

NUTRYFARM INTERNATIONAL LIMITED

(Company Registration Number: 32308)

(Incorporated in Bermuda)

RESPONSE TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED

The Board of Directors (the “**Board**”) of NutryFarm International Limited (the “**Company**”), and together with its subsidiaries, refers to its announcement dated 13 February 2019 (the “**Announcement**”) on the unaudited quarterly financial statement and dividend announcement for the third quarter ended 31 December 2018. In this regard, the Board would like to respond to the following queries raised by the Singapore Exchange Securities Trading Limited on 20 February 2019 (the “**SGX Queries**” and each an “**SGX Query**”) as follows:

SGX Query (a)

Please explain the reason(s) for the increase Trade receivables and whether the Company foresees any issue(s) with the collection of these receivables.

Line Item	The Group	
	HK\$'000	HK\$'000
	As at 31/12/2018	As at 31/03/2018
Trade receivables	38,654,000	24,645,000

Company's Response to SGX Query (a)

The Company recorded HK\$38,654,000 in trade receivable as at 31 December 2018 which is a HK\$14,009,000 increase compared to the trade receivables as at 31 March 2018. The increase is mainly from three substantial customers of Nutryfarm (Chengdu) Biomedicine Ltd. (“**NFC**”), because it was difficult to collect receivables from them close to the Chinese New Year.

Considering this situation, NFC put its efforts on the collection procedure. So far, approximately 60% of the increased trade receivables have been subsequently settled and approximately 40% of the increased amount is expected to be settled in March 2019. Therefore, the Company does not foresee any issues in connection with the recoverability of trade receivables.

SGX Query (b)

Please provide the breakdown of the Prepayments, deposits and other receivables line item.

Company's Response to SGX Query (b)

Prepayments, deposits and other receivables	HK\$ as at 31 December 2018
1. Deposits	120,000
2. Prepayments	556,000
3. Advances to suppliers	15,436,000
4. Advances to third parties	23,425,000
5. Refundable Deposits for the proposed acquisition	33,789,000
6. Prepayment to acquire property, plant and equipment	22,526,000
7. Other receivables	1,003,000
Total	96,855,000

Notes:

1. Deposit mainly represents the deposits for office rent;
2. Prepayments represents the amount paid to the suppliers of NFC to purchase raw materials;
3. Advances to suppliers represents the amount supported one of the major suppliers to import further products which is expected to be settled before 31 March 2019.
4. Advances to third parties are related to the major customers of NFC. Most of them are expected to be refunded by 31 March 2019.
5. Refundable deposits for the acquisition of SYT represents the RMB30.0 million deposits to the vendor of Beijing Shengyuantong Science and Technology Development Co., Ltd. (“**SYT**”). The Company announced acquisition to acquire 45% interest of SYT via a variable interest entity arrangement on 15 March 2018. On 8 February 2019, the acquisition was rejected by the SGX. The Company has started the refund procedure and the Vendor of SYT will refund the amount to the Company within 6 months.
6. Prepayment to acquire property, plant and equipment represents the amount paid to acquire equipment for internet safeguards and other security purpose hard and soft wares to expand the Company’s internet business.
7. Other receivables represents the amount given to management and staff for travel, marketing or promotion activities which has not been recorded into expenses yet until the financial year end.

SGX Query (c)

Please provide the Board’s impairment assessment of the carrying amount of the Prepayments, deposits and other receivables line item.

Company’s Response to SGX Query (c)

The Board assessed impairment issue related to above items, especially for items 3 and 4, as follows:

Item 3: The advances to suppliers supported the suppliers in line with NFC’s expansion of the range of imported products from North America. Due to the Sino-US trade war, such expansion is unlikely to occur as expected. Therefore, NFC negotiated with the suppliers and got confirmation for them to refund most of the advances before the financial year end.

Item 4: Advances to third parties represents the financial support to the major customers of NFC. Facing the aggressive competition in China market, NFC intended to cooperate with the customers on some marketing and promotional activities in order to enlarge revenue. However, due to the Sino-US trade war those major customers have indicated their intent to refund most of those advances before the financial year end. Most of the customers maintain continuous business with NFC. The Company therefore does not expect there to be and is not aware of any issues with recoverability.

In respect of the other items, the Company does not expect there to be and is not aware of any issues with recoverability and as such, is of the view that no impairment is necessary.

SGX Query (d)

Please provide details of the third party loan received in the 3 months ended 31 December 2018.

Company’s Response to SGX Query (d)

A third party loan of approximately HK\$11.2 million has been received in the quarter ended 31 December 2018 (“Q3FY2019”). This loan is from Furong Corpbond II Ltd. Loan term is 4 years and annual interest rate is 6.25%. The entry into the loan facility was announced on 30 October 2017 and 2 November 2017.

SGX Query (e)

Please provide an explanation for the decrease in the gross profit margin for the 3 months ended 31 December 2018.

Company's Response to SGX Query (e)

The Company's gross profit margin for Q3FY2019 is 44.9%, compared to a 55.2% gross profit margin for the quarter ended 31 December 2017 ("**Q3FY2018**"). Due to the Sino-US trade war, 2018 was a very difficult year for Chinese companies, especially in the health food industry. Consumers reduced their non-essential spending, and the Group therefore had to reduce its sales prices to maintain certain levels of shipping. The decreased in the gross profit margin is mainly due to the following reasons:

- (i) the decrease of revenue from HK\$18.1 million in Q3FY2018 to HK\$14.0 million in Q3FY2019. The lower production and sales volume led to the increase in fixed costs portion and the decrease in gross profit margin; and
- (ii) aggressive competition in China market as mentioned above, which has required NFC to adjust sales prices for some distributors, which has contributed to the decrease in gross profit margin as well.

BY ORDER OF THE BOARD

Paul Gao Xiangnong

Chief Executive Officer and Executive Director
22 February 2019