

UNITED FOOD HOLDINGS LIMITED

(Incorporated in Bermuda as an exempted company limited by shares)
(Company Registration Number: 28925)

DISCLAIMER OF OPINION BY AUDITORS ON THE AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2022 (“FY2022”)

Pursuant to Rule 704(5) of the SGX-ST Listing Manual, the Board of Directors (the “**Board**”) of United Food Holdings Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) wishes to announce that the independent external auditors of the Company, Foo Kon Tan LLP (the “**Auditors**”), have, in their Independent Auditors’ report dated 5 December 2023 (“**Independent Auditors’ Report**”), issued a disclaimer of opinion in respect of the audited financial statements of the Company and consolidated financial statements of the Group for the FY2022.

The nature and contents of the disclaimer of opinion are contained in the Independent Auditors’ Report, as attached in the Appendix together with the relevant extracts of Note (2a), Note 9, Note 10 and Note 31, for Shareholders’ information.

This announcement is to be read in conjunction with the attached Independent Auditors’ Report and the financial statements. Shareholders of the Company are advised to refer to the entire Financial Statements included in the Company’s annual report for FY2022, which will be dispatched in due course.

The trading of the Company’s shares has remained suspended since 8 September 2021.

BY ORDER OF THE BOARD

Song Yanan
Non-Executive Chairman
6 December 2023

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the financial statements of United Food Holdings Limited (the Company) and its subsidiaries (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 March 2022, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying financial statements of the Company and the Group. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

The Group

1. Veracity, existence and completeness of bank balances

i. Inability to obtain bank confirmations and bank statements

As fully described in the 2021 Annual Report, we were unable to obtain the bank confirmations and witnessed the bank statements printing at the banking hall for three accounts belonging to the two of the subsidiaries of the Group (namely, SZYK and SZBY) for cash at bank amounted to RMB 24.7 million as at 31 March 2020 which were reported in the Group's financial statements. This is because the bank accounts had been closed by management and our request was denied by the bank.

ii. Veracity of the bank statements and bank balance

The anomalies as to the bank statements with Rural Commercial Bank for selected period under review was fully described in the 2021 Annual Report. There was a credit balance of RMB 24 million on 27 July 2020 which were under rural bank accounts which was closed and now maintained with a state-owned bank, China Construction Bank.

Due to the limitation of audit scope as explained herein which is beyond the control of the management, we were unable to perform sufficient appropriate audit evidence to ascertain the correctness of the bank balance during the period from 1 April 2020 to 24 July 2020 for the bank account maintained with Rural Commercial Bank and the bearing it may have on the financial year ended 31 March 2021.

INDEPENDENT AUDITOR'S REPORT

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

Basis for Disclaimer of Opinion (Cont'd)

The Group (Cont'd)

1. Veracity, existence and completeness of bank balances (Cont'd)

On 14 December 2021, the Company received the instructions from SGX Regco to conduct a special audit on the following matters:-

- i) veracity of transactions involving Hebei Xingrun Shengwu Keji Gufen Co., Ltd. (河北兴润生物科技股份有限公司) ("HBXR") and Chengde Purun Shengwu Zhiyao Co., Ltd. (承德普润生物制药有限公司) ("CDPR"); and
- ii) inconsistencies of bank balances with respect to Shenzhen Yi Kei Logistics Supply-chain Ltd ("SZYK") and Shenzhen Bao Yao Agricultural Products Ltd ("SZBY").

On 17 December 2021, the Board announced that they appointed KPMG as special auditors. At the date of this report, the findings from KPMG has not been finalised. Our report may be subject to further modification depending on the findings from KPMG.

2. Acquisition of 80% shareholding interests in the Target companies

(a) Profit Warranty

For the past 3 years, i.e. FY2020, FY2021 and FY2022, the variance between the Adjusted Net Loss and the Profit Warranty as defined in the Acquisition Circular dated 5 July 2018 and its supplemental agreements to the SPA have not been accounted for in the books where the Company is entitled to recover from the vendors. We were unable to determine the extent of amount recoverable from the vendors due to lack of supply of natural gas for production by HBXR and CDPR as described in Note 5.

(b) Valuation of contingent consideration for the Acquisition

Due to no production carried out in HBXR plant for the revenue to be earned, the possible impairment of financial and non-financial assets and the extent of reliability of the valuation report produced during the FY2020 and FY2021 audits, we were unable to ascertain the correctness of the fair value gain on contingent consideration of RMB 0.7 million in FY2021, RMB 16.8 million in FY2020 and RMB 26.9 million in FY2019 as reported in the financial statements for the Acquisition then. The reported contingent consideration as shown under current liabilities was RMB 44.5 million at inception. As of the date of this report, there is no valuation carried out on acquisition of business to determine the valuation of contingent consideration on the acquisition for the financial year ended 31 March 2022.

3. Sales and Purchases

As disclosed in Note 31 – Other financial information, the matters which we are concerned are as follows:

- (i) In respect of sales transactions of RMB 52.7 million (exclude VAT) entered into by HBXR for the supply of equipment to Huizhou KWJ Biotechnology Co., Ltd (惠州市康维健生物科技有限公司) ("KWJ") for the financial year ended 31 March 2022, we have requested for relevant and appropriate audit evidence as to the sales made. However, we were provided with all the contracts but incomplete delivery orders and no sales invoices. The Group recorded the receivable for these transactions totalling RMB 47.5 million as at 31 March 2022. We understand from Mr Liang Bing (HBXR General Manager) the sales made to KWJ is mainly to expand the L-AP plant belonging to KWJ with the acquired patent technology from HBXR. On this basis, we are unable to determine whether sales are properly recorded. In respect of the timing of revenue recognition, we were unable to determine whether the revenue is accrued in the appropriate accounting period.

INDEPENDENT AUDITOR'S REPORT

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

Basis for Disclaimer of Opinion (Cont'd)

The Group (Cont'd)

3. Sales and Purchases (Cont'd)

As disclosed in Note 31 – Other financial information, the matters which we are concerned are as follows: (cont'd)

- (ii) In the 2021 Annual Report, we reported that we were not provided sufficient information and explanation as to the timing and status of the supply and installation of equipment purchased from 惠州中凡机电设备有限公司 (“ZhongFan”). There was no supply or installation of the equipment in respect of the advances of RMB 49.2 million paid to ZhongFan for the financial year ended 31 March 2021. During the financial year 2022, HBXR recorded net outflow of RMB 3.7 million to ZhongFan from the supply of equipment. The Group recorded no amount owing to/by ZhongFan as at 31 March 2022. On this basis, we were unable to determine whether purchases were properly recorded.

4. Recoverability of deposits paid to SST

In the 2021 Annual Report, we highlighted that we were unable to ascertain the recoverability of debt as to the deposit of RMB 35 million to Shenzhen SST, a company incorporated in the Peoples' Republic of China (“PRC”).

SXBY paid a deposit of RMB 35 million for facilitating a potential business cooperation. The deposit was paid pursuant to a Cooperation Framework Agreement (the “SST Agreement”) with SST on 22 April 2021 in relation to the development of equipment production (Agricultural Artificial Intelligence), automation technology and marketing on Internet of Things.

During the financial year ended 31 March 2022, SZBY further paid deposits totalling RMB 50 million to SST. The deposits totalling RMB 85 million was paid to Shenzhen Yizhe Technology Co., Ltd, a nominee for SST. As at 31 March 2022, the deposits owing by SST to SZBY was RMB 85 million. We were not provided with the management, discussion and analysis of the new business, nor the management assessment on the recoverability of these deposits. Consequently, we were unable to determine whether the deposits paid to SST are recoverable.

INDEPENDENT AUDITOR'S REPORT

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

Basis for Disclaimer of Opinion (Cont'd)

The Group (Cont'd)

5. Impairment assessment of non-current assets of the Group

The non-current assets comprise intangible assets, goodwill, property, plant and equipment and right-of-use assets. As at 31 March 2022, the intangible assets of RMB120 million arising from the Acquisition had been fully impaired from inception. The remaining sum of goodwill of RMB 3.049 million (FY2021: RMB 3.049 million) as at 31 March 2022 relates to the August 2017 acquisition of Really Time Trading Limited ("RTTL") and the subsidiary acquired is Shenzhen Hualitai Food trading Co., Ltd. ("Hualitai"). RTTL has no trading activities since FY2020 while Hualitai has no trading activities since FY2019.

Additives segment

As at 31 March 2022, the carrying value of the property, plant and equipment (including land use rights) recorded in the books of HBXR was RMB 1.3 million (FY2021: RMB 1.7 million). There is no production since the Acquisition because no business activities and production is allowed due to lack of supply of natural gas by the local government.

Animal feed and traditional medicine

As at 31 March 2022, the carrying value of the property, plant and equipment (including land use rights) recorded in the books of CDPR was RMB 11.2 million (FY2021: RMB 11.6 million). The carrying value of land use right was RMB 10.4 million (FY2021: RMB 10.6 million) as at 31 March 2022.

The management of the Group subsidiaries has not performed an assessment of the possible impairment as at the reporting date nor there is a profit forecast prepared for impairment assessment in the light of the circumstances as stated herein.

Because of the matters described in the preceding paragraphs, we were unable to ascertain the extent of impairment to be made to the property, plant and equipment including the land use rights as well as the residual goodwill.

6. Impairment of trade receivables

As disclosed in Note 9 to the accompanying financial statements, as at 31 March 2022, the Group has outstanding net trade receivables balances from contracts with customers of RMB 58.3 million (2021: RMB 13.5 million) which include the RMB47.5 million (2021: Nil) receivable from KWJ. The management of the Group has not performed an assessment of the possible impairment of trade receivables as at the reporting date. We were unable to ascertain the extent of impairment of trade receivables to be made.

INDEPENDENT AUDITOR'S REPORT

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

Basis for Disclaimer of Opinion (Cont'd)

The Group (Cont'd)

7. Going concern - Limitation of scope and fundamental uncertainty relating to the going concern basis

We draw attention to Note 2(a) of the financial statements which states that the financial statements have been prepared on a going concern basis.

Despite the Group has net tangible assets of RMB 117.2 million (FY2021: RMB 121.3 million) and the current assets exceeded the current liabilities by RMB 93.2 million (FY2021: RMB 96.3 million), the Group reported profit before taxation of RMB 0.6 million (2021: loss before taxation of RMB 70.5 million) for the financial year ended 31 March 2022 and recorded cash generated from operating activities of RMB 3.5 million (2021: cash used in operating activities of RMB 58.3 million), the factors listed below may affect the appropriateness of the going concern:

- (i) the inability of the existing business to generate sufficient cashflows for the Group;
- (ii) there is no new business identified to be materialise yet;
- (iii) the impact of impairment on trade receivables of RMB 58.3 million;
- (iv) the impact of impairment on other receivables of RMB 85 million;
- (v) the impact on the sanctions imposed on the production;
- (vi) there is no cashflow forecast provided to review the business opportunities, if any; and
- (vii) there is no indication of external funding to support new business.

To the best of the knowledge of the directors of the Company, there is a potential value on the patent which has been fully written off. The amount was RMB 120 million.

Accordingly, we were unable to assess whether the going concern assumption is appropriate as to the Group's ability to continue as a going concern in the next twelve months from the date of this report. The resultant effect may cause adjustments to be made to the financial statements and reclassification of accounts for which no such adjustment has been effected in the books.

The Company

Amount owing by subsidiaries

As at 31 March 2022, the amount owing by subsidiaries were RMB 109.4 million (FY2021: RMB 115 million) (Note 10). Most of the subsidiaries have reported deficits in their shareholder's fund as at 31 March 2022 and reported losses for the year then ended. The management of the Company has not performed any assessments of the possible impairment of amount owing by subsidiaries as at the reporting date. Consequently, we were unable to determine whether the amount owing by subsidiaries can be recoverable.

Independent Auditor's Report

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

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of Section 90 of the Companies Act 1981 of Bermuda and International Financial Reporting Standards ("IFRS"), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with International Standards on Auditing and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with Section 90 of Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. However, because of the matters described in the *Basis for Disclaimer Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants Code of Professional Conduct and Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Report on Other Legal and Regulatory Requirements

In our opinion, in view of the significance of the matters referred to in the Basis for Disclaimer of Opinion section of our report, we do not express an opinion on whether the accounting and other records required by the Companies Act 1981 of Bermuda ("Act") to be kept by the Company have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Yeo Boon Chye.

Foo Kon Tan LLP
Public Accountants
and Chartered Accountants

Singapore,

31 Other financial information

Purchases and trade payables, Sales and trade debtors

(a) KWJ, ZhongFan and Defu

The two major customers of HBXR are Huizhou KWJ Biotechnology Co., Ltd (惠州市康维健生物科技有限公司) (“KWJ”) and 惠州市德福实业有限公司 (“Defu”) since the financial year ended 31 March 2020 for sales of equipment. KWJ was a supplier to HBXR in FY2021. Defu and KWJ have common legal representative.

On 12 November 2020, the Company announced that the Group has a short-term investment of RMB 40 million in a low-risk fund managed by a licensed fund company in China under Shenzhen Hui Pu Seng Cai Fu Investment Co., Ltd., with reasonable return. Due to Covid-19 pandemic, the Company decided to terminate and withdrew from the short-term investment. The management agreed with Shenzhen Hui Pu Seng Cai Fu Investment Co., Ltd that the RMB 40 million short-term investment will be repaid in two tranches by the end of March 2021. In aggregate, the sum of RMB40 million was received in two tranches of RMB 20 million each in FY2020 and FY2021 where the subsidiaries, SZBY and SZYK received from KWJ. The entire sum of RMB 40 million was then remitted to HBXR.

- *Sales and purchase arrangements*

On 29 June 2021, the Company made an announcement that HBXR entered into arrangement where there were three sales contracts entered with KWJ for a sum of RMB 77.5 million to supply equipment to KWJ. For the sales order, HBXR entered into five purchase contracts with ZhongFan for a sum of RMB 69.74 million to purchase the equipment including the services for installation required by KWJ. Under the purchase contracts entered with the supplier, the supplier has to deliver and/or install the above-mentioned equipment between December 2020 and September 2021.

The fund for the supply of equipment from ZhongFan was from the RMB 40 million recovered from the short-term investment. For these contracts, sales made to KWJ totalled RMB 52.7 million (exclude VAT) and the purchases from 惠州中凡机电设备有限公司 (“ZhongFan”) was RMB 47.8 million (exclude VAT) for the financial year ended 31 March 2022. For sales made to Defu under separate contracts, the amount was RMB 5.1 million (FY2021 - RMB 7.9 million).

31 Other financial information (Cont'd)

Purchases and trade payables, Sales and trade debtors (Cont'd)

(a) KWJ, ZhongFan and Defu (Cont'd)

- *Sales to KWJ*

During the financial year ended 31 March 2022, HBXR entered into sales transactions of RMB 52.7 million (exclude VAT) for the supply of equipment to KWJ. The receivable for these transactions remained was RMB 47.5 million as at 31 March 2022. We understand from Mr Liang Bing (HBXR General Manager), the sales made to KWJ is mainly to expand the L-AP plant belonging to KWJ with the patent technology. There are subsequent receipt of RMB 2.6 million subsequent to the reporting date.

- *Purchases from ZhongFan*

According to the management, ZhongFan informed the Group that there were delays in securing certain imported parts and equipment that were necessary for the supply, delivery and installation of the equipment due to the Covid-19 pandemic.

As disclosed in Note 9 to the financial statements, during the financial year ended 31 March 2021, under the contract, HBXR paid advances of RMB 49.2 million to ZhongFan for the supply and installation of certain equipment for sales to be made to KWJ. During the financial year ended 31 March 2022, HBXR recorded net outflow of RMB 3.7 million to ZhongFan for the supply of equipment. In respect of the contractual obligation, as disclosed in Note 9.1 to the financial statements, the total advances made by HBXR to ZhongFan amounted to RMB 52.9 million (the contractual sum) upon supply of equipment made. The Group recorded no amount owing to/by ZhongFan as at 31 March 2022. We understand from Mr Liang Bing that there was offsetting arrangement amongst the parties.

The Group has entered into arrangement with KWJ where KWJ has been given the rights to use the patent belonging to the Group.

9 Trade and other receivables

	Note	The Group		The Company	
		31 March 2022 RMB'000	31 March 2021 RMB'000	31 March 2022 RMB'000	31 March 2021 RMB'000
Trade receivables		73,824	29,604	-	-
Less: Expected credit loss allowance					
- At 1 April		(16,089)	(17,326)	-	-
- Write-off		-	8	-	-
- Exchange differences		614	1,229	-	-
- At 31 March		(15,475)	(16,089)	-	-
Trade receivables – net		58,349	13,515	-	-
Other receivables		3,826	2,479	103	107
Advances	9.1	-	49,152	-	-
Deposits	9.2	81,708	70,217	-	-
Prepayment		4,811	1,256	-	-
VAT receivable		-	99	-	-
Total other receivables		90,345	123,203	103	107
Total trade and other receivables		148,694	136,718	103	107

Trade receivables are non-interest bearing and are generally on 0 to 90 (2021 - 0 and 90) days' term. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

9 Trade and other receivables (Cont'd)

9.1 FY2021 - RMB 49 million advances paid to 惠州中凡机电设备有限公司 (“ZhongFan”) In FY2021, the Group contracted and paid advances of RMB 49.2 million to a new supplier, ZhongFan, for the supply and installation of certain equipment for delivery to a customer, Kangweijian. Under the purchase contract entered with the supplier, the supplier is to deliver and/or install the above-mentioned equipment between December 2020 and September 2021. There was a delay in delivery by ZhongFan due to some delays of securing certain imported parts and equipment regarding the equipment due to the Covid-19 pandemic.

During the financial year ended 31 March 2022, HXBR paid another advances of RMB 3.7 million to ZhongFan for the supply of equipment. The sales was then made to Kangweijian. Under this arrangement, there was no amount owing by ZhongFan to HXBR as at 31 March 2022.

9.2 (i) FY2021 - RMB 35 million deposit paid to Shenzhen Shareihome Technology Co., Ltd. (“SST”) Included in the deposits is a deposit of RMB 35 million to facilitate a potential business cooperation with SST in the PRC. The deposit was paid pursuant to a Cooperation Framework Agreement (the “SST Agreement”) with SST on 22 April 2021 in relation to the development of equipment production (Agricultural Artificial Intelligence), automation technology and marketing on Internet of Things.

During the financial year ended 31 March 2022, the Group through its subsidiary, SZBY, further paid deposits totalling RMB 50 million to SST. The deposits totalling RMB 85 million was paid to Shenzhen Tizhe Technology Co. Ltd, a nominee for SST. As at 31 March 2022, the deposit owing by SST to SZBY was RMB 85 million.

(ii) RMB 35 million deposit paid to 深圳农映食品开发集团有限公司 (“Nongfu”) In respect of the RMB 35 million paid to Nongfu, the Group entered into an agreement with Nongfu in November 2016 for a potential business acquisition. The agreement for potential business acquisition has expired in November 2019 with no extensions or renewal terms. During the financial year ended 31 March 2021, given the Covid-19 pandemic, the Company decided to accelerate the recovery of all deposits. The aforesaid amount was fully received during the financial year ended 31 March 2022.

Trade and other receivables are denominated in the following currencies:

	The Group		The Company	
	31 March 2022	31 March 2021	31 March 2022	31 March 2021
	RMB'000	RMB'000	RMB'000	RMB'000
Hong Kong dollar	103	107	103	107
Renminbi	148,591	136,611	-	-
	148,694	136,718	103	107

The ageing analysis of trade receivables is as follows:

The Group	31 March 2022	31 March 2021
	RMB'000	RMB'000
Not past due	*53,270	374
Past due 1 to 30 days	-	-
Past due 31 to 60 days	-	-
Past due 61 to 90 days	-	-
Past due more than 90 days	20,554	29,230
Trade receivables (gross)	73,824	29,604
Less: Expected credit loss allowance	(15,475)	(16,089)
Trade receivables (net)	58,349	13,515

*mainly owing by KWJ to the sum of RMB47.5 million

Further details of the Group's financial risk management of credit risk are disclosed in Note 27.

Notes to the financial statements for the financial year ended 31 March 2022

2(a) Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”)/ (“IAS”) including interpretations promulgated by the International Financial Reporting Interpretations Committee (“IFRIC”) issued by the International Accounting Standards Board (“IASB”). The financial statements have been prepared under the historical cost basis, except as disclosed in the accounting policies below.

The financial statements are presented in Renminbi (“RMB”), rounded to the nearest thousand (“RMB’000”). All financial information is presented in Renminbi, unless otherwise stated.

Going concern

Despite the Group has net tangible assets of RMB 117.2 million (FY2021: RMB 121.3 million) and the current assets exceeded the current liabilities by RMB 93.2 million (FY2021: RMB 96.3 million), the Group reported profit before taxation of RMB 0.6 million (2021: loss before taxation of RMB 70.5 million) for the financial year ended 31 March 2022 and recorded cash generated from operating activities of RMB3.5 million (2021: cash used in operating activities of RMB 58.3 million).

Notwithstanding the matters referred below, the director of the Company are of the opinion that the going concern is appropriate:

- (a) The impact on the contingent consideration recognised as income and the effect on profit warranty;
- (b) Lack of supply of natural gas for the use of production by the respective entity, HBXR and CDPR;
- (c) The impact on the sanctions imposed by the authority to cease production by HBXR and CDPR;
and
- (d) No new business ventures were identified in the future period.

In the opinion of the directors of the Group, they believe that there is reasonable ground that the deposits of RMB 81.7 million can be recoverable and that the trade receivable of RMB 58.3 million is collectable to meet the future cashflows needs. Efforts are continuously met to identify new business opportunity given the challenging condition placed by HBXR. Where possible, new external borrowings will be sought by the Group.

2(a) Basis of preparation (Cont'd)

Significant judgements and accounting estimates

The preparation of the financial statements in conformity with IFRS requires the management to exercise judgements in the process of applying the Group's accounting policies and requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the end of the reporting period and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the financial year in which the estimate is revised if the revision affects only the financial year or in the financial year of the revision and future financial years if the revision affects both current and future financial years.

The critical accounting estimates and assumptions used and areas involving a high degree of judgement are detailed below:

Significant judgements made in applying accounting policies

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amount recognised in the financial statements:

(i) Determination of functional currency

The functional currency for each entity in the Group is the currency of the primary economic environment in which it operates. These financial statements are presented in RMB, which is the functional and presentational currency of most of the Group entities. Notwithstanding that the functional currency of the Company is Hong Kong dollars, the financial statements of the Group and the Company have been presented in RMB in order to best represent the core business performance and its underlying exposures from an operational perspective as the Group carries out its production and trading operations in mainly RMB.

Determination of functional currency involves significant judgement and other companies may make different judgements based on similar facts. The functional currency of each of the group entities is principally determined by the primary economic environment in which the respective entity operates.

The Group reconsiders the functional currency of its entities if there is a change in the underlying transactions, events and conditions which determine their primary economic environment. The determination of functional currency affects the carrying value of non-current assets included in the statement of financial position and, as a consequence, the amortisation of those assets included in profit or loss. It also impacts exchange gains and losses included in the profit or loss.

(ii) Income tax (Note 22)

The Group has exposure to income taxes in numerous jurisdictions. Significant judgement is involved in determining group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. When the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

2(a) Basis of preparation (Cont'd)

Significant judgements made in applying accounting policies

(iii) Acquisition of business

The Group made an acquisition of companies or entities for the purpose of generating business. At the date of acquisition, the Group assesses whether the purchase of an entity constitutes a business combination or an asset acquisition. In cases where the acquired entity meets the definition of a business, the Group accounts for the purchase as a business combination. When the acquired entity does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. In making this distinction, the Group identifies and considers the assets purchased and the processes, inputs and workforce transferred, and then assesses the capability of these elements to significantly contribute together to the ability to generate outputs.

Critical accounting estimates and key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Group based its assumptions and estimates on parameters available when the financial statements are prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumption when they occur.

(i) Useful lives and depreciation of property, plant and equipment and right-of-use assets (Notes 5 and 6)

Management determines the estimated useful lives and related depreciation charges for its property, plant and equipment and right-of-use assets ("ROU assets"). Changes in the expected level of usage, maintenance programmes, and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised. The carrying amount of property, plant and equipment and ROU assets are disclosed in Notes 5 and 6 to the financial statements.

In FY2022, the management did not perform an assessment of the possible impairment of property, plant and equipment and ROU assets as at the reporting date.

Goodwill, property, plant and equipment, ROU assets and intangible assets are reviewed to determine whether there are any indications that the carrying value of these assets may not be recoverable and have suffered an impairment loss or indications that an impairment loss recognised in prior periods may no longer exist (other than goodwill) or may have decreased as at the end of the reporting period. If any such indication exists, the assets are tested for impairment. An impairment loss is recognised when the carrying amount of a cash-generating unit ("CGU"), including the goodwill, exceeds the recoverable amount of the CGU. The recoverable amount of a CGU is the higher of the CGU's fair value less costs of disposal and value-in-use.

2(a) Basis of preparation (Cont'd)

Critical accounting estimates and key sources of estimation uncertainty (Cont'd)

(ii) Impairment of non-financial assets (Notes 4, 5, 6 and 7) (Cont'd)

In FY2021, the valuations were performed by an independent professional valuer. The determination of the recoverable amounts includes use of unobservable inputs. Factors such as changes in discount rates, the presence of competition, technical obsolescence and lower-than-anticipated product sales could lead to shorter useful lives or impairment. Due to the inherent valuation uncertainty, those estimated recoverable amounts may differ significantly from actual results, and those differences could be material.

The carrying amount the Group's patents, goodwill, property, plant and equipment, ROU assets and intangible assets, and the details of impairment tests are disclosed in Notes 4, 5, 6 and 7.

In FY2022, the management did not perform an assessment of the possible impairment of goodwill, property, plant and equipment, ROU assets and intangible assets as at the reporting date.

(iii) Valuation of inventories (Note 8)

The Group reviews the ageing analysis of inventories at each reporting date, and makes provision for obsolete and slow-moving inventory items identified that are no longer suitable for sale. The net realisable value for such inventories are estimated based primarily on the latest invoice prices and current market conditions. Possible changes in these estimates could result in revisions to the valuation of inventories.

The carrying amount of the Group's inventories is disclosed in Note 8. If the net realisable values of inventories increase/decrease by 5% from management's estimates, the Group's loss for the year ended 31 March 2022 would decrease/increase by approximately RMB 98,000 (2021 - RMB 116,000).

(iv) Allowance for expected credit losses ("ECL") on trade and other receivables (including advances and deposits) and amount due from subsidiaries (Notes 9 and 10)

Allowance for ECL of trade and other receivables and amount due from subsidiaries are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the ECL calculation, based on the Group's past collection history, existing market conditions including an adjustment for the impact of COVID-19. Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

The Group has provided expected credit loss on past due trade receivables where:

- (a) there is no credit impair to be expected, a percentage has been applied to the debt on a general basis.
- (b) there is a credit impair expected, a percentage has been applied to the specific debt if doubtful on the basis to the extent of the probability of default.

2(a) Basis of preparation (Cont'd)

Critical accounting estimates and key sources of estimation uncertainty (Cont'd)

- (iv) Allowance for expected credit losses (“ECL”) on trade and other receivables (including advances and deposits) and amount due from subsidiaries (Notes 9 and 10) (Cont'd)

The Group has provided expected credit loss on past due trade receivables where: (Cont'd)

- (c) there is a credit-impaired and regarded as in default, a full sum of the specific debt will be written off to profit or loss;

The carrying amount of the Group’s and the Company’s trade and other receivables and amount due from subsidiaries are disclosed in Notes 9 and 10.

In FY2022, management did not perform an assessment of the possible impairment of trade and other receivables and amount due from subsidiaries.

- (v) Fair value measurement of contingent consideration for acquisition of subsidiaries in a business combination (Notes 3 and 16)

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the consideration transferred for business combination. Where the contingent consideration meets the definition of a derivative and thus financial liability, it is subsequently re-measured to fair value at each reporting date. The determination of the fair value is based on the market approach using the Chaffe Put Option Model and taking into account the probability of meeting each performance target from the profit warranty given by the vendors. As part of the purchase price allocation for the acquisition of Chengde Purun Shengwu Zhiyao Co., Ltd., Hebei Xingrun Shengwu Keji Gufen Co., Ltd. and Benchmark Trade Limited in the previous financial period ended 31 March 2019, the Group identified an element of contingent consideration.

The carrying amount of the contingent consideration is disclosed in Note 16. Sensitivity analysis regarding the key input estimates used in the valuation is disclosed in Note 30 to the financial statements.

In FY2022, there is no valuer appointed to determine the fair value of the contingent consideration as at the reporting date as management determines the probability of meeting the profit warranty is remote. The contingent consideration was based on the fair value determined in FY2021.

10 Amounts due from/(to) subsidiaries

Amounts due from/(to) subsidiaries, comprise mainly advances, are denominated in Hong Kong dollars, unsecured, non-interest bearing and repayable on demand.

Further details of the Group's financial risk management of credit risk are disclosed in Note 27.

27 Financial risk management

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise adverse effects from the unpredictability of financial markets on the Group's financial performance. The Group is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk and liquidity risk.

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no significant change in the Group's exposure to these risks or the manner in which it manages and measures risks.

Credit risk

Credit risk refers to the risk that counterparties may default on their contractual obligations resulting in financial loss to the Group. The Group's and the Company's major classes of financial assets are bank deposits and trade and other receivables. Cash is held with reputable financial institutions of high credit ratings.

The Group performs ongoing credit evaluation of its customers' financial conditions and requires no collateral from its customers.

To minimise credit risk, the Group has developed and maintained the Group's credit risk gradings to categorise exposures according to their degree of risk of default. The credit rating information is supplied by publicly available financial information and the Group's own trading records to rate its major customers and other debtors.

The Group considers available reasonable and supportive forward-looking information which includes the following indicators:

- Internal credit rating
- External credit rating
- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtor's ability to meet its obligations
- Actual or expected significant changes in the operating results of the debtor
- Significant increases in credit risk on other financial instruments of the same debtor
- Significant changes in the expected performance and behaviour of the debtor, including changes in the payment status of debtors in the group and changes in the operating results of the debtor.

27 Financial risk management (Cont'd)

Credit risk (Cont'd)

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making contractual payment.

The Group determined that its financial assets are credit-impaired when:

- There is significant difficulty of the debtor
- A breach of contract, such as a default or past due event
- It is becoming probable that the debtor will enter bankruptcy or other financial reorganisation
- There is a disappearance of an active market for that financial asset because of financial difficulty

The Group categorises a receivable for potential write-off when a debtor fails to make contractual payments more than 120 days past due. Financial assets are written off when there is evidence indicating that the debtor is in severe financial difficulty and the debtor has no realistic prospect of recovery.

The Group's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising expected credit losses (ECL)
Performing	The counterparty has a low risk of default and does not have any past-due amounts.	12-month ECL
Doubtful	Amount is >30 days past due or there has been a significant increase in credit risk since initial recognition.	Lifetime ECL - not credit-impaired
In default	Amount is >90 days past due or there is evidence indicating the asset is credit-impaired.	Lifetime ECL - credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery.	Amount is written off

Trade receivables

The Group uses a provision matrix to measure the lifetime expected credit loss allowance for trade receivables. The Group determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions.

Trade receivables are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group considers a financial asset as in default if the counterparty fails to make contractual payments within 90 days when they fall due, and writes off the financial asset when a debtor fails to make contractual payments greater than 120 days past due. Where receivables are written off, the Group continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognised in profit or loss.

27 Financial risk management (Cont'd)

Credit risk (Cont'd)

Trade receivables (Cont'd)

The Group's credit risk exposure in relation to trade receivables by segment under IFRS 9 are set out as follows:

	Current RMB'000	<-----Past due----->				Total RMB'000
		1-30 days RMB'000	31-60 days RMB'000	61-90 days RMB'000	> 90 days RMB'000	
2022						
Gross trade receivables						
Animal feed and traditional medicine	-	-	-	-	961	961
Food additive	53,431	-	-	-	-	53,431
Trading	-	-	-	-	19,432	19,432
	53,431	-	-	-	20,393	73,824
Less: Impairment loss						
Animal feed and traditional medicine	-	-	-	-	(928)	(928)
Food additive	-	-	-	-	-	-
Trading	-	-	-	-	(14,547)	(14,547)
	-	-	-	-	(15,475)	(15,475)
	53,431	-	-	-	4,918	58,349
Net trade receivables						
Animal feed and traditional medicine	-	-	-	-	33	33
Food additive	53,431	-	-	-	-	53,431
Trading	-	-	-	-	4,885	4,885
	53,431	-	-	-	4,918	58,349
2021						
Gross trade receivables						
Animal feed and traditional medicine	-	-	-	-	961	961
Food additive	374	-	-	-	-	374
Trading	-	-	-	-	28,269	28,269
	374	-	-	-	29,230	29,604
Less: Impairment loss						
Animal feed and traditional medicine	-	-	-	-	(928)	(928)
Food additive	-	-	-	-	-	-
Trading	-	-	-	-	(15,161)	(15,161)
	-	-	-	-	(16,089)	(16,089)
	374	-	-	-	13,141	13,515
Net trade receivables						
Animal feed and traditional medicine	-	-	-	-	33	33
Food additive	374	-	-	-	-	374
Trading	-	-	-	-	13,108	13,108
	374	-	-	-	13,141	13,515

There is no information provided regarding the changes on the risk of a default as to the lifetime expected credit losses that represent the expected credit risk and the extent of the average credit losses with respect of a risk occur.

27 Financial risk management (Cont'd)

Credit risk (Cont'd)

Other receivables and amount due from subsidiaries

The Group and the Company assessed the latest performance and financial position of the counterparties, adjusted for future outlook of industry in which the counterparties operate in, and concluded that there has been no significant increase in the credit risk since the initial recognition of the financial assets. Accordingly, the Group measured the impairment loss allowance using 12-months ECL and determined that the ECL is insignificant. As disclosed in Notes 9 and 10 to the financial statements, management believes that no additional credit risk lies in the Group's and the Company's trade and other receivables.

Significant concentration of credit risks

Concentrations of credit risk exist when changes in economic, industry or geographical factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Group's total exposure. The Group determines concentrations of credit risk by monitoring the country and industry sector profile of its trade receivables on an ongoing basis.

	The Group		The Company	
	31 March 2022 RMB'000	31 March 2021 RMB'000	31 March 2022 RMB'000	31 March 2021 RMB'000
<u>By geographical areas</u>				
PRC	53,464	12,741	-	-
Hong Kong	4,885	774	-	-
	58,349	13,515	-	-