These questions have been answered by the Board of Directors (questions 1 and 5) and the auditors (questions 2, 3, 4, 6, 7 and 8)

Question 1

In the individual financial statements of Hochdorf Holding Ltd as at 31 December 2019, (i) shareholdings, (ii) shareholdings sold and (iii) loans to subsidiaries were depreciated (the "depreciated activities"). A provision was also made for a loan from Commerz-Bank to Uckermärker Milch GmbH (the "Uckermärker provision"). Please explain exactly on which assets the depreciation has been made and explain why this depreciation and the Uckermärker provision had to be made.

Answer

(i) Shareholdings

In the individual financial statements of Hochdorf Holding in accordance with commercial law, the shareholdings had to be written off via the "Shareholdings" item in the income statement via the "Value adjustment from financial assets" ledger, as the book values were no longer recoverable. A total of CHF 14.0 million was depreciated.

(ii) Shareholdings sold (Pharmalys companies and Hochdorf South Africa)

In the individual financial statements of HOCHDORF Holding, the losses arising from the sale were written off against the "Shareholdings" item in the income statement via the "Value adjustment from financial assets" ledger. The book values were significantly higher than the proceeds from the sales. A total of CHF 145.3 million was written off for the Pharmalys companies and CHF 387,641 for HOCHDORF South Africa.

(iii) Loans to subsidiaries

In the individual financial statements of HOCHDORF Holding, the amortisation of loans to subsidiaries was written off in accordance with commercial law on the item “Loans to shareholdings”, with an effect on income, via the “Value adjustment from financial assets” ledger.

Due to negative results and development opportunities that were unforeseeable in the medium term, the Board of Directors decided in 2019 to dispose of the Cereals & Ingredients division and also to sell Uckermärker. This confirmed that loan repayments are unrealistic and that the book values cannot or can only partially be realised through sale or liquidation. A total of CHF 21 million was depreciated.

(iv) Provision to Commerzbank

With regard to the sale of Uckermärker Milch GmbH, a provision was made for the Commerzbank loan, as the expected sale price was too low to repay the loan. Uckermärker had taken out a loan of CHF 11.1 million with Commerzbank. HOCHDORF Hold-

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ing Ltd had entered into a joint obligation for this in 2017. It became apparent that the forthcoming sale of Uckermärker was not worth enough to transfer the loan to the buyer. Therefore, a provision of CHF 11.1 million had to be made at the end of 2019.

Question 2

What audit procedures did the auditors perform during the audit of the financial statements under commercial law as at 31.12.2018 in order to review the valuation of the depreciated assets and the necessity of the Uckermärker provision? What evaluations did the auditors perform and on which evaluation models were they based? What were the results of the evaluations by the auditors?

Answer

The valuation of the shareholdings and the loans is the responsibility of the Board of Directors and the senior management team. Compliance with the independence rules means the auditors are not authorised to make an assessment. The auditors review the assessment made by the Board of Directors and the senior management team.

a. Shareholdings: In order to respond precisely to the above question, EY assumes that the question of impairment relates to the following shareholdings:
   - HOCHDORF South Africa Ltd.
   - Pharmalys Laboratories SA
   - Pharmalys Tunisie S.a.r.l
   - Pharmalys Africa S.a.r.l
   - Uckermärker Milch GmbH
   - Snapz Foods AG
   - Zifru Trockenprodukte GmbH
   - Ostmilch Handels GmbH

   EY gained an understanding of the management's responsibility to identify indicators of potential impairment. In addition, EY audited the valuation of the major shareholdings prepared by the Board of Directors and the senior management team using the audited financial statements where available and the discounted cash flow (DCF) calculations submitted to it by the Board of Directors and the senior management. EY reviewed the DCF calculation model and questioned the capitalisation rate used. In addition, EY asked the senior management about the strategies and future prospects of the subsidiaries and questioned the appropriateness of the assumptions used for the valuations, which were also checked for consistency. At the time the annual accounts were prepared for the year ended 31 December 2018, the senior management team and the Board of Directors had assumed that the shareholdings would continue. The Board of Directors and the senior management team had considered the possible sale of shareholdings. However, these negotiations were still at a very early stage at that point.

As stated in the summary report, no objections were raised with regard to the valuation of the shareholdings.

b. Loans to subsidiaries: The assessment of the valuation of the loans to subsidiaries is closely linked to the assessment of the valuation of the shareholdings. EY based this on the valuations of the shareholdings for which the Board of Directors and senior management team were responsible, which assumed that the subsidiaries of HOCHDORF Holding Ltd would continue as a going concern.

c. Uckermärker provision: As at 31 December 2018, Uckermärker Milch GmbH (UMP) was still part of the HOCHDORF Group. The joint and several liability of HOCHDORF Holding Ltd in respect of the Commerzbank loan to UMP was therefore disclosed in the notes to the individual financial statements of HOCHDORF Holding Ltd in Note “9 Contingent liabilities”. At the time of the audit of the individual financial statements of HOCHDORF Holding Ltd as of December 31, 2018, the HOCHDORF Group was in negotiations with potential buyers of UMP. However, these negotiations were still at a very early stage at the time the financial statements were drawn up and it was therefore not appropriate to record the contingent liability as a provision. UMP was not sold to Ostmilch Handels GmbH until 2020.

   In the course of its audit of the notes to the financial statements, EY checked that the disclosure of contingent liabilities was correct and complete.

Question 3
Were there already indications at the time when the individual accounts under commercial law were drawn up as at 31 December 2018 that there was a need to depreciate the depreciated assets or that a provision was needed for the risk covered by the Uckermärker provision?

Answer
EY refers to the answers to Question 2.

Question 4
For what reasons did the auditors not already demand in the 2018 financial statements under commercial law that the depreciated assets be depreciated at that time and that the Uckermärker provision be made in these financial statements?

Answer
EY refers at this point to its comments on questions 2 and 3. Based on the audit procedures performed, there were no objections to the valuation of the shareholdings, the loans and the treatment of the joint and several liability of HOCHDORF Holding Ltd to Commerzbank.

Question 5

How high were the accounts receivable that Hochdorf Swiss Nutrition had on 31.12.2018 (please indicate the five largest debtors with amounts) and how old were these receivables at that time? Of these receivables, what amount was paid by 31.12.2019? Please answer the same questions with regard to Pharmalys Laboratories.

Answer

Outstanding receivables as per 31.12.2018 (in CHF million)

HOCHDORF Swiss Nutrition Ltd:

Debtor 1, North Africa & Middle East:	15.5	(outstanding for 168 days)
Debtor 2, Libya:	8.9	(outstanding for 94 days)
Debtor 3, Switzerland:	4.0	(outstanding for 92 days)
Debtor 4, Switzerland:	3.1	(outstanding for 14 days)
Debtor 5, Egypt:	2.3	(outstanding for 84 days)
TOTAL	33.8	

The receivables of HOCHDORF Swiss Nutrition Ltd as of 31.12.2018 were settled during 2019. With the sale of Pharmalys Laboratories SA and the corresponding deconsolidation, Pharmalys Laboratories SA took over all intercompany receivables from HOCHDORF Swiss Nutrition Ltd existing at the time of sale.

PHARMALYS Laboratories SA:

Debtor 1, Saudi Arabia:	34.3	(outstanding for 286 days)
Debtor 2, Iraq:	12.8	(outstanding for 362 days)
Debtor 3, Tunisia:	5.4	(outstanding for 228 days)
Debtor 4, Lebanon:	4.0	(outstanding for 131 days)
Debtor 5, Saudi Arabia:	3.4	(outstanding for over 3 years)
Others:	14.6	
TOTAL	74.5	

In agreement with EY, no provisions were made. As at the Annual General Meeting date 12 April 2019, CHF 62.7 million of this amount was still outstanding. Of this amount, CHF 20.5 million was finally paid. The remaining CHF 42.1 million was finally excluded from consolidation considerations when Pharmalys Laboratories SA was sold in December 2019.

Question 6

Did the auditors have indications that some of the debtors mentioned in point 5 were to be written off at the time of the consolidated financial statements as at 31.12.2018?

Answer

The answer to question 5 was provided by Board of Directors of HOCHDORF Holding Ltd without EY having access to the answer to question 5. In connection with accounts receivables,

EY reviewed the calculations of the value adjustments made by senior management and the related senior management assumptions regarding the recoverability of outstanding receivables. The valuation principles applied by management and the Board of Directors in the preparation of the annual accounts are disclosed in Note 2 to the consolidated annual financial statements as of 31 December 2018.

As stated in the auditors' summary report, no objections were raised with regard to the valuation of the receivables.

Question 7
What audit procedures did the auditors perform during the audit of the consolidated financial statements as at 31.12.2018 in order to examine the valuation of the debtors mentioned in point 5?

Answer
With regard to accounts receivables, EY reviewed the calculations of the value adjustments made by senior management and the related senior management assumptions regarding the recoverability of outstanding receivables. The valuation principles applied by senior management and the Board of Directors in the preparation of the annual accounts are disclosed in Note 2 to the consolidated annual financial statements as of 31 December 2018.

Question 8
The auditors make a qualification in their report on the 2019 financial statements of Hochdorf Holding Ltd. In doing so, they argue that the company's ability to continue as a going concern depends on the payment of outstanding receivables and adherence to the budget. For these reasons, they see a substantial uncertainty and have considerable doubts as to whether the company can continue as a going concern. It seems illogical to me that this qualification was made in the 2019 financial statements after the balance sheet was tidied up and depreciations of well over CHF 200 million had to be made. At the time of the 2018 financial statements, were there still no indications that the ability to continue as a going concern was at risk? What were the auditors' main considerations in terms the ability to continue as a going concern in the 2018 financial statements? What specific audit procedures did E&Y perform at that time with regard to the ability to continue as a going concern?

Answer
The assessment of the ability to continue as a going concern is the responsibility of the Board of Directors and the senior management team. They assessed the ability to continue as a going concern positively in the 2018 financial statements. The auditors are required to obtain sufficient appropriate audit evidence about the reasonableness of the going concern assumption on which the Board of Directors and the senior management team based their determination in preparing the financial statements and to reach a conclusion as to whether

there is any material uncertainty about the Company's ability to continue as a going concern. On the basis of the documents received and the discussions held at that time with the Board of Directors and the senior management team, EY received sufficient audit evidence to confirm its ability to continue in the 2018 financial statements.