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

Qualified Opinion

We have audited 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 2019, 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 period then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company present fairly, in all material respects, the financial position of the Group and the Company as at 31 March 2019 and the financial performance, changes in equity and cash flows of the Group for the period then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

a) Discontinued operations and Disposal group classified as held for sale

As detailed in Notes 5 and 16 to the financial statements during the period ended 31 March 2019, we were denied access by the new owners to the financial information and management accounts of the Discontinued operations and Disposal group classified as held for sale that were disposed of in May 2018. Accordingly, due to limitation of audit scope, we were unable to carry out the procedures necessary to satisfy ourselves as to the extent of the loss of RMB 17.1 million on discontinued operations for the 5-month period prior to the disposition of the subsidiaries and the reported gain on disposal of subsidiaries to the sum of RMB 27.2 million arising from the disposal of the Disposal group classified as held for sale that has been included in the consolidated statement of profit or loss and comprehensive income of the Group for the 15-month period ended 31 March 2019.

b) Auditor's report on the financial statements for the financial year ended 31 December 2017

The auditor's report dated 8 May 2018 on the financial statements for the financial year ended 31 December 2017 contained a modified opinion because we were unable to obtain audit evidence on the occurrence and accuracy of payroll expenses for redundant employees of RMB 3.4 million incurred by a subsidiary of the Group for the year ended 31 December 2017. As the opening balances enter into the determination of the financial results of the Group for the current financial period ended 31 March 2019 and have an impact on the statement of financial position of the Group as at that date, we were unable to ascertain whether any adjustments were required to the opening balances or to the corresponding figures for the current financial period ended 31 March 2019.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Independent Auditor's Report (Cont'd)

TO THE MEMBERS OF UNITED FOOD HOLDINGS LIMITED
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Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the Basis for Qualified Opinion section above, we were unable to obtain sufficient appropriate audit evidence regarding the accuracy and completeness of the loss from discontinued operations of RMB 17.1 million and the gain on disposal of subsidiaries of RMB 27.2 million for the financial period ended 31 March 2019, and about the occurrence and accuracy of payroll expenses for redundant employees of RMB 3.4 million for the year ended 31 December 2017. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to these matters.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the Basis for Qualified Opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Independent Auditor's Report (Cont'd)

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

Key Audit Matters (Cont'd)

Key Audit Matter	**How our audit addressed the Key Audit Matter**
1. <u>Acquisition-date fair value of patents</u> In connection with the acquisition of the Target Companies (Notes 8 and 11) and in accordance with IFRS 3 Business Combinations on the measurement of the assets acquired and liabilities assumed in a business combination, there exists patent rights with a fair value of RMB 148.6 million at the date of acquisition. Management with the assistance of an independent professional valuer has determined the acquisition-date fair value of the acquired patent rights based on the Multi-period Earnings Excess Method or income approach that involves the use of forecast and discounted cash flows and applying the following factors, among others: • One of the newly acquired patent involving the production of L-Ascorbyl Palmitate (L-AP) or antioxidant product is in its early stages of commencement in production and sales; • Sales and the associated cost are forecasted on the assumption that the production capacity will be operating at between 50% and 100% over the remaining life of the patents of 10 to 13 years; • Gross profit margin is estimated at between 45.51% to 78.07%; • The long-term growth rate beyond the 5-year forecast period was estimated at 2.61%; and • A discount rate of between 17.29% to 18.88% was used. A slight change in the key assumptions applied by the valuer such as a reduction in forecasted revenue can have a significant impact to the valuation at the date of acquisition. The determination of the acquisition-date fair value of the patents involves a significant degree of management judgment and estimation uncertainty.	We have performed the following: a) Ascertained the validity and legal status of the patent rights by engaging our own lawyer to perform the verification against supporting documentation such as the China National Intellectual Property Administration (formerly known as the State Intellectual Property Office of China); b) Held discussions with the valuers and challenged their key assumptions applied by comparing them against market comparable, historical data and available industry information; c) Evaluated the competency, capabilities and objectivity of management expert, obtained an understanding of the work of that expert; and evaluated the appropriateness of that expert's work as audit evidence for the relevant assertion; d) Engaged our auditor expert to review the appropriateness of the valuation methodologies, assumptions and reasonableness of certain key inputs used by management and the independent professional valuer in determining the acquisition-date fair value of the patents acquired; e) Evaluated whether the auditor's expert has the necessary competence, capability and objectivity for our purpose; f) Reviewed the sensitivity analysis over the assumptions and estimates performed by the valuers on the impact of a change(s) in the valuation variables such as the discount rate and/or the forecasted revenues that could reduce the recoverable amount (for impairment assessment) below the carrying amount of the patents at the reporting date; and g) Assessed the adequacy of disclosure in relation to the assumptions and estimates over the acquisition-date fair value of the patents acquired.

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Key Audit Matters (Cont'd)

Key Audit Matter	How our audit addressed the Key Audit Matter
1. Acquisition-date fair value of patents (Cont'd) In accordance with ISA 706 Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report, matters that are determined to be key audit matters in accordance with ISA 701 Communicating Key Audit Matters in the Independent Auditor's Report may also be, in the auditor's judgment, fundamental to users' understanding of the financial statements. Accordingly, we wish to draw further attention to the gain from bargain purchase of RMB 39.8 million that was recognised in these financial statements for the financial period ended 31 March 2019, the carrying amount of the patents of RMB 141.7 million and the impairment assessment carried out by management on these patents as at the reporting date of 31 March 2019 relating to the above-mentioned key audit matter: **Significant Management Judgment and High Estimation Uncertainty: Gain from bargain purchase, carrying amount of the patents and impairment assessment** As detailed in Note 8 to the financial statements, during the 15-month financial period ended 31 March 2019, the Group has acquired new subsidiaries for which a gain of RMB 39.8 million from bargain purchase has been recognised and recorded in the consolidated statement of profit or loss and other comprehensive income of the Group for the period then ended. Under IFRS 3 Business Combinations, the acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values. One of the key determinants in deriving the gain from bargain purchase of RMB 39.8 million is the acquisition-date fair value of the patents which was estimated at RMB 148.6 million. The carrying amount of the patents at the reporting date at 31 March 2019 was RMB 141.7 million. The fair values of the patents at the date of acquisition were calculated using the Multi-Period Excess Earnings Method or income approach that involves the use of forecast and discounted cash flows.	

Independent Auditor's Report (Cont'd)

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Key Audit Matters (Cont'd)

Key Audit Matter	**How our audit addressed the Key Audit Matter**
1. Acquisition-date fair value of patents (Cont'd) **Significant Management Judgment and High Estimation Uncertainty: Gain from bargain purchase, carrying amount of the patents and impairment assessment (Cont'd)** There is material uncertainty arising from the use of this method. This is mainly because one of the newly acquired patents involving the production of L-Ascorbyl Palmitate (L-AP) or antioxidant is in its early stages of commencement in production and sales with no proven track record. In addition, included in the forecast in arriving at the valuation of the patents at the acquisition date is the assumption that these patents are estimated to continue to produce and sell throughout the remaining life of the patents of between 10 to 13 years. Given the current market comparables, the forecast may be well challenged if there is an economic downturn or when the actual results do not occur as expected. The forecast involves the application of significant management judgement and accounting estimates. Although these forecasts are based on management's best knowledge of current events and actions in the foreseeable future, there may be a likelihood that actual results and future events may ultimately differ from those estimates, and the difference could be material. The extent of impairment on the patents has been considered by management by way of performing a sensitivity analysis. A 1% increase in the discount rate or a 5% decrease in the revenue forecast may not reduce the recoverable amount (for impairment assessment) below the carrying amount of the patents at the reporting date at 31 March 2019. Our opinion is not modified in respect of this matter. The disclosures in the financial statements are found in Notes 8, 10 and 11 to the accompanying financial statements.	

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TO THE MEMBERS OF UNITED FOOD HOLDINGS LIMITED
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Key Audit Matters (Cont'd)

Key Audit Matter	**How our audit addressed the Key Audit Matter**
2. <u>Contingent consideration for acquisition of subsidiaries</u> By way of funding (purchase consideration) for the acquisition of the Target Companies (Note 8), the Group entered into a Bond instrument which is convertible into shares of the Company (subject to the terms and conditions of the sale and purchase agreement). The amount of Bonds to be issued depends on the amount of profits to be achieved by the vendors under the profit warranty given by the vendors to the Group and is calculated based on an agreed formula as: *Amount of Bonds to be issued is equal to [(Actual profits/RMB 25 million) x RMB 28.333 million Bonds] each year over the next 3 years subject to a maximum aggregate of RMB 85 million of Bonds.* The vendors of the Target Companies have provided a profit warranty of RMB 25 million each year over 3 years with a cumulative aggregate profit warranty of RMB 75 million. Management has accounted for the Bonds to be issued representing the balance purchase consideration of RMB 85 million as a contingent consideration classified as a financial liability under IFRS 3 Business Combinations. This is because the amount of Bonds to be issued varies or depends on the amount of profits that are generated by the Target Companies under the profit warranty given by the vendors. The contingent consideration was valued at RMB 44.5 million by the professional valuer at the date of acquisition 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 and certain valuation variables such as the Discount for Lack of Marketability ("DLOM"). In the event that the performance obligation by the vendors of the Target Companies cannot be fulfilled, the purchase consideration by way of Bonds will be adjusted accordingly. The valuation of the contingent consideration was carried out by management with assistance from an independent professional valuer.	We have performed the following: a) Inspected the sale and purchase agreement for the understanding of the terms and conditions of the purchase consideration involving the Bonds to be issued; b) Evaluated the appropriateness of management's accounting treatment of the contingent consideration as a financial liability and the subsequent changes in the fair values of the contingent consideration against IFRS 3 Business Combinations and satisfied ourselves that subsequent changes in value for post-combination events and circumstances should not affect the measurement of the consideration transferred or goodwill on the acquisition date; c) Reviewed the forecasts assumptions and estimates made by management by comparing them against market comparable, historical data and available industry information and benchmarking the certain valuation data such as DLOM against independent data; d) Evaluated management's assessment of the sensitivity of the valuation to reasonably possible changes in assumptions and considered the disclosures provided by the Group in relation to its valuation; e) Evaluated the competency, capabilities and objectivity of management expert, obtained an understanding of the work of that expert; and evaluated the appropriateness of that expert's work as audit evidence for the relevant assertion; f) Engaged our auditor's expert to review the appropriateness of the valuation methodologies, assumptions and reasonableness of certain key inputs used by management and the independent professional valuer in determining the fair value of the contingent consideration at the date of acquisition and at the reporting year end date; and g) Evaluated whether the auditors' expert has the necessary competence, capability and objectivity for our purpose.

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TO THE MEMBERS OF UNITED FOOD HOLDINGS LIMITED
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Key Audit Matters (Cont'd)

Key Audit Matter	**How our audit addressed the Key Audit Matter**
2. <u>Contingent consideration (Cont'd)</u> At the reporting date at 31 March 2019, the professional valuer has estimated the contingent consideration at RMB 17.5 million. The change in the fair value of the contingent consideration of RMB 27.0 million was recognised in profit or loss for the financial period ended 31 March 2019. The most significant assumptions included in the valuation model relate to the determination of the forecasted profits to be achieved under the profit warranty given by the vendors and the estimation of the valuation variables such as the discount for lack of marketability. The determination of the Bond instrument to be issued as a contingent consideration classified as a financial liability and the valuation of the contingent consideration are considered to be a Key Audit Matter as it involves a significant degree of management judgment and estimation uncertainty. The disclosures in the financial statements are found in Notes 2(a)(v), 8, 21 and 28 to the accompanying financial statements.	
3. <u>Impairment of non-current assets</u> The Group's non-current assets comprise goodwill, land use rights, property, plant and equipment and patents amounting to RMB 185.6 million (2017: RMB 12.7 million) as at 31 March 2019. Management has performed an impairment assessment of these non-current assets and has concluded that based on its assessment, no impairment losses were required. The impairment testing performed on the Group's non-current assets is considered to be a Key Audit Matter due to the significant estimation uncertainty, subjective assumptions and the application of significant judgment by management. The disclosures in the financial statements are found in Notes 2(a)(ii), 9, 10 and 11 to the accompanying financial statements.	We have performed the following: a) Reviewed the appropriateness of the Cash Generating Units ("CGU") as defined by the management in accordance with IAS 36 Impairment of Assets; b) Reviewed the recoverable amount assessed based on the fair value less costs of disposal and value-in-use computations and management's key assumptions which included cash flow projections, gross profit margins, discount rates, production capacity and growth rates; c) Evaluated the competency, capabilities and objectivity of management expert, obtained an understanding of the work of that expert; and evaluated the appropriateness of that expert's work as audit evidence for the relevant assertion;

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Key Audit Matters (Cont'd)

Key Audit Matter	**How our audit addressed the Key Audit Matter**
3. Impairment of non-current assets (Cont'd)	d) Evaluated whether the auditor's expert has the necessary competence, capabilities and objectivity for our purposes; e) Challenged the assumptions and methodologies used in determining the recoverable amounts by engaging our auditor expert in critically assessing the reasonableness of the inputs in the forecasted future cash flows by comparison to historical performance, reasonableness of management's plans in the near future, trend analysis and market expectations as appropriate; f) Assessed the annual growth rate and long-term growth rate applied within the model, including comparison to economic and external sources where applicable; g) Compared the recoverable amount of the respective CGUs' against the carrying amounts of the Group's non-current assets to determine if an impairment loss is required; h) Performed sensitivity analysis to determine whether any reasonably possible change in estimates would result in an impairment of the non-current assets; and i) Assessed the adequacy and appropriateness of the disclosures made in the financial statements.

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 IFRSs, 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.

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TO THE MEMBERS OF UNITED FOOD HOLDINGS LIMITED
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Responsibilities of Management and Directors for the Financial Statements (Cont'd)

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 objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditor's Report (Cont'd)

TO THE MEMBERS OF UNITED FOOD HOLDINGS LIMITED
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Auditor's Responsibilities for the Audit of the Financial Statements (Cont'd)

We communicate with those charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 engagement partner on the audit resulting in this independent auditor's report is Chang Fook Kay.

Foo Kon Tan LLP
Public Accountants
and Chartered Accountants

Singapore,

24 June 2019

5 Discontinued operations

The Group's investments in Post-Ante Trading Limited, Globe Bright Limited, Linyi Shengquan Grease Co., Ltd ("SQ Grease") ("Disposal group classified as held for sale") and Linyi Jiang Tian Trading Limited related to the soybean processing, feed production and pig rearing operating segments are classified as assets held for sale at 31 December 2017 as the Group has definitively committed on a plan to dispose of the operations.

The Disposal group classified as held for sale (Refer to Note 16) was disposed of in May 2018 and the results of the discontinued operations up to the date of disposal were as follows:

The Group	Period from 1 January 2018 to 31 March 2019 RMB'000	Year ended 31 December 2017 RMB'000
Revenue	**36,470**	133,940
Cost of sales	**(41,348)**	(132,430)
Gross (loss)/profit	**(4,878)**	1,510
Other income	**22**	135
Selling and distribution expenses	**(1,020)**	(3,389)
Administrative expenses	**(11,224)**	(42,656)
Other expenses, net	**-**	(20,943)
Loss before taxation from discontinued operations	**(17,100)**	(65,343)
Income tax expense	**-**	-
Loss for the period/year from discontinued operations	**(17,100)**	(65,343)

The net cash flows incurred by discontinued operations are as follows:

The Group	Period from 1 January 2018 to 31 March 2019 RMB'000	Year ended 31 December 2017 RMB'000
Operating activities	**(4,382)**	(19,857)
Investing activities	**-**	-
Financing activities	**-**	-
Net cash outflow	**(4,382)**	(19,857)

Gain on disposal of subsidiaries

	Period from 1 January 2018 to 31 March 2019 RMB'000
Assets	
Property, plant and equipment	43,300
Land use rights	20,430
Inventories	9,685
Cash and cash equivalents	4,435
Assets classified as disposal group held for sale	**77,850**
Liabilities	
Trade and other payables	1,371
Provision	11,557
Liabilities classified as disposal group held for sale	**12,928**
Loss from discontinued operations	(17,100)
Gain on disposal of subsidiaries	27,178
Total consideration	**75,000**

The purchaser to the Disposal group classified as held for sale did not grant access to their books and records for audit purposes.

8 Subsidiaries

The Company	**31 March 2019 RMB'000**	31 December 2017 RMB'000
Unquoted equity shares, at cost	**223,747**	223,747
Less: Impairment loss on net investment in subsidiaries	**(223,738)**	(223,738)
Net carrying value	**9**	9
Accumulated impairment losses	**-**	
At beginning and end of the period/year	**223,738**	223,738

Details of the subsidiaries are:

Name of subsidiary	Country of incorporation	Effective equity interest held by the Group **31 Mar 2019 %**	31 Dec 2017 %	Principal activities
Directly held by the Company				
Post-Ante Trading Limited *	British Virgin Islands	**-**	100	Investment holding
Brighten Ocean International Limited ("Brighten Ocean")	Hong Kong	**100**	100	Investment holding
Held by Post-Ante				
Globe Bright Limited ("GBL") *	Hong Kong	**-**	100	Provision of administrative services
Linyi Shengquan Grease Co., Ltd *	PRC	**-**	100	Production and sale of soybean meal and soybean oil and feed production
Held by Brighten Ocean				
Yi Kei International Limited ("Yi Kei")	Hong Kong	**100**	100	Investment holding
Pearlfield China Limited ("Pearlfield")	Hong Kong	**100**	100	Investment holding
Benchmark Trade Limited ("Benchmark" or "BM")	Hong Kong	**80**	-	Trading of Additives
Held by Pearlfield				
Shenzhen Bao Yao Agricultural Products Limited ("SZBY")	PRC	**100**	100	Trading of agricultural products
Really Time Trading Limited ("RTTL")	Hong Kong	**80**	80	Trading of food products
Held by RTTL				
Shenzhen Hualitai Food Trading Co., Ltd	PRC	**80**	80	Trading of food products
Held by Yi Kei				
Shenzhen Yi Kei Logistics Supply-chain Limited	PRC	**100**	100	Logistics services
Held by GBL				
Linyi Jiang Tian Trading Limited *	PRC	**-**	100	Trading of food products

8 Subsidiaries (Cont'd)

Name of subsidiary	Country of incorporation	Effective equity interest held by the Group		Principal activities
		31 Mar 2019 %	31 Dec 2017 %	
Held by SZBY				
Hebei Xingrun Shengwu Keji Gufen Co., Ltd ("HBXR")	PRC	**80**	-	Production and sale of animal feed and traditional medicine
Chengde Purun Shengwu Zhiyao Co., Ltd ("CDPR")	PRC	**80**	-	Production and sale of additives
Held by HBXR				
Beijing Yirun Kemao Co., Ltd	PRC	**76**	-	Trading of additives

* Also known as the "Post-Ante" Group of companies which were disposed of in May 2018.

All subsidiaries of the Group except for the Post-Ante Group of entities that were disposed of in May 2018, as listed above, were audited by Foo Kon Tan LLP for consolidation purposes.

Acquisitions of subsidiaries during the financial period ended 31 March 2019

On 5 October 2017, the Board announced that the Company and two of the Company's wholly owned subsidiaries, Shenzhen Baoyao Agricultural Products Ltd. and Brighten Ocean International Ltd. (collectively, the "Purchasers"), had on 5 October 2017 entered into a sale and purchase agreement ("SPA") with Vendor A, Vendor B and Vendor C (collectively, the "Vendors"), for the sale and purchase of 80% equity interest in the following Target Companies:

- Chengde Purun Shengwu Zhiyao Co., Ltd. (承德普润生物制药有限公司) ("CDPR")
- Hebei Xingrun Shengwu Keji Gufen Co., Ltd. (河北兴润生物科技股份有限公司) ("HBXR"); and
- Benchmark Trade Limited ("Benchmark/BM")

(CDPR, HBXR and BM are collectively, known as the Target Companies)

The acquisition is in line with the Group's strategy to move further up the supply chain on animal food products that uses Chinese medicine for the preparation of drugs for the prevention and treatment of livestock and poultry and other viral infection and diseases and the potential investment gain from the patented production of the additive L-Ascorbyl Palmitate ("L-AP") or antioxidant. The main product from HBXR is the production of an antioxidant, L-AP (C-22H38O7), which is widely used in various products such as edible oils, infant food products, cosmetics and feed additives for animal feed.

The consideration was RMB 120,000,000 and was paid/payable in the following manner:

- A deposit of RMB 25,000,000;
- A cash consideration of RMB 10,000,000; and
- The balance purchase price of RMB 85,000,000 payable by way of the issuance of Bonds which are convertible subject to the terms of the SPA.

Out of the total purchase consideration of RMB 120 million, RMB 25 million was paid in cash during the year ended 31 December 2017, RMB 10 million is payable in cash to the vendors (Note 19) and the Bonds to be issue representing the balance purchase consideration is payable by way of RMB 85 million of Bonds to be issued. The Bonds are convertible into shares of the Company in accordance with the terms of the SPA.

8 Subsidiaries (Cont'd)

Acquisitions of subsidiaries during the financial period (Cont'd)

The Bonds
The issue of S$17,359,338 (equivalent to approximately RMB 85,000,000 based on a fixed foreign exchange rate of S$1: RMB 4.8965 as at 4 October 2017) in aggregate principal amount of zero per cent. convertible bonds (the "Bonds") by United Food Holdings Limited (the "Issuer"), is pursuant to the Sale and Purchase Agreement ("SPA") dated 5 October 2017 (as the same may from time to time be amended, modified or supplemented) (the "Agreement") between the Issuer, the purchasers and the vendors as referred to in the Agreement. The Bonds do not bear any interest. The Bondholder may convert any Bond into conversion shares at any time during the 12-month period commencing on the first day of FY2021.

The "Conversion Shares" means ordinary shares of the Issuer. The conversion price will be subject to adjustment such as share consolidation or rights issues etc as stipulated in the SPA. In the event there are outstanding Bonds that have not been converted into conversion shares within the conversion period, such Bonds shall automatically be converted into conversion shares at the expiration date of the conversion period. The Issuer shall not be permitted to redeem the Bonds. All Bonds which are converted by the Issuer in accordance with the conditions stipulated in the SPA will be cancelled.

As at 31 March 2019 and as of the date of the report, no Bonds have been issued.

Management has accounted for the Bonds to be issued representing the balance purchase consideration of RMB 85 million as a contingent consideration classified as a financial liability measured at fair value with changes in fair value recognised in profit or loss under IFRS 3 Business Combinations. This is because the amount of Bonds to be issued varies or depends on the amount of profits that are generated by the Target Companies under the profit warranty given by the vendors in the SPA.

The vendors of the Target Companies have provided a profit warranty of RMB 25 million each year over the next three financial years with a cumulative aggregate profit warranty of RMB 75 million. The amount of Bonds to be issued is calculated based on an agreed formula as: Amount of Bond to be issued is equal to [(Actual profits/RMB 25 million) x RMB 28.333 million Bonds] subject to a maximum aggregate number of RMB 85 million of Bonds.

The Acquisition was accounted for as a business combination using the acquisition method of accounting. Management has carried out a purchase price allocation exercise ("PPA") at the date of acquisition by using an independent professional valuer.

Gain from bargain purchase
The Group measured the fair value of the separately recognisable identifiable assets acquired and the liabilities assumed as at the acquisition date. The purchase consideration was lower than the fair value of the net assets acquired. The difference or gain from bargain purchase of RMB 39.8 million was recognised in the consolidated profit or loss for the current financial period ended 31 March 2019.

The acquisition-date fair value of the patents acquired in the business combinations were determined by management with the assistance of an independent professional valuer. The fair values of the patents at the date of acquisition were calculated using the Multi-Period Excess Earnings Method or income approach that involves the use of forecast and discounted cash flows and applying the following factors, among others:

- One of the newly acquired patent involving the production of L-Ascorbyl Palmitate (L-AP) or antioxidant product is in its early stages of commencement in production and sales with no proven track record;
- Sales and the associated cost are forecasted on the assumption that the production capacity will be operating at between 50% and 100% over the remaining life of the patents of 10 to 13 years;
- Gross profit margin is estimated at between 45.51% to 78.07%;
- The long-term growth rate beyond the 5-year forecast period was estimated at 2.61%; and
- A discount rate of between 17.29% to 18.88% was used.

8 Subsidiaries (Cont'd)

Acquisitions of subsidiaries during the financial period (Cont'd)

Gain from bargain purchase (Cont'd)
There is material uncertainty arising from the use of this method. This is mainly because one of the newly acquired patents involving the production of L-Ascorbyl Palmitate (L-AP) or antioxidant is in its early stages of commencement in production and sales with no proven track record. In addition, included in the forecast in arriving at the valuation of these patents at the acquisition date is the assumption that the patents are estimated to continue to produce and sell throughout the remaining life of the patents of between 10 to 13 years.

The gain from bargain purchase, fair value of consideration, fair value of identifiable assets acquired and liabilities assumed, and effect of cash flows are presented as follows:

The Group	**2019**
	RMB'000
Net assets acquired (at date of acquisition, 30 September 2018)	
Patents	148,643
Land use rights	11,100
Property, plant and equipment	20,920
Trade receivables	1,811
Prepayment, deposits and other receivables	1,233
Inventories	1,505
Bank balances and cash	931
Trade payables	(508)
Other payables, deposits received and accruals	(20,506)
Tax receivables	306
Borrowings	(10,000)
Deferred tax liabilities	(6,440)
	148,995
Less: Non-controlling interest (NCI)	(29,763)
Less: Gain from bargain purchase	(39,762)
Total consideration for the acquisition of subsidiaries	**79,470**

Measurement of fair value

Consideration for the acquisition of subsidiaries	**2019**
	RMB'000
Cash paid (in FY2017 as deposits for potential acquisitions)	25,000
Cash payable to the vendors (Note 19)	10,000
Contingent consideration (Bonds to be issued) (Note 21)	44,470
Total consideration	**79,470**

Reason for the acquisition resulting in a gain from bargain purchase
The acquisition and the purchase consideration was arrived at arm's length on a willing-buyer-willing-seller basis negotiation between the Group and the vendors, and after taking into account, among other factors, a 25% discount to the valuation of the sale shares as derived from the valuation report, the profit warranty provided by the vendors, the estimated trading price-earnings multiples of comparable companies as the Target Companies, the payment terms of the purchase consideration in which the Bonds are subject to adjustment mechanisms (as set out in the SPA) and subject to the achievement of the profit warranty, and the rationale and benefits for the proposed Acquisition. In addition, the vendors had intended for Benchmark to be incorporated outside the PRC to facilitate the vendors' global expansion plans for the Target Companies, including the licence and export of L-AP or L-AP-based products both in and outside of the PRC, through an entity that the vendors deemed will be more acceptable in most foreign jurisdictions. The vendors believed that such an arrangement was the most tax efficient structure for the business and for the owners of the business.

8 Subsidiaries (Cont'd)

Acquisitions of subsidiaries during the financial period (Cont'd)

Measurement of fair value

Reason for the acquisitions resulting in a gain from bargain purchase (Cont'd)
The independent professional valuer appointed by management has applied the Chaffe Put Option Model in estimating the fair value of the Bonds to be issued representing the balance purchase consideration comprising the contingent consideration at RMB 44.5 million at the date of acquisition. The contingent consideration was arrived at after taking into account the probability of meeting each performance target from the profit warranty given by the vendors, the estimated discount for lack of marketability ("DLOM") and the estimated share price.

At the reporting date at 31 March 2019, the professional valuer has estimated the contingent consideration at RMB 17.5 million. The changes in the fair value of the contingent consideration have been recognised in profit or loss as follows:

Changes in fair value of contingent consideration	**2019 RMB'000**
Contingent consideration at date of acquisition	44,470
Contingent consideration at reporting date	17,519
Changes in fair value of contingent consideration recognised in profit or loss	**26,951**

The contingent consideration is measured at fair value at each reporting date with changes recognised in profit or loss as the amount of Bonds to be issued varies or depends on the amount of profits that are generated by the Target Companies under the profit warranty given by the vendors in the SPA.

Financial assets and financial liabilities
The carrying amounts of the financial assets and financial liabilities approximated their fair values at the acquisition date.

Non-controlling interests
The Group has elected to measure the non-controlling interests at the non-controlling interests' proportionate share of the subsidiaries' net identifiable assets.

Acquisition-related costs
Acquisition-related costs of consisting mainly of professional fees were recorded in the books of the Post-Ante Group of companies which were not considered to be material.

Revenue and profit contribution
For the six months ended 31 March 2019, the Target companies contributed revenue of RMB 286,000 and net loss of RMB 4,609,000 to the Group's results. If the acquisition had occurred on 1 January 2018, the consolidated revenue would have been RMB 87,847,000, and consolidated profit for the 15-month period ended 31 March 2019 would have been RMB 55,462,000. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same as if the acquisition had occurred on 1 January 2018.

8 Subsidiaries (Cont'd)

Acquisitions of subsidiaries in FY2017

On 22 August 2017, the Group acquired an 80% equity interest in Really Time Trading Limited and its subsidiary (the "RTTL Group") for a cash consideration of RMB16,000,000. The acquisition is in line with the Group's strategy to establish its business presence in trading of food products.

From the date of acquisition to 31 December 2017, the RTTL Group contributed revenue of RMB34,392,000 and net profit of RMB1,950,000 to the Group's results.

The fair value of identifiable assets acquired and liabilities assumed, and effect of cash flows are presented as follows:

	2017 RMB'000
The Group	
Trade and other receivables	24,543
Cash and bank balances	151
Trade and other payables	(20,407)
Current tax payable	(215)
Total identifiable net assets at fair value	4,072
Non-controlling interest	(814)
Goodwill (Note 9)	12,742
Total purchase consideration	16,000
Effect on cash flows of the Group	
Purchase consideration paid	16,000
Less: Cash and bank balances in subsidiaries acquired	(151)
Net cash outflow on acquisition	(15,849)

Measurement of fair value

Financial assets and financial liabilities
The carrying amounts of the financial assets and financial liabilities approximated their fair values at the acquisition date.

Non-controlling interests
The Group has elected to measure the non-controlling interests at the non-controlling interests' proportionate share of the subsidiaries' net identifiable assets.

Acquisition-related costs
The Group incurred acquisition-related costs of RMB150,000 relating to professional fees. These costs have been included in other operating expenses in the Group's consolidated statement of comprehensive income.

8 Subsidiaries (Cont'd)

Summarised financial information in respect of the Group's subsidiaries that have non-controlling interest
Set out below are the summarised financial information without adjusting for equity interest of NCIs in the subsidiaries represents amounts before inter-company eliminations.

	2019 RTTL Group RMB'000	2019 HBXR/BM RMB'000	2019 CDPR RMB'000	2017 RTTL Group RMB'000
2019				
Revenue	**86,144**	**2**	**284**	34,932
Profit/(Loss) for the year	**3,751**	**(7,441)**	**(3,592)**	1,950
Other comprehensive income ("OCI")	**(445)**	**-**	**-**	369
Total comprehensive income/(loss)	3,306	(7,441)	(3,592)	2,319
Attributable to NCI:				
Profit/(Loss) for the year	**751**	**(344)**	**(718)**	390
Other comprehensive income ("OCI")	**(89)**	**-**	**-**	74
Total comprehensive income/(loss) attributable to NCI	662	(344)	(718)	464
Non-current assets	**2**	**113,457**	**59,386**	3
Current assets	**62,896**	**7,345**	**2,632**	52,676
Current liabilities	**(52,833)**	**(15,364)**	**(30,526)**	(46,289)
Net assets	**10,065**	**105,438**	**31,492**	6,390
Net assets attributable to NCI:	**2,013**	**21,088**	**6,298**	1,278
Net cash (outflow)/inflow from operating activities	**(40,170)**	**(496)**	**412**	(1,220)
Net cash outflow from investing activities	**-**	**(226)**	**-**	(39,928)
Net cash inflow/(outflow) from financing activities	**39,231**	**-**	**(582)**	41,978
Net changes in cash and cash equivalents	**(939)**	**(722)**	**(170)**	830

16 Disposal group classified as held for sale

On 24 November 2017, the Company announced that it had entered into an agreement to dispose of wholly-owned subsidiaries, comprising Post-Ante Trading Limited, Globe Bright Limited, Linyi Shengquan Grease Co., Ltd ("SQ Grease") and Linyi Jiang Tian Trading Limited (collectively the "Disposal Group"), to an unrelated party for consideration of RMB75,000,000. The transaction is expected to complete subsequent to year end subject to certain conditions, including regulatory approval and approval of the shareholders at the special general meeting.

The proposed disposal is consistent with the Group's long-term strategy to focus its activities on new businesses.

In compliance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, the assets and liabilities of the Disposal Group are classified as a disposal group held for sale on the consolidated balance sheet and its results are presented separately in the consolidated statement of profit and loss as "Discontinued Operations".

Assets held for sale are measured at the lower of carrying amount and fair value less costs of disposal. The fair value less costs to sell was determined by an independent firm of professional valuers based on the market approach and cost approach. The Group has recognised an impairment loss of RMB11,925,000 and RMB9,019,000 on the property, plant and equipment, and land use right, respectively in respect of the Disposal Group when reclassifying as assets held for sale as the expected fair value less costs of disposal is lower than the carrying amount.

As at 31 December 2017, the Disposal Group classified as held for sale comprise assets and liabilities as follows:

The Group	Note	**31 December 2017 RMB'000**
Assets		
Property, plant and equipment	10	**43,300**
Land use rights	11	**20,430**
Inventories		**9,685**
Cash and cash equivalents	15	**4,435**
Assets classified as disposal group held for sale		**77,850**
Liabilities		
Trade and other payables		**1,371**
Provision	21	**11,557**
Liabilities classified as disposal group held for sale		**12,928**