

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 14 February 2020 (the “**Announcement**”) on the unaudited quarterly financial statement and dividend announcement for the third quarter ended 31 December 2019. In this regard, the Board would like to respond to the following queries raised by the Singapore Exchange Securities Trading Limited on 25 February 2020 (the “**SGX Queries**” and each an “**SGX Query**”) as follows:

SGX Query (a)

It is disclosed on page 1 of the announced financial results: -

Line Item	Three Months Ended 31.12			Nine Months Ended 31.12		
	FY2020	FY2019	Change %	FY2020	FY2019	Changes %
	HK\$'000	HK\$'000		HK\$'000	HK\$'000	
Administrative Expenses	(5,509)	(2,306)	139	(10,892)	(8,724)	25

The Company also stated on page 11 of the announced financial results: -

“The Group recorded HK\$3.2 million increase of administrative expenses in Q3FY2020 as compared to Q3FY2019 due to the increase of travel, research and development expenses by which the Company is trying to support its revenue.”

- (i) Please provide the nature of the research and development expenses.

Company’s Response to SGX Query (a)

The research and development expenses are related to the development of new nutritional products.

SGX Query (b)

It is disclosed on page 3 of the announced financial results: -

Line Item	The Group				The Company			
	HK\$'000		HK\$'000		HK\$'000		HK\$'000	
	As 31/12/2019	at	As 31/03/2019	at	As 31/12/2019	at	As 31/03/2019	at
Other receivables	47,808		25,005		-		-	

The Company also stated on page 11 of the announced financial results: -

“The Group recorded HK\$47.8 million of other receivables as at 31 December 2019. It mainly represents the prepayment to acquire hardware and software of internet business.”

- (i) Please provide a breakdown of the “Other receivables” line item and explain the reason(s) for its increase.

Company's Response to SGX Query (b)

The "Other receivables" comprises the prepayment of the hardware and software of internet business from Beijing Zhonglian Shengtong Internet Technology Co., Ltd. and the value of the purchased hardware and software which have yet to be installed. Due to the COVID-19 outbreak, the Group was forced to temporarily cease the installation of the purchased hardware and software. However, given that these hardware and software had been paid for, they were therefore recognised as other receivables.

SGX Query (c)

It is disclosed on page 3 of the announced financial results: -

Line Item	The Group		The Company	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	As at 31/12/2019	As at 31/03/2019	As at 31/12/2019	As at 31/03/2019
Trade receivables	14,300	9,492	-	-

The Company also stated on page 12 of the announced financial results: -

"The Group recorded HK\$14.3 million trade receivables as at 31 December 2019, which mainly attributed from NFC. Compared to HK\$9.5 million in trade receivables as at 31 March 2019, the HK\$4.8 million increase is mainly from the main customers of NFC due to the drop of revenue and the challenging market for nutritional products in the PRC."

- (i) Please provide an aging analysis of the "Trade receivables" line item.
- (ii) Please provide the Board of Directors' assessment of the recoverability of the trade receivables.

Company's Response to SGX Query (c)

- (i) The aging analysis of the trade receivables is set out as follows:
Within one year: HK\$12,057,000
Between 1-2 years: HK\$2,243,000
- (ii) These customers have ongoing business relationship with the Company and aging amount of the trade receivables as at 31 December 2019 is not more than 2 years. Therefore, the Board is of view that impairment of these items is not necessary and the collection of the trade receivables would be positive.

SGX Query (d)

It is disclosed on page 3 of the announced financial results: -

Line Item	The Group		The Company	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	As at 31/12/2019	As at 31/03/2019	As at 31/12/2019	As at 31/03/2019

Prepayments, deposits and other receivables	115,256	100,714	593	133
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The Company also stated on page 12 of the announced financial results: -

“The Group recorded HK\$115.3 million prepayments, deposits and other receivables as at 31 December 2019. It mainly comprises the advance previously paid by the Company to Mr. Xiaoxin Wang in connection with the previous proposed acquisition of First Linkage Inc.”

It is also noted that page 9 of the announced financial results states: -

“The financial statements for the financial year ended 31 March 2019 (“FY2019”) were subject to a qualified opinion by the Company’s independent auditors, Baker Tilly TFW LLP, in relation to two issues, (1) the refundable advances paid to Mr. Xiaoxin Wang in connection with the previous proposed acquisition of First Linkage Inc. and (2) advances to suppliers and third parties.

With regards to the refundable advances, HK\$2.8 million had been refunded by Mr. Xiaoxin Wang in Q3FY2020. Mr. Xiaoxin Wang and First Linkage Inc. have also agreed to apply the unrefunded balance of the advances towards the payment of the consideration sum for the proposed acquisition of Xinjiang Zhongtong Internet Science and Technology Development Co., Ltd. (“XJZT”) in the manner announced by the Company on 3 December 2019 subject to the necessary approvals being obtained for the acquisition of XJZT.

With regards to the advances to suppliers and third parties, the Company confirms that there are no known material issues that would adversely affect the ability of the suppliers and third parties to fulfil their obligations under the said advances.

The Company has a tight relationship with these suppliers and third parties and has made all reasonable efforts to ascertain that the nutrition business is still ongoing as usual.”

- (i) Please provide the nature and breakdown of the “Prepayments, deposits and other receivables” line item.
- (ii) Please clarify what is the rationale and nature of the advances to suppliers and third parties?
- (iii) Please provide an aging analysis of the advances to suppliers and third parties.
- (iv) Please provide the bases of the Company’s confirmation that “there are no known material issues that would adversely affect the ability of the suppliers and third parties to fulfil their obligations under the said advances”.
- (v) Please clarify what is the outstanding amount due from Mr. Xiaoxin Wang as at 31 December 2019?
- (vi) Please clarify as to whether there are any updates in relation to the proposed acquisition of XJZY.

Company’s Response to SGX Query (d)

- (i) The nature and breakdown of “Prepayments, deposits and other receivables” are as follows:

Description	Amount as at 31 December 2019	
		HK\$’000
Advances to Mr. Xiaoxin Wang	65,327	
Advances to Chengdu Kangqi Shangmao Co., Ltd.	15,823	

Other receivables from Chengdu Meili Tianyuan Agriculture Co., Ltd.	28,529	
Other receivables from Chengdu Yingyangwu Jiankang Technology Co., Ltd.	4,110	
Other advances and other receivables	1,466	
Total	115,256	

- (ii) As at 31 December 2019, the Company had paid HK\$65.3 million advances to Mr. Xiaoxin Wang as the refundable deposit for the previous proposed acquisition of First Linkage Inc.

In respect of the HK\$28.5 million other receivables of Chengdu Meili Tianyuan Agriculture Co, Ltd. (“**MLTY**”), MLTY is an associate of the Company’s main customers for over 10 years. Due to the restrictive rules and regulation of nutritional products in China, the Group’s customers also faced challenges. In order to increase the revenue, the Company has cooperated with MLTY and provided support to MLTY to change its marketing strategies through which the Company expects to help to recover the Company’s business.

In respect of the HK\$15.8 million advances to Chengdu Kangqi Shangmao Co., Ltd. (“**CDKQ**”), CDKQ is one of the Company’s main suppliers, especially for the imported products from North America. The Company would like to continue to support its business in North America and supply us the popular products in China including flax seed oil and grape seed oil etc which is supposed to be part of the important products of the Company. The imported sales contributed to approximately 28% of the Company’s revenue and the Company expects to turn around its financial performance based on the imported products.

In respect of the HK\$4.1 million other receivables of Chengdu Yingyangwu Jiankang Technology Ltd. (“**JK**”), JK is an associated company of the Group which role is to help the Company to increase its sales in Sichuan province.

The remaining HK\$1.5 million of other advances and other receivables is for the prepayments and deposits paid to suppliers as part of the daily operations of the Company.

- (iii) The ageing analysis of the advances (except the advances to Mr. Xiaoxin Wang is as follows:

Ageing	Amount (HK\$'000)
Within 1 year	37,428
Between 1-2 years	11,809
Over 2 years	692
Total	49,929

- (iv) The Company has had business relationship with MLTY’s associated company for over 10 years. MLTY repaid the Company in a regular manner in the past years even though the repayment amount varied. So far, the aging of the approximate amount of HK\$20.8 is within 1 year. Considering MLTY’s repayment track record and its associated company’s business relationship with the Company, the Company does not foresee any recoverability issues.

CDKQ also has business relationship with the Company for many years. The Company continues to import products through CDKQ and will offset the advances against the Company’s future purchases from CDKQ.

JK is the Company’s associated company. As the aging of the HK\$3.0 million is within 1 year, the Company is confident that it will be able to collect the full amount from JK.

- (v) The outstanding amount due from Mr. Xiaoxin Wang as at 31 December 2019 is HK\$65.3 million.
- (vi) The proposed acquisition of XJZT is under way and the Company is in the midst of providing its responses to the SGX on the SGX queries issued in connection with its application.

BY ORDER OF THE BOARD

Luk Chung Po, Terence

Chief Executive Officer and Executive Director

27 February 2020